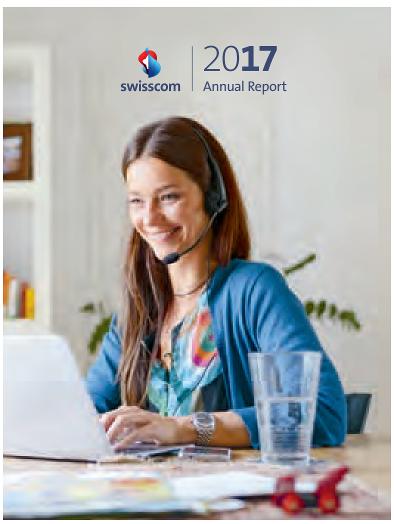
2017
Annual Report



Annual report publications

The annual report, sustainability report and Swisscom at a glance together make up Swisscom's reporting on 2017.
The three publications are available online at: swisscom.ch/report2017

"Welcome to the networked world" concept

In our networked world, everything is becoming more and more connected. At the centre of this connectivity are high-performance and secure networks. That is why for years we have invested CHF 1.7 billion in the expansion, maintenance and innovation of our network infrastructure.
We are extremely proud of our employees, who day in, day out, put their energy, heart and soul into making sure that our customers stay optimally connected no matter where they are.

The pictures in the 2017 annual report publications offer a peek behind the scenes into our working environment – where we build our network and support our customers. We want to open up the opportunities offered by a networked future and take advantage of them together with our customers.

A very big thank-you goes to Stefanie Haag, Tiziana Conzett, Natalija B., Mona W., Edvin Caminada, Pirmin Egloff, Manuel Haag, Peter Fritschi, and all the children who took time out to have their photos taken.

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2017 in review

11.7 bn CHF	4.3 bn CHF	1.6 bn CHF	2.4 bn CHF
Net revenue	EBITDA	Net income	Capital expenditure

1.3 mn inOne customers

Swisscom has radically simplified its price plans and offers a single package for at home and on the move. Customers can put together their own individual packages comprising Internet, TV, telephony and mobile telephony.

20 years

in the service of sustainability. Since 1997, Swisscom has had a team working for the environment. It gained ISO 14001 environmental standard certification in 1998. Today, Swisscom offers some 50 products with sustainability benefits.

Unchanged dividend

CHF 22 per share will be proposed for the 2017 financial year at the Annual General Meeting.

Swisscom Blockchain Ltd

is the name of the new company driving forward blockchain applications in and for Switzerland.

Fastweb

has streamlined its fixed-line price plans and launched a new mobile offering.

SimplyMobile

is the first subscription package in Switzerland in which the data allowance does not expire at the end of the month.

Wingo Fair Flat

is the name of the new mobile subscription that offers a full service at an attractive price.

20,506	6.6 mn	1.5 mn	2.5 mn
Employees (full-time equivalents)	Mobile lines Switzerland	Swisscom TV connections Switzerland	Broadband lines Italy

Best network

The results of tests conducted for the trade magazines Connect and CHIP confirm that Swisscom's network is the best.

5G

Swisscom is working hard to drive the development of 5G forward and is conducting the first tests of transmission capacities of over 20 Gbps per radio cell in a test environment.

All IP

90% of lines have been switched from conventional fixed-line telephony to Internet Protocol (IP) over the past four years.

Cloud

Swisscom is expanding its cloud portfolio by adding Enterprise Service Cloud and Enterprise Cloud for SAP, together with global offerings from Amazon Web Services and Microsoft Azure.

1 Gbps in mobile telephony

In 11 cities, customers can surf the Internet at speeds of up to 1 Gbps.

Call filter

to counteract unwanted advertising calls is now available for mobiles too.

Smart ICT

So far the only package for the digitisation of SMEs to include the setting up and operation of telephony and IT.

Internet Guard

means Swisscom customers' devices are even better protected against threats on the Internet.

KPIs of Swisscom Group

In CHF million, except where indicated		2017	2016	Change
Net revenue and results				
Net revenue		11,662	11,643	0.2%
Operating income before depreciation and amortisation (EBITDA)		4,295	4,293	0.0%
EBITDA as % of net revenue	%	36.8	36.9	
Operating income (EBIT)		2,131	2,148	–0.8%
Net income		1,568	1,604	–2.2%
Earnings per share	CHF	30.31	30.97	–2.1%
Balance sheet and cash flows				
Equity at end of year		7,645	6,522	17.2%
Equity ratio at end of year	%	34.7	30.4	
Operating free cash flow		2,159	1,791	20.5%
Capital expenditure in property, plant and equipment and intangible assets		2,378	2,416	–1.6%
Net debt at end of period		7,447	7,846	–5.1%
Operational data at end of period				
Fixed telephony access lines in Switzerland	in thousand	2,047	2,367	–13.5%
Broadband access lines retail in Switzerland	in thousand	2,014	1,992	1.1%
Swisscom TV access lines in Switzerland	in thousand	1,467	1,418	3.5%
Mobile access lines in Switzerland	in thousand	6,637	6,612	0.4%
Revenue generating units (RGU) Switzerland	in thousand	12,165	12,389	–1.8%
Unbundled fixed access lines in Switzerland	in thousand	107	128	–16.4%
Broadband access lines wholesale in Switzerland	in thousand	435	364	19.5%
Broadband access lines in Italy	in thousand	2,451	2,355	4.1%
Mobile access lines in Italy	in thousand	1,065	676	57.5%
Swisscom share				
Number of issued shares	in thousand	51,802	51,802	0.0%
Market capitalisation at end of year		26,859	23,627	13.7%
Closing price at end of period	CHF	518.50	456.10	13.7%
Closing price highest	CHF	527.00	528.50	
Closing price lowest	CHF	429.80	426.80	
Dividend per share	CHF	22.00 [1]	22.00	0.0%
Employees				
Full-time equivalent employees at end of year	number	20,506	21,127	–2.9%
Average number of full-time equivalent employees	number	20,836	21,543	–3.3%

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

Business overview

Swisscom Switzerland

Residential Customers
The Residential Customers division offers mobile and fixed-line services. These include telephony, broadband, TV and mobile offerings as well as ICT solutions for SMEs.

Enterprise Customers
Whether voice or data, mobile or fixed-line, individual products or integrated solutions: Enterprise Customers designs, implements and operates entire ICT infrastructures for corporate customers.

IT, Network & Infrastructure
The division plans, operates and maintains the network and IT infrastructures in Switzerland.

Wholesale
The Wholesale segment provides other telecommunication service providers with access to the Swisscom fixed and mobile networks.

Revenue

9.0 bn CHF

EBITDA

3.5 bn CHF

Fastweb

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

Revenue

2.2 bn CHF

EBITDA

0.8 bn CHF

Other Operating Segments

With subsidiaries in the areas of network construction and maintenance (cablex), broadcasting services (Swisscom Broadcast) and collection (Billag), Swisscom complements its core business in related areas. The new Digital Business unit is focused on growth areas in the fields of Internet services and digital business models and also encompasses business with online directories and telephone directories (localsearch).

Revenue

0.5 bn CHF

EBITDA

0.2 bn CHF

Visiting the historic cable tunnel on Bollwerk street in Berne, where the latest fibre-optic and copper cables provide parts of the city with Internet.

Dear Shareholders

We have succeeded once again: Swisscom held its ground in an extremely challenging environment and achieved the targets set for 2017. An impressive market performance permitted Swisscom to generate revenue that was practically on a par with the previous year. Fastweb also posted another pleasing performance, growing its revenue and expanding its customer base.

Swisscom achieves its targets in spite of high market pressure

Swisscom generated revenue and earnings that were in line with the previous year in an increasingly fierce market. Swisscom's net revenue was stable at CHF 11,662 million, as was its consolidated operating income before depreciation and amortisation (EBITDA) at CHF 4,295 million. Net income also virtually remained on a par with the previous year at CHF 1,568 million.
Revenue in the Swiss core business fell slightly to CHF 9,058 million, mainly due to declining revenue from fixed-line telephony and lower income from roaming services. As more and more customers are giving up their landlines, the number of fixed-line phone connections fell by 320,000 year-on-year to around 2 million. The first signs of saturation are also emerging in the mobile telephony market. Although the number of connections rose only slightly (0.4%) to 6.64 million compared with the prior year, Swisscom nonetheless managed to keep its market share in mobile telephony virtually stable in a fiercely contested market.
Broadband connections were up by 22,000 (+1.1%) to 2.0 million year-on-year. Swisscom TV is a strong driver of this: with a market share of 33% (prior year: 32%), it is Switzerland's most popular digital TV offering. And something of which we are very proud. The number of Swisscom TV connections rose by 3.5% year-on-year to 1.47 million in spite of strong competition from cable network providers. The most popular television in Switzerland was upgraded in November with Entertainment OS3, a fully overhauled operating system with a simplified user interface.

inOne: more than 1.3 million customers in less than nine months

We are also extremely successful in the market with our new combined package inOne: as at the end of December 2017, i.e. just nine months after the launch of the flexible product line, more than 1.3 million customers with around 2.7 million connections had already opted for inOne. This makes it Swisscom's most successful product ever, with revenue from bundled contracts increasing year-on-year by 13.4% to CHF 2,837 million.

Fastweb: strong growth in mobile telephony

Fastweb is performing well. Net revenue rose by 8.3% year-on-year to EUR 1,944 million. In spite of difficult market conditions, Fastweb's broadband customer base grew by 4.1% to 2.45 million in 2017. It also made strides in mobile telephony, with connections up by 58% to more than 1 million customers in a stagnating market. The reason for this marked increase was Fastweb's launch of more attractive mobile phone offerings over the course of the year. In the fiercely competitive market for corporate customers, Fastweb consolidated its market position, while incoming orders grew by 31%.

Capital expenditure: still at a high level

Swisscom continued to invest heavily in its infrastructure in 2017. Despite being marginally down by 1.6% to CHF 2,378 million over the previous year given the enhanced efficiency of our network expansion, capital expenditure nevertheless still accounted for 20.4% of net revenue (prior year: 20.8%). Swisscom in Switzerland accounted for 70% of 2017 capital expenditure. These investments are paying off: German industry magazine CHIP named Swisscom as having the best network, while Connect gave our mobile phone network the grade "outstanding" – the highest accolade among all international networks tested.

The digitisation of the fixed network (All IP technology) is progressing on schedule. Today, over 2 million customers are already profiting from HD voice quality, personalised block lists, automatic caller identification and an automatic filter for blocking unwanted advertising calls. Work on the full migration of customer lines to IP in the major regions of Switzerland has been under way since the start of 2018, which will allow Swisscom to push forward with the decommissioning of the old infrastructure in these locations.

Regulatory environment remains challenging

Swisscom's licence to provide a universal service in Switzerland has been renewed for another five years. A parliamentary proposal to increase the minimum bandwidth under the universal service from 3 to 10 Mbps is pending. This year should also see the allocation of new mobile frequencies for 5G bands – a vital prerequisite for the launch of the fifth mobile generation. The second prerequisite for setting up a 5G network would be a modest adjustment to the ONIR limits and the associated measurement methods. And finally: the revision of the Telecommunications Act (TCA) could have an adverse impact on investments in the pipeline, since a paradigm shift towards technology-neutral access regulation reduces the incentive to invest in infrastructure – to the detriment of the whole of Switzerland, especially rural areas.

More finely tuned corporate strategy for sustainable growth

The upcoming second major wave of digitisation will change key aspects of our day-to-day lives both as a residential customer and as a company. Swisscom as market leader wants to play a defining role in the technologies of the future and continue to inspire customers in an increasingly networked world. And we want to grow.

We are currently working on improving Swisscom's health. This should assist us in raising sufficient funding for new business activities, despite the decline in our core business. For example, in February 2016, Swisscom announced that it would be cutting its annual cost base in Switzerland by around CHF 60 million per year by 2020. Given the persistent market pressure in the core business and the time and resources needed to establish new business in growth areas such as the cloud and security, Swisscom is raising this target for 2018 to 2020 to CHF 100 million per year. At the same time we are focusing on agile and more streamlined working models and organisational structures and on tapping into new areas of business.

Rethinking things or thinking in a new light leads to value-adding innovation. A study conducted by HTP St. Gallen concludes that Swisscom is the third most innovative company in Switzerland. We are pleased about this. Because we are doing our utmost to constantly inspire our customers with innovative ideas – one current example of which is the filter for blocking unwanted advertising calls. Ideas such as these have a long tradition at Swisscom: Swisscom introduced innovative mobile phone subscriptions that are no longer billed on the basis of largely incomprehensible factors such as data volume years ago. In Swisscom TV, Swisscom successfully brought a product to market that was not brushed off by consumers as a technological fad but rather embraced as offering real potential. Technical terms such as "IP-based broadcasting" and "cloud recording" were turned into a product whose added value was immediately recognised by all customers – and which they could no longer do without. This holds true for all innovations: they are only successful when their added value no longer needs to be explained, but is understood intuitively.

These factors for success will be also decisive for the second phase of digitisation. It is now all about applications that will play an even more prominent role in our daily lives and in some cases encroach on sensitive areas: on healthcare, on financial transactions, on dealings with the authorities, on B2B, on energy, on transport or on dialogue with local partners. Studies show that most small to medium-sized enterprises in Switzerland have not yet sufficiently got to grips with digitisation – not least because they lack the time, resources and expertise to do so, and sometimes because they do not recognise the added value it offers. This is creating a backlog that could well unleash itself in a sizeable wave. Swisscom aims to exploit this increasing future demand for IT services and IT outsourcing to the cloud as entrepreneurial opportunities. Other areas in which we see business potential range from the field of FinTech to disruptive technologies such as blockchain. In 2017 Swisscom founded Swisscom Blockchain Ltd with the aim of tapping into this field as rapidly as possible. The first projects embarked upon included digitising the commercial registers of individual cantons and setting up an international trading platform for film and television rights. There is a clear and obvious need for central applications built around blockchain – and Swisscom could become not just a national but even an international pioneer in this area.

Shareholder return

Swisscom seeks to maintain a stable dividend policy and paid out an ordinary dividend of CHF 22 per share in 2017. The Swisscom share price rose by 13.7% in the year under review. Based on the closing price at the end of 2016 and taking the gain in the share price into account, this translates into a total return of 19.4%.

Outlook

For 2018, Swisscom expects net revenue of around CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of less than CHF 2.4 billion. If the targets are met, Swisscom will propose to the 2019 Annual General Meeting payment of an unchanged dividend of CHF 22 per share for the 2018 financial year. As you can see, the Swisscom share continues to be attractive.

Sincerest thanks

In a time of rapid change, ahead of a future shaped by uncertainties, we have created with you, dear shareholders, and with our customers and employees, a company that has changed things. It has changed things not only for itself, but also, to some extent, for the entire country. We thank you for your trust and your loyalty. But we also extend our sincere thanks to our employees, who deserve our utmost respect and gratitude for the passionate commitment they demonstrate to Swisscom every day. So much so that today Switzerland is a trailblazer both in terms of technology and its affinity to customers – a picture that is very different from the 1980s and 1990s. And a trailblazer it should remain. Which is why we keep doing what we do. Not in spite of, but because the world is facing uncertainties and because it is confronted with major challenges. We want to seize this opportunity. Committed, trustworthy, curious.

Yours sincerely

Hansueli Loosli
Chairman of the Board of Directors
Swisscom Ltd

Urs Schaeppi
CEO Swisscom Ltd

Welcome to the networked world.

We are committed to delivering the best quality, the best service and the best network day in, day out – because it is the basis for all of the products and services that Swisscom offers its customers. The following profiles provide a glimpse behind the scenes in areas where we give our best.

Welcome to Swisscom!

"We support our customers on-site in the case of a fault with the aim of providing them with the very best customer experience. Our services range from providing customised advice to guaranteeing interruption-free access lines, configuring devices and integrating them into home networks."

Edvin Caminada
Service technician

Installations, fault rectification and support for residential and business customers.
On-site advice and sale of Swisscom products.

Approx. 850
technicians and 400 partner employees are working for our customers.

2,100
customer visits take place every day on average.

"We are expanding and maintaining the best network – even during high winds and bad weather. It is physically demanding to splice and lay optical fibres and climb up overhead lines. But I view it as a challenge and I am proud to be able to apply what I have learned directly on-site."

Tiziana Conzett
FCP apprentice network electrician specialising in telecommunication

In 2018 Tiziana will be the first woman to complete her apprenticeship as an FCP network electrician.

1,500
employees and 80 apprentices work in the fields of network planning, construction and maintenance at subsidiary cablex.

In 300
municipalities every year, Swisscom is expanding its network.

Over 400,000
homes and businesses are connected to Swisscom's fibre-optic network every year.

"Thanks to targeted research, we have developed a measuring procedure for displaying spatially averaged results of electromagnetic fields. This is based on international norms and is easier to reproduce than the manual method used in the past."

Peter Fritschi, Project Manager, measurement robot
Manuel Haag, Senior Innovation Engineer

Development of a robot that improves and automates the measurement of electromagnetic fields.

Ten times
more stringent than the international average – precautionary limits in Switzerland.

More precise
The use of the new measuring procedure ensures that transmitter emissions can be evaluated more realistically and precisely.

5G
The applicable precautionary limits are an impediment to the introduction of new mobile technologies such as 5G.

99%
of the Swiss population are equipped with 4G. 80% have 4G+, with up to 300 Mbps.

1 Gbps
can be reached in 11 Swiss cities.

90%
of mobile sites in urban areas have reached their limit in terms of capacity and cannot be expanded any further.

“We have done our job well when the more than 440,000 travellers every day at Zurich Main Station can benefit from the best mobile phone network. We work even when others are asleep.”

Pirmin Egloff
Mobile communication technician

Guaranteeing the operation, fault rectification and maintenance of all antenna locations and mobile radio cells.

Management Commentary

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Strategy and the environment

Swisscom’s corporate strategy is aimed at securing its position as a market, technology and innovation leader, and offering its customers the best. Trustworthy, committed and never losing sight of what is important.

Corporate strategy

General

Swisscom is the Swiss market leader for mobile telecommunications, fixed-line telephony and television. It also occupies a leading market position in a wide range of IT business segments. Fastweb is the leading alternative provider for both retail and business customers in the Italian fixed-line market.
Megatrends such as digitisation and connectivity, customisation and demographic change are shaping and changing our society and the economy in the long run and have a long-term impact on the activities of Swisscom. The increasing proliferation of the Internet of Things, the 5G mobile telephony standard being ready for market and the advancements made in the field of artificial intelligence are short to medium-term trends that impact Swisscom’s business.
The market environment in which Swisscom operates has changed radically in recent years. Characteristic examples of this include increasing connectivity, exponential data growth, the growing significance of software, data and content, changing customer requirements and rapid technological progress. The competition on the saturated core market is becoming increasingly fierce, which is in turn intensifying price pressure. Global Internet companies are using their economies of scale and forcing themselves into local ICT markets, stepping up competition even further. These developments have exerted pressure on the revenues generated in the Swisscom core business. The resulting lower revenue and income need to be offset in order to ensure that sufficient financial resources are available.

As number 1, we are shaping the future.
Together we inspire people in the networked world.

In its capacity as a market, technology and innovation leader, Swisscom connects both residential and corporate customers. In an increasingly networked world, it is taking an active and assertive role in shaping the future. Swisscom focuses on the needs of the people in everything that it does. Its employees work in concert to provide inspirational experiences. Swisscom is committed and trustworthy in its actions, consistently takes a curious stance towards further development and never loses sight of what is important when pursuing its goals. Customer trust is at the heart of everything Swisscom does, and is reinforced by the reliability and sustainability of the company’s activities. In order to make its vision a reality, Swisscom has set out three strategic aspirations which help to define the strategy.

Best customer experience

In order to inspire its customers, Swisscom has to provide them with the best service at all times, regardless of their location. The customer experience is based on a high-performance infrastructure. Swisscom therefore aims to offer its customers the latest IT and communications infrastructure and therefore assert its position as a technological leader. Customer requirements vis-à-vis the availability and performance of the networks are constantly growing. As a result, Swisscom is setting up and operating networks that are second to none in terms of security, availability and performance. By expanding and upgrading its fixed telephone and mobile network infrastructure with the latest technologies (such as 5G), Swisscom is ensuring that its customers enjoy the best experiences when utilising the company's offerings. The Swisscom Cloud is the key platform for the internal and external provision of services and forms the basis for new, scalable offerings that are produced in Switzerland. Swisscom complements its own cloud with global solutions, thereby operating as a service provider that also integrates solutions into hybrid environments.

The key to the success enjoyed by Swisscom is its relationships with its customers. The company's main guiding principles are to provide the best service and inspirational experiences across the board. Swisscom customers can count on us as a competent, reliable partner and enjoy service that is individual, flexible and personal at all points of contact. For example, customers can have their damaged mobile phones repaired in no time at all in the nine Repair Centres, which meets a key customer requirement. Swisscom is thus reducing complexity and providing relevant, innovative offerings. In the TV segment, Swisscom is continually simplifying operability and offers each and every one of its customers a personalised entertainment service thanks to the further development of the user interface. Swisscom is also continually upgrading its service offerings, such as with My Service – the personal support offering for technical enquiries. When creating new digital services and experiences, Swisscom always focuses on meeting the needs of its customers. In this way, Swisscom is restoring the trust its customers have in the company, reinforcing customers' loyalty to the brand and increasing agility and efficiency.

Operational excellence

Due to fierce competition, the revenues being generated by national telecommunications service providers are on the whole declining, resulting in even greater cost pressure. It is therefore key that Swisscom consistently optimises its cost base over the next few years in order to remain financially successful in the long term and to absorb the effects of price competition and margin erosion. This is the only way in which Swisscom can release the funds for developing new business opportunities and secure profitability. One of the main focuses in optimising costs is the creation of efficient operating procedures, for example by simplifying and adjusting the product portfolio, using agile development methods, modernising and consolidating the IT platforms, increasing the efficiency of staff deployments, and optimising processes being driven by initiatives such as All IP migration. Another key element is the internal digital transformation, which includes the virtualisation of network functions, improvement of the online channel, increasing the level of process automation and the greater use of artificial intelligence and analytics. In addition to this, Swisscom is increasing the efficiency of its investment activities, for example by utilising an intelligent mix of technologies and by reducing the number of partners involved in the expansion of the network.

New growth

Swisscom anticipates that the figures for the relevant markets in Switzerland and Italy will continue to grow steadily on the whole. The main driving forces behind this are modest population growth, the increase in use of ICT in a wide variety of industries and the relatively low broadband penetration in Italy. Nevertheless, price pressure remains at a high level, to the extent that a slight drop in market revenue is to be expected on the whole, particularly in the telecommunications market.

Swisscom wants to realise growth opportunities by further developing its core business – for example by means of growth in entertainment (such as TV) and in Wholesale or by making use of opportunities that arise as a result of new consumer applications in the area of the Internet of Things (IoT). There are further opportunities for growth in the medium term in other sectors, too, such as healthcare and banking – in which Swisscom provides vertical ICT services – as well as the solutions business relating to digital security and in the cloud segment. Swisscom is launching new digital services in selected areas. Some of these services are based on new business models, focusing on marketplaces (such as siroop and Mila), digital services for SMEs (such as localsearch), and support technologies and platforms (such as blockchain). When selecting growth areas, Swisscom is guided by future customer requirements, focuses on future-oriented business models with substantial growth and is making increased use of partnerships. In addition to the activities mentioned above, Italian subsidiary Fastweb is playing a key role in the realisation of growth opportunities. Swisscom is improving Fastweb's market position and achieving growth in Italy thanks to the further development of the mobile communications market, the expansion of the business customer portfolio by means of horizontal solutions in relation to the cloud and digital security, high-quality service, the utilisation of partnerships as well as a convergent product portfolio which cuts an impressive figure due to its transparency, fairness and simplicity.

In order to both further develop the core business and also tap into new business areas, Swisscom is continuously striving to transform the corporate culture. To achieve this, it will focus on agile and customer-centric working models and organisational structures, the development of relevant key skills and technological transformation, for example.

Forerunner in corporate responsibility

Swisscom is committed to developing a modern and future-oriented Switzerland. Its Corporate Responsibility activities focus on issues that have high relevance for stakeholder groups and at the same time are closely linked to the company's core business. These activities are centred around the following seven action areas:

- **Networked Switzerland:** By the end of 2021, some 90% of all homes and businesses will have a minimum bandwidth of 80 Mbps – with around 85% of connections achieving speeds of 100 Mbps or higher.
- **Energy efficiency and climate protection:** By 2020, Swisscom plans to increase energy efficiency by another 35% compared to 1 January 2016. Together with its customers, Swisscom is aiming to save twice as much CO_2 as it emits through its operations including the supply chain by 2020.
- **Attractive employer:** Swisscom wants to be one of the most attractive employers in Switzerland by 2020.
- **Work and life:** By 2020, Swisscom aims to be supporting one million people with its offerings in the healthcare sector and also provide one million people with the opportunity to use mobile working models.
- **Media skills and security:** Swisscom aims to be the market leader in data security by 2020, helping one million people to use the media safely and responsibly.
- **Sustainability image:** Swisscom wants to improve the way its sustainability efforts are perceived by the general public and achieve a "Citizenship" score of 70 out of 100 points (Reptrak standard) by 2020.
- **Fair supply chain:** In the interests of a fair supply chain, Swisscom is committed to improving employment conditions for more than two million people by 2020.

Climate protection includes the following activities in particular: analysis of the opportunities and risks caused by climate change; creation and implementation of a programme relating to the issues determined; and monitoring and reporting of the progress of this programme. Coordination and management of these activities lies with the Corporate Responsibility team. Clear governance exists for the activities mentioned. Swisscom applies the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Further detailed information is available in Swisscom's sustainability and climate reports.

Objectives and achievement of targets

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

	Objectives	Target achievement 2017
Financial targets [1]		
Net revenue	Group revenue for 2017 of around CHF 11.6 bn	CHF 11,662 mn
Operating income before depreciation and amortisation (EBITDA)	EBITDA for 2017 of around CHF 4.2 bn	CHF 4,295 mn
Capital expenditure in property, plant and equipment and intangible assets	Capital expenditure for 2017 of around CHF 2.4 bn	CHF 2,378 mn
Operational Excellence	In 2017, reduction of cost base in Swiss business by CHF 75 mn	Achieved
Other targets		
Ultrafast broadband in Switzerland [2]	Coverage of 90% by the end of 2021 in excess of 80 Mbps	55%
Ultrafast broadband in Italy	Corverage of 13 mn households by the end of 2021 with FTTH and FTTS	60% or 8 mn

[1] As already announced in 2017, the financial targets for 2017 have been adjusted as follows as a result of compensation from legal proceedings involving Fastweb: EBITDA of approximately CHF 4.3 bn.
[2] Basis: 4.3 million homes and 0.7 million businesses (Swiss Federal Statistical Office – SFSO).

General conditions

Market environment

The three macroeconomic factors of the economy (Switzerland and Italy), interest rates and exchange rates (EUR and USD) have a considerable influence on Swisscom's financial position, results of operations and cash flows and therefore on financial reporting.

	Unit	2013	2014	2015	2016	2017
Change GDP Switzerland	in %	1.9	2.4	1.2	1.4	1.0 [1]
Change GDP Italy	in %	(1.7)	0.1	0.8	0.9	1.5 [2]
Yield on government bonds (10 years)	in %	1.25	0.38	(0.04)	(0.14)	(0.10)
Closing rate CHF/EUR	in CHF	1.23	1.20	1.08	1.07	1.17
Closing rate CHF/USD	in CHF	0.89	0.99	1.00	1.02	0.98

[1] Forecast SECO
[2] Forecast Istat

Economy

In the year under review, the Swiss economy grew by approximately 1% measured by gross domestic product (GDP), despite the unabated very low rate of inflation. Economic developments are having a wide range of impacts on customer segments. A high share of the revenues generated in the Residential Customers segment can be attributed to products with fixed monthly charges, meaning economic fluctuations are low. In contrast, revenue from roaming services is subject to increased volatility due to being reliant on trips made outside of Switzerland (inbound and outbound). Nevertheless, a large and ever-increasing proportion of the roaming services in terms of outbound traffic are included in the fixed monthly charges. Project business in the Enterprise Customers segment is more sensitive to cyclical factors.
Economic fluctuations tend to have a larger impact on the sales and revenue generated by Italian subsidiary Fastweb for both residential and business customers.

Interest rates

The interest rate level has an impact on funding costs and also affects the valuation of long-term provisions and pension liabilities in the consolidated financial statements. In addition, interest rates are a key assumption for the impairment assessment of recognised goodwill and other items in the financial statements. Although the returns on ten-year government bonds increased slightly in 2017, they remain at a historically very low level. Swisscom exploited this in 2017 and reduced the average interest expense to 1.7% (prior year: 1.9%) by issuing bonds totalling CHF 500 million. 84% of financial liabilities were charged a fixed interest rate. The average maturity is 5.3 years. In addition, Swisscom has in the past concluded interest rate swaps with long terms to maturity which are not designated for hedge accounting. Changes in market interest rates can result in high fluctuations in fair values recognised in the consolidated financial statements.

Currencies

The exchange rate trends for foreign currencies have very little impact on the Swisscom results of operations. Transaction risks exist primarily in the purchase of end devices and technical equipment as well as in the acquisition of services from network operators outside of Switzerland. In the core business in Switzerland, the amount of money paid out in foreign currencies is higher than income. The net cash flows in foreign currency are partly hedged by foreign currency forward contracts. Swisscom funds itself for the most part in Swiss francs and to a lesser extent in EUR. Over the last three years, the share of the funding denominated in EUR has gradually increased to 25%. In addition to the transaction risks on the operational cash flows in foreign currencies, there is a currency translation risk in the balance sheet. Fastweb's net assets, which totalled EUR 2.8 billion at the end of 2017, and those of the other foreign subsidiaries are translated into Swiss francs in the consolidated financial statements at the exchange rate applicable on the balance sheet date. Any differences from the foreign currency translation are recognised in equity and have no impact on the results. Cumulative currency translation adjustments in respect of foreign subsidiaries amounted to CHF 1.7 billion at the end of 2017. A portion of the financial liabilities in EUR has been classified as a currency hedge of the Fastweb net carrying amount.

Legal environment

Swisscom's legal framework

Swisscom is a public limited company with special status under Swiss law. Corporate governance is governed by company law and the Telecommunications Enterprise Act (TEA). In its capacity as a listed company, Swisscom also observes capital market law, including the provisions concerning management remuneration. The legal framework for Swisscom's business activities is primarily the Federal Telecommunications Act (TCA) and the Federal Cartel Act (CartA).

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

The TEA requires the Swiss Confederation to hold a majority of the capital and voting rights in Swisscom. Were the government to dispose of the majority holding, this would require a change in the corresponding law, which would be subject to a facultative referendum. Every four years, the Federal Council defines the goals which the Confederation as principal shareholder aims to achieve. These include strategic, financial and personnel policy goals as well as goals relating to partnerships and investments. In 2017, the Federal Council approved the goals for the period from 2018 to 2021. The goals for the previous period of 2014 to 2017 will to a large extent remain in place.

See **www.swisscom.ch/targets_2018-2021**

Telecommunications Act (TCA)

See **www.admin.ch**

The TCA and the associated legislation primarily govern network access, basic service provision and the use of radio frequencies. The government is currently deliberating on revising the TCA.

Network access

Swisscom is required to grant other providers access to its fixed network and telecommunications services at cost-based prices. As part of this service provision, physical network access is restricted to copper-based technologies. The supervisory authority only makes a decision about the specific access conditions (including price) if the provider seeking access cannot come to an agreement with Swisscom on the conditions (primacy of negotiation). The question of whether network access regulation should be expanded to include newly built fibre-optic-based and hybrid fixed networks (technology-neutral network access) is the subject of the ongoing TCA revision.

See **www.admin.ch**

Basic service provision

The aim of the basic service is to provide reliable and affordable 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 current licence (2018 to 2022) comprises a multifunctional telephone line, Internet access with a minimum data transfer rate of 3 Mbps (download) and various services for the disabled. The law provides that the overall net costs of the basic service are compensated for via a sector-specific fund. Up until now, Swisscom has abstained from bringing the overall net costs to bear for the basic service.

Mobile phone licence

Mobile phone licences are usually awarded by means of public tenders. In 2012, all of the frequency ranges for mobile communications were sold in an auction. Swisscom acquired 42% of the frequency bands auctioned for CHF 360 million and paid the total amount in the same year. The licences run until the end of 2028 and can be used with all technologies. It is expected that there will be new mobile communication frequencies available from 2019 onwards (frequency bands 700 MHz, 1,400 MHz and 3,400 to 3,800 MHz). The requisite awarding of frequency ranges will likely take place in 2018. No decision has been made as regards the way in which the ranges will be awarded and the future framework conditions for the use of the frequencies.

Federal Cartel Act (CartA)

As a result of the company's market position, competition law (Federal Cartel Act) for various products and services is highly relevant for Swisscom. The Federal Cartel Act allows for direct sanctions to be imposed for unlawful conduct by market-dominant companies. The Swiss competition authorities have classified Swisscom as being market-dominant in a wide range of submarkets. There are currently proceedings open for three issues, within the context of which the Competition Commission (COMCO) has classified Swisscom as being market-dominant and its conduct as being unlawful, and has thus imposed direct financial sanctions. The proceedings refer to the provision of ADSL wholesale services, the broadcast of live sporting events on pay TV and the broadband connections of post office locations. The statuses of the proceedings and the potential financial effects are set out in the notes to the consolidated financial statements (Note 3.5).

Legal and regulatory environment in Italy

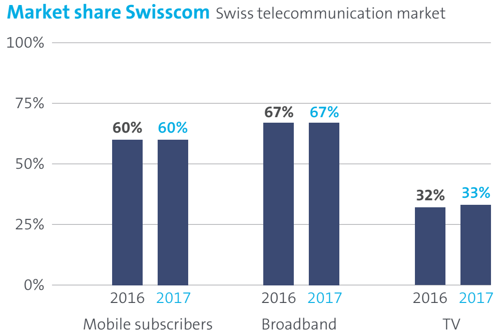
The business activities of Fastweb are heavily influenced by Italian and European telecommunications legislation. Italy is required to have national legislation in line with the European legislative framework. The Italian regulatory authority, Autorità per le Garanzie nelle Comunicazioni (AGCOM), uses a market analysis as the basis for passing provisions and regulations for telecommunications companies, which have to be submitted to the European Commission and the regulatory authorities of other member states in advance. In 2017, AGCOM retroactively approved a wide range of reference offerings from TIM for 2015 and 2016. This will bring about a number of reductions, including in the wholesale prices charged for bitstream services as well as the one-off charges for the activation and deactivation of lines and for transferring fixed-line numbers. In 2017, AGCOM also opened new consultations on the reference offerings from TIM for the wholesale services for 2017.

Swiss market trends in telecoms and IT services

The Swiss telecommunications market is highly developed by international standards. It is characterised by innovation and a wide range of voice and data products and services. The constant advancement of digitisation and connectivity is a key trend. In addition to the established national telecommunications companies, more and more global competitors are entering the Swiss telecoms market, offering both free and paying Internet-based services around the world, including telephony, SMS messaging and streaming services. Cloud solutions are also playing an ever more important role, with storage capacity, processing power, software and services all relocating to an increasing degree to the Internet. These developments are generating constant growth in demand for high bandwidths that enable fast, high-quality access to data and applications. The uninterrupted availability of data and services, as well as the security involved in ensuring this availability, play a key role here. Modern, highly effective network infrastructures provide the ideal foundations for this. Swisscom is therefore setting up the networks of the future for both fixed-line and mobile communications.

The Swiss telecoms market is broken down into the submarkets of relevance to Swisscom – mobile and fixed-line telephony. The total revenue it generates is estimated at around CHF 12 billion; however, this is being put under increasing pressure. Market saturation is ramping up the fierce competition in almost all submarkets. As a result of the increased price pressure, most market players are being confronted with a trend towards sinking revenues. Various market participants adjusted their portfolios of offerings during the course of 2017, with the focus of the changes on new, convergent offerings which can also contain one or more mobile lines in addition to a fixed broadband connection with Internet, TV and fixed-line telephony. Swisscom's range likewise includes bundled offerings combining different technologies, while it also offers products and services from the core business using secondary and third-party brands.

Market share Swisscom Swiss telecommunication market



Mobile communications market

Switzerland has three separate, wide-area mobile networks on which the operators of those networks market their own products and services. Other market players additionally offer their own mobile services as MVNOs (mobile virtual network operators). Swisscom also makes its mobile communications network available to third-party providers so that they can make proprietary products and services available to their customers over the Swisscom network. Due to the high level of market penetration, the mobile communications market in Switzerland is showing signs of saturation. For this reason, the number of mobile lines (SIM cards) in Switzerland has stagnated at around 11 million. The penetration with mobile access lines in Switzerland remains about 130%. As in the previous year, the number of postpaid subscriptions taken out increased, while the number of prepaid customers fell. The proportion of mobile users with postpaid subscriptions now stands at 70% (prior year: 65%). Swisscom's market share remains unchanged from the previous year at 60% (postpaid: 62%; prepaid: 57%).

Fixed-line market

Switzerland has almost 100% coverage of fixed broadband networks. Alongside the fixed-line networks of telecoms companies, there are also networks provided by cable network operators. Moreover, market players such as utilities operating in particular cities and municipalities are building and operating fibre-optic networks on their own initiative at a regional level. These network infrastructures are largely also made available to other market participants so that they can supply their products and services. The fixed broadband connection has increasingly developed into the key access point for customers. It is the basis for a wide-ranging product offering from both national and global competitors. Competition has gained momentum in the fixed-line segment owing to market participants launching new offerings throughout 2017.

Broadband market

The most widespread access technologies for fixed broadband connections in Switzerland are infrastructures based on the networks of telecommunications providers and cable network operators. At the end of 2017, the number of retail broadband access lines in Switzerland totalled 3.8 million, corresponding to 85% of households and businesses. As in the previous year, the number of broadband connections increased by around 3% in 2017. Growth in broadband access lines provided by cable network operators thus lagged behind that of the broadband access lines of telecom service providers. Telecom service providers accounted for more than two thirds of new broadband access lines in 2017, corresponding to a stable 67% market share of all broadband lines. Of these, 53% (prior year: 54%) were for Swisscom end customers and 14% (prior year: 13%) for Swisscom wholesale offerings and fully unbundled lines.

TV market

In Switzerland, TV signals are transmitted via cable, broadband, satellite, antenna (terrestrial) and mobile. They are almost completely digitised, as the large-scale broadcast of analogue TV signals has been discontinued. The Swiss TV market features a wide range of offerings from national market participants, and is now also playing host to offerings from other international companies. These international companies offer TV and streaming services that can be used over an existing broadband connection, regardless of the Internet provider. The level of competition has increased, particularly in terms of TV content. Various national and international companies have secured the Swiss broadcasting rights for a wide range of sports that were for the most part previously held by Swisscom. This has given them the opportunity to position themselves on the market with their own new offerings.

Approximately 90% of TV connections are provided via cable or broadband networks. Swisscom has steadily increased the market share of its own digital TV offering, Swisscom TV, over the past few years. Swisscom is the market leader and further expanded on this leading position throughout 2017, achieving a market share of 33% at the end of the year (prior year: 32%).

Fixed-line telephony market

Fixed-line telephony is mainly based on lines running over the fixed networks of the telecom service providers and the cable networks. The number of fixed-line telephony connections is steadily declining. This trend accelerated in 2017, with the number of Swisscom fixed-line connections falling by around 14% to 2.0 million. The main reason for the decline was the substitution of mobile phones for fixed-line connections.

IT services market in Switzerland

The market for IT services generated revenue of CHF 10 billion in 2017 and will continue to enjoy moderate growth over the next few years. Swisscom expects the strongest growth in business process outsourcing (BPO) and in segments offering application-based and infrastructure project-based services, most notably cloud and security services. This growth is a result of the increasing number of business-driven ICT projects as well as the ever-growing willingness to procure external services. Customers usually expect services customised to their individual sector and business processes with related consultancy.

The shifts in the market and IT innovations are creating new opportunities for Swisscom. As one of the few providers of integrated digitisation solutions, Swisscom helps companies to improve customer experiences, simplify and automate processes and integrate existing solutions. Swisscom also co-creates new IT services with its customers. As a result, Swisscom is seen as a driver of digitisation in the Swiss economy. With a market share of around 11% (prior year: 9%), it remains one of the leading providers of IT services on the Swiss market.

Italian market trends in telecoms services

Italian broadband market

Italy's fixed broadband market is Europe's fourth largest, with a revenue volume of EUR 12 billion. Broadband penetration in households has increased to 60%, but remains below the European average. This is driven by the growth of new fibre-optic networks and by the increasing use of online services, such as streaming and gaming services. Convergence offerings for the fixed network and mobile communications are also becoming increasingly popular. Due to the intensely competitive environment, the market is under considerable pricing pressure. Ultrafast broadband network coverage has continued to rise, with some 70% of households now having access to the network. During the year under review, the situation regarding the ultrafast broadband infrastructure in Italy changed significantly. TIM significantly increased the expansion targets for its ultrafast broadband infrastructure and at the same time expanded and improved the wholesale fibre-optic offering, which is open to all operators. This development has been spurred by the ambitious expansion plans of Enel Open Fiber. The company aims to provide 270 towns and cities with a total of 9.5 million connections with FTTH and began work on the expansion in 2017. Enel Open Fiber intends to offer all telecommunications companies access to the access lines as wholesale services. Fastweb is the second-largest provider in the broadband business after TIM, with a market share of 16% in the residential customer segment and 29% in the major business customer segment. Thanks to the new wholesale offerings from TIM, Fastweb has made significant progress with its ultrafast broadband coverage, totalling 47% or 13 million households as at the end of 2017.

Italian mobile communications market

After the market consolidation in 2016, Italy has three major integrated providers on the market (TIM, Vodafone Italia, Wind Tre). These are increasingly marketing convergent offers to their large mobile customer bases in order to strengthen customer loyalty. The French telecommunications provider Iliad has announced that it will be entering the market in early 2018. It will be the fourth provider to set up its own mobile network and attempt to successfully gain a foothold in the Italian market. After a hard-fought price war in the past few years, revenue in the Italian mobile communications market has stabilised at EUR 16 billion. The relaunch of its mobile offering on the TIM network (as a "full MVNO", including 4G) represents an important step in Fastweb significantly increasing the share of convergent customers in the customer base.

Data protection

As part of its business activities, Swisscom processes data relating to various people. Swisscom processes this data in order to provide and continuously improve its services, to offer customers an enhanced experience and to open up new areas of business. Swisscom is committed to protecting the privacy of the persons concerned. A large proportion of data processing requires the consent of the persons concerned. Whenever possible, data analyses are conducted on the basis of anonymised and aggregated data with no personal reference. Under no circumstances is data containing personal references handed over or sold to third parties. Swisscom continuously expands its data protection measures. For example, all employee rights of access to critical data have been reviewed and redefined. Technical measures have also been implemented to further improve data protection and confidentiality. A central data governance organisation has the task of stipulating and enforcing framework conditions for data processing.

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

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

Infrastructure

Swisscom is unswervingly committed to meeting customer needs and delivering service and quality, and is also investing heavily in the networks of the future.

Infrastructure in Switzerland

Network infrastructure

The telecommunication networks form the backbone of the Swiss information society. Swisscom pursues the same strategy both on the ground and in the air – to provide Switzerland with the best network and thus provide a solid foundation for the digital transformation. Swisscom currently operates three networks that help facilitate the achievement of this aim: the fixed network, the mobile network and the Low Power Network (LPN). The LPN is the latest addition to the Swisscom network family and is used to connect objects such as machines, vehicles, lifts, oil tanks and much more.

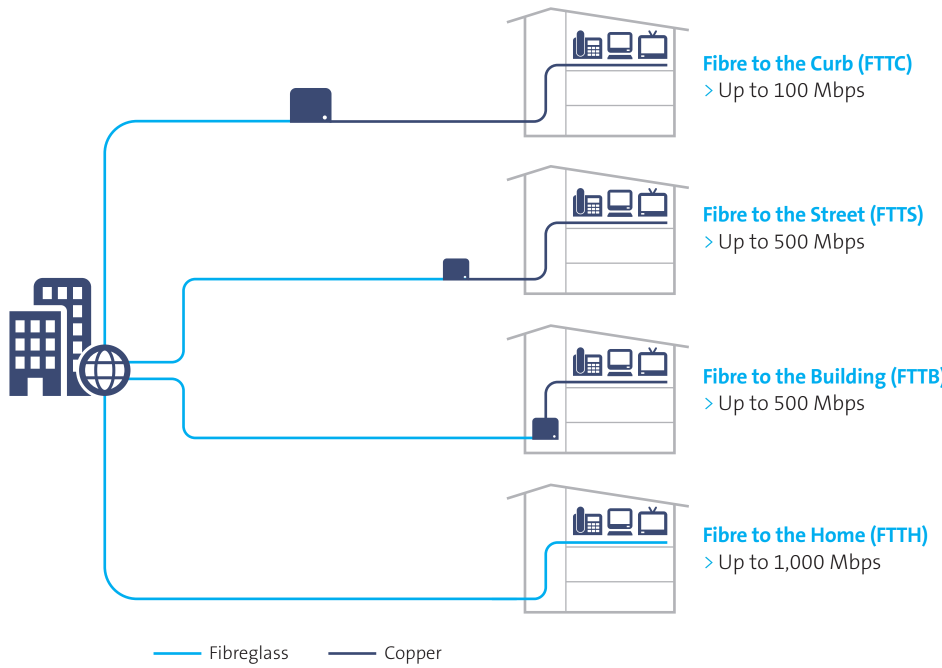
A uniform basis for increasing demand

Bandwidth requirements in the Swiss fixed and mobile telephone network continue to grow. This can be attributed to the fact that customers now use a wide range of devices for accessing the Internet. At the heart of the Swisscom network and its infrastructure is Internet Protocol (IP) technology, which can be used via copper and fibre-optic lines. As planned, Swisscom converted the services and products for almost all residential customers and the majority of corporate customers to All IP by the end of 2017. This means that around 2 million Swisscom customers now benefit from the advantages offered by IP technology. As of 2018, Swisscom will start transferring all of its locations to IP. All IP enables faster and more flexible processes and operations, and is boosting the competitive strength of Swisscom, its customers and Switzerland as a business centre. The Swisscom All IP initiative thus forms the basis for the digitisation of the Swiss economy.

Leading international position thanks to constant expansion

International studies carried out by the OECD, the Institute for Advanced Studies (IHS) and Akamai regularly show that Switzerland possesses one of the best information and telecommunications infrastructures in the world. Rural regions benefit in particular from the high level of capital expenditure, almost two thirds of which is financed by Swisscom. According to a study carried out by the IHS (Broadband Coverage in Europe 2016), the availability of broadband in rural regions of Switzerland is twice as high as the EU average.

In mobile communications, broadband LTE coverage now extends to 99% of the population. 80% of the population currently has 4G+ with speeds of up to 300 Mbps, and 60% 4G+ with speeds of up to 450 Mbps. In addition, Swisscom already provides speeds of up to 1 Gbps in 11 Swiss cities – and 30% of the Swiss population is set to benefit from these speeds by the end of 2018. This makes Swisscom the largest network operator in Switzerland by far, both in the fixed and mobile network. In the fixed-line segment, Swisscom continues to expand its ultrafast broadband coverage with minimum bandwidths of 80 Mbps. In doing so, it is focusing on establishing a globally unique mix of fibre-optic technologies as well as convergent approaches that harness both the mobile and fixed-line networks in combination. When talking about fibre-optic technologies, Swisscom is referring to Fibre to the Home (FTTH) as well as network architectures in which copper cables are used in the last few metres of the connection, i.e. Fibre to the Curb (FTTC), Fibre to the Street (FTTS) and Fibre to the Building (FTTB). Optical fibre is getting ever closer to the customer.



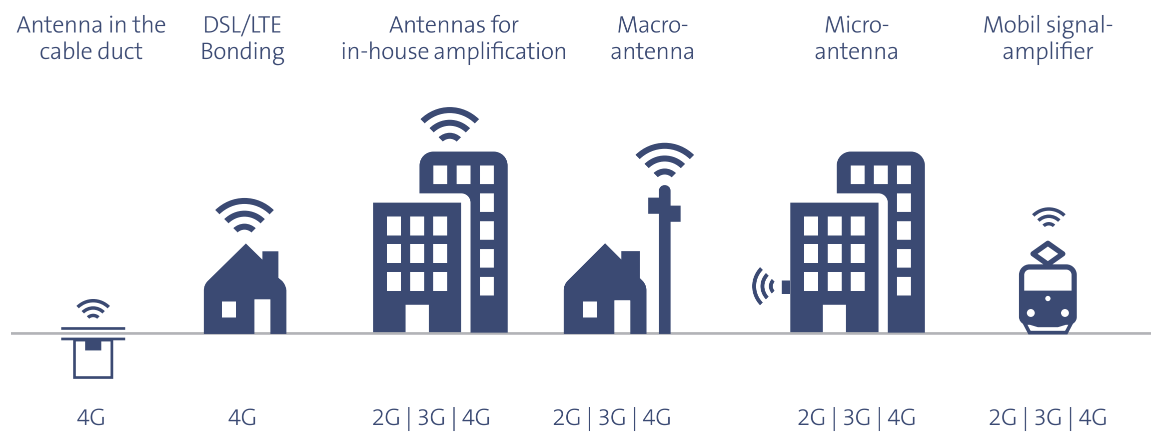
Swisscom has set itself ambitious goals as regards network expansion: the majority of people living in any given Swiss municipality should have access to increased bandwidths by the end of 2021. To this end, some 90% of all homes and businesses will have a minimum bandwidth of 80 Mbps by the end of 2021 – with around 85% of those achieving speeds of 100 Mbps or higher. In remote regions of Switzerland, Swisscom will honour its universal service provision mandate. Thanks to the new DSL+LTE Bonding technology, it is also noticeably improving broadband provision in certain regions. DSL+LTE Bonding combines the performance of the fixed-line network with that of the mobile network, thus ensuring a significantly better customer experience. As at the end of 2017, Swisscom had established around 3.9 million connections to its ultrafast broadband service (+8% in comparison to the prior year) with speeds in excess of 50 Mbps through continuous expansion. Of this number, over 3.1 million lines (+24% in comparison to the prior year) were equipped with the latest fibre-optic technology.

Innovative technologies put us right at the cutting edge

In terms of technology, Swisscom has maintained its leading international position. For example, Swisscom became the first European telecommunications provider to introduce the G.fast technology globally in September 2016. G.fast enables bandwidths of up to 500 Mbps on short copper cables (up to 200 metres in length). By way of comparison, a speed of 500 Mbps will ensure that customers can use cutting-edge services for many years to come, such as digital TV in HD quality which requires 10 Mbps or Netflix and YouTube in HD quality which needs 6 Mbps.

The Swisscom mobile network is one of the best by international standards. Swisscom currently supplies around 99% of the Swiss population with 4G, 3G and 2G coverage. Expansion is continuing, with 80% of the Swiss population surfing the web with 4G+ at speeds of up to 300 Mbps and 60% with 4G+ at speeds of up to 450 Mbps. In addition, Swisscom already provides speeds of up to 1 Gbps in 11 Swiss cities – and 30% of the Swiss population will also benefit from these speeds by the end of 2018. The volume of data transferred on the mobile network doubles every year. As a result and owing to the stringent legal framework conditions, the mobile network has to be expanded with new mobile telephony sites. Microcells can enhance the mobile sites. Thanks to a Swisscom innovation, they can even be installed in the floor and also be used in business premises and indoor public areas by means of antennas. The good 4G coverage and the availability of WLAN in most buildings allows for Advanced Calling, i.e. IP telephony via VoLTE (Voice over LTE) and WLAN (WiFi Calling). Furthermore, the newly launched HD Voice Plus technology provides users with crystal-clear call quality.

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



The rollout of 5G and replacement of 2G are both scheduled for 2020. 5G is the mobile communication standard of digitisation, enabling speeds of up to 10 Gbps, real-time reaction and much larger capacities. Swisscom is currently working together with Ericsson, the EPFL and Ypsomed on research into the new standard as part of the "5G for Switzerland" programme, and is also in discussions with other industrial partners. Swisscom expects 5G to create a great deal of advantages for the economy and companies, particularly in relation to the Internet of Things.

Swisscom is continually expanding its broadband network, extending the product range and increasing the number of antenna sites. It coordinates site expansions with other mobile providers wherever feasible and already shares nearly a quarter of its approximately 8,400 antenna sites with other providers. At the end of 2017, Swisscom had around 5,800 exterior units and 2,600 mobile communication antennas in buildings. And with around 5,500 hotspots in Switzerland, Swisscom is also the country's leading provider of public wireless local area networks.

The Internet of Things has long connected an immense number of objects and devices to one another and to people. Swisscom is the first provider in Switzerland to set up an additional network dedicated to the Internet of Things: the Low Power Network (LPN). Swisscom is also planning to roll out Narrowband-IoT and the expanded LTE standard LTE Cat M1 in 2018. These technologies form the basis for the Internet of Things and thus for smart cities, energy-efficient buildings, machine-to-machine networking and new digital applications. The LPN reached more than 95% of the Swiss population by the end of 2017.

IT infrastructure

It's not only bandwidths in the networks that are constantly increasing, but also the usage of cloud services. Swisscom positions itself as a trustworthy provider of private, public and hybrid cloud services. It is growing its portfolio thanks to partnerships with internationally renowned organisations. The myCloud and Storebox storage offerings resulted in data growth of 20 terabytes per day or 7 petabytes in total in 2017, which Swisscom stores for its customers securely in its data centres. The switch to data transmission only by means of Internet Protocol (All IP) is increasing the requirements imposed on locations that previously provided telephony services. The virtualisation of network functions is bringing about the creation of new geographically redundant IT platforms that can process large volumes of data with short reaction times, in addition to those in Zurich and Lausanne. Among other things, they are laying the foundation for the rollout of the next generation of mobile technology – 5G. The constant state of change on the market backs up Swisscom's efforts to use the latest technologies both internally and externally for the benefit of its customers. Instead of developing its own infrastructures, Swisscom is increasingly making use of the standardised systems created by its partners and is turning its attention to developing market-specific, value-added services that are based on the respective infrastructure. The industrialisation of IT continues to make good progress, accompanied by the development of modern applications that benefit from the new opportunities offered by the platforms and cut costs. Nevertheless, the old and new technologies will continue to exist and function side-by-side over the coming years. Swisscom can use specific services here, e.g. the "Journey to the Cloud" portfolio, to establish itself in the digital transformation. By combining different generations of technology to meet its needs, Swisscom is building upon its experience and expertise to provide support to its customers as they make their way in the digital world.

Infrastructure in Italy

Network infrastructure

Fastweb's network infrastructure consists of a fibre-optic network spanning approximately 47,500 kilometres, reaching some 60% of the Italian population. Its ultrafast broadband connections are used by around 8 million households and businesses, or 30% of the population, with FTTH and FTTS technologies enabling speeds of up to 1 Gbps or 200 Mbps, respectively. In 2016, Fastweb concluded a strategic partnership with TIM (Flash Fiber) to the FTTH coverage in 29 cities. By the end of 2020, Fastweb will have over 13 million ultrafast broadband connections, with 5 million of these equipped with FTTH technology and 8 million with FTTC technology. In 2017, Fastweb also launched a new mobile service based on a full MVNO agreement with TIM.

IT infrastructure

Fastweb operates four large data centres in Italy with a total surface area of 8,000 square metres. The IT infrastructure consists of around 5,500 servers (4,000 virtual servers and 1,500 physical servers), 900 databases and 5 petabytes of storage capacity. One data centre is managed by a technology partner who is responsible for setting up, designing and adapting the centre as well as for the operational tasks of Fastweb's IT infrastructure. Two data centres are mainly used for corporate business services, in other words for housing, hosting or other cloud-based services. One of the Fastweb data centres in Milan was the first in Italy to receive Tier IV certification, which recognises the highest level of reliability, security and performance. The data centre is fully operational and hosts services for business customers.

Employees

At the end of 2017, Swisscom had 20,506 full-time equivalent employees, of whom 17,688 or 86% were employed in Switzerland. Swisscom is also training 959 apprentices in Switzerland.

Employees in Switzerland

Introduction

Swisscom staff are employed under private law. The legal terms and conditions of employment in Switzerland are based on the Swiss Code of Obligations. General terms and conditions of employment which exceed the minimum standard defined by the Code of Obligations govern the employment law provisions applicable to Swisscom management staff in Switzerland, also known as the collective employment agreement. In the year under review, employees in Switzerland on open-ended contracts accounted for 99.6% of the workforce (prior year: 99.7%). Part-time employees made up 19.6% (prior year: 18.8%). Terminations of employment by employees in Switzerland amounted to 6.3% of the workforce (prior year: 5.8%). Further information on HR topics can be found in the Sustainability Report.

Collective employment agreement (CEA)

Swisscom is committed to fostering constructive dialogue with its social partners (the syndicom union and the transfair staff association) as well as the employee associations (employee representatives). The collective employment agreement (CEA) and the social plan constitute fair and consensual solutions. Under the Telecommunications Enterprise Act (TEA), Swisscom is also obliged to draw up a collective employment agreement in consultation with the employee associations. In the event of any controversial issues, an arbitration commission must be convened which will support the social partners by providing suggestions for solutions. The current collective employment agreement (CEA) has been in force since 1 April 2015 and will be replaced by a new CEA on 1 July 2018. The CEA sets out the key terms and conditions of employment and the relationship between Swisscom and the social partners. At the end of December 2017, 83% of the Swisscom workforce were covered by the collective employment agreement. The key terms and conditions of employment set out in the CEA govern working hours and working models, salaries and salary payments, professional developments, holidays and absences, among other aspects. The past core elements are set out in the Sustainability Report. The CEA grants the social partners and the employee associations rights of co-determination in various areas. The new CEA has been amended in view of the requirements of the working world of the future as well as to fall in line with market conditions. It takes particular account of employability, family-friendliness, work-life balance and the protection of privacy.

Social plan

The objective of the social plan is to formulate socially acceptable restructuring measures and avoid job cuts. It sets out the benefits provided to employees covered by the CEA who are affected by redundancy. Furthermore, the social plan makes use of the relevant means to increase the employability of employees and provides for retraining measures in the event of long-term job cuts. Responsibility for implementing the social plan lies with Worklink AG, a subsidiary of Swisscom. It provides employees with advice and support in their search for new employment and arranges temporary external or internal work placements. The offering provided by Worklink to employees also includes skill assessments, career advice and coaching sessions to enhance employability. Swisscom also supports special employment schemes, such as phased partial retirement or temporary placements in similar areas of expertise, in line with its commitment to providing fair solutions for older employees affected by changes in skill set requirements or redundancy. In 2017, 77% of those affected found a new job before the end of the social plan programme.

Employee remuneration

Salary system

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

See report **page 81**

Pay round and payroll development

In 2016, Swisscom and its social partners signed a pay round agreement for 2016 and 2017. With effect from April 2017, salaries for employees participating in the CEA were increased by 0.6% of the total salary. Salary adjustments were made based on individual employee performance and specifically for employees with salaries that needed to be increased in line with the market. The sum of salaries paid out to members of management was increased by 0.3% for individual salary adjustments. Salaries that needed to be brought in line with the market were specifically adjusted. In comparison with the previous year, the sum of salaries paid out in Switzerland fell by 2.7% to CHF 2.1 billion. Salary increases were more than offset by the decline in the number of jobs.

Staff development

Swisscom's market environment is constantly changing. The company invests in targeted professional training for its employees and managers in order to maintain and improve their employability and the company's competitiveness in the long term. Employees have the opportunity to attend internal and external training programmes. As a pioneer in the field of digitisation in Switzerland, Swisscom is dedicated to getting to grips with the working models of the future so as to provide employees and management with a learning environment in which they can develop new skills and shape their own professional development. In 2017, every Swisscom employee spent 3.1 days on learning, training and development.

Employee satisfaction

Swisscom employees submit their feedback with respect to a wide range of questions revolving around their personal work situation several times a year. The results are available for everyone to access in real time and allow individual employees, individual teams and the entire organisation to respond to feedback and make improvements. The new survey promotes a culture of feedback which creates the shared basis to grow Swisscom together. Three survey rounds have taken place since October 2016. The response rate was 61% across the three rounds. 79% of employees took part in at least one survey. The results so far show that 77% of participating employees rate their work situation as positive, 33% of them as very positive even. The Swisscom values for the dimensions surveyed are higher than or just as high as those of the benchmark.

Diversity

The different perspectives, experiences, ideas and skills provided by all of the employees when working together in their day-to-day work make Swisscom the successful and innovative company it is. To promote diversity, Swisscom aligns its activities to the dimensions of gender, inclusion, generations and language regions. In the area of gender for instance, Swisscom is placing the emphasis on flexible working models which help to promote a better balance between work and family as well as on a wide range of measures designed to increase the acceptance of part-time work, on job-sharing and on the promotion of talent. This has resulted in a slight increase in the number of women in management positions from 11.1% to 11.7% since 2015. The number of employees working part-time has also risen marginally since 2015, from 18.8% to 20.0%. Part-time male employees amount to 11.1%.

Employees in Italy

Employment agreement for the telecoms sector

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

Employee representation and relations with the unions

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

Industry-wide collective agreement for employees

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

Working time model

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

Employee remuneration

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

Brands, products and services

Swisscom is committed to service and quality and to interacting with its customers in a personalised and value-adding manner.

Swisscom brands

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

Extract of the brand portfolio

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

Products and services in Switzerland

Residential Customers

Swisscom offers products and services from the core business under the Swisscom corporate branding, as well as under the secondary brands Wingo and SimplyMobile and the third-party brand M-Budget. In order to provide its customers with the best communications experiences, Swisscom is constantly adjusting its portfolio of offerings to meet customer needs. The offerings were further simplified following the launch of the inOne subscription packages in spring 2017. Their modular structure allows customers to select the individual components according to their needs.

Offerings for private individuals

Thanks to “inOne home”, Swisscom is able to offer private individuals a bundled offering tailored to customer needs with a choice of TV and/or fixed-line telephony on top of the broadband connection. For all three components, customers can select from three separately priced profiles with varying levels of service. The profiles differ mainly in terms of Internet speed, the number of TV channels available, the activation of the recording and replay functions, and the free call minutes/SMS allocation. Customers can also choose not to include the TV and fixed-line telephony components in their individual package.
In “inOne mobile”, Swisscom has launched a new mobile subscription that provides customers with an even larger scope of service. This subscription allows Swisscom customers to make unlimited phone calls and send unlimited SMS messages to all Swiss networks, as well as unlimited Internet surfing at flat rates. The profiles in the offering mainly differ in terms of mobile data speeds and the inclusive services when abroad. “inOne mobile” customers can use their mobile line with the same telephone number on up to three devices at once. Swisscom offers occasional users of the mobile network prepaid services with no monthly subscription fee. The basic tariff of the “inOne mobile prepaid” subscription also offers faster surfing speeds and three new bundled packages to meet a wide range of customer needs. With “inOne XTRA mobile”, young people under the age of 26 will receive a discount on their subscription. The new “SimplyMobile” subscription, which is available in selected Coop sales channels, is the first offering in Switzerland in which the data allowance does not expire at the end of the month.
Customers can now hand their damaged mobile phones into Swisscom Repair Centres and have them repaired without the phone leaving the Swisscom Shop, while myCloud offers Swisscom customers a Swiss solution for the secure management and sharing of their personal data, such as photos, videos and documents. Customers can securely save their important documents, passwords and notes in Docsafe. Swisscom is also continually upgrading its service offerings, thus catering to changing customer needs.

Offerings for SMEs

Swisscom offers companies with up to five employees “inOne SME office”, and companies with six employees or more “Smart Business Connect”. The two bundled offerings include a broadband connection, a fixed-line telephony service and additional services such as an Internet failover. The “inOne SME office” offering can be expanded to include the TV service. Within this offering, customers can choose the components and assemble them into a package that meets their needs. In addition, customers with “inOne SME mobile” can make unlimited phone calls and send unlimited SMS messages to all Swiss networks, as well as enjoy unlimited surfing, for an all-in flat rate. Customers can choose from a range of profiles with different prices and services. In this way, customers only use and pay for the services they actually need.
Thanks to modern collaboration functions (UCC) and modular IT product components (Dynamic Computing Services and Business Network Solutions), SMEs are gaining a measure of flexibility in their everyday work, as they can modify their IT and communications infrastructure at any time to meet their requirements. Swisscom also offers software from the cloud (Storebox, Microsoft Office 365 and HomepageTool) as well as full service solutions. Through the digital solutions on offer, Swisscom gives its SME customers the option to work on any device or in any location, and sets them up to overcome the challenges of an increasingly interconnected world. Furthermore, Swisscom gives SMEs access to information and directory services in the form of localsearch, which makes it easy to find addresses, telephone numbers and detailed information on companies – on the Internet, via the mobile app and in the printed telephone directory (Local Guide).

Enterprise Customers

Digitisation is substantially changing business processes, business models, the customer experience and the working world in companies. It therefore requires solid communication networks. Swisscom makes use of its many years of experience as an integrated telecommunications and IT company in providing customers with support during the digitisation process. The company works together with customers to develop future-oriented solutions, supported by one of the most comprehensive ICT portfolios in Switzerland. This portfolio comprises cloud, outsourcing, workplace and UCC solutions, as well as mobile phone solutions, networking solutions, location networking, business process optimisation, SAP solutions, security and authentication solutions (mobile ID) and a full range of services tailored to the banking industry, ranging from IT and business outsourcing to trend research. Swisscom expanded its cloud offering, IT security, digital consulting and software development in particular in 2017. In addition to this, Swisscom offers solutions relating to the Internet of Things, ranging from access to an international ecosystem to connectivity and service development. The company provides hospitals with support in the digitisation of processes and thus increases their efficiency levels. It also helps health insurance companies by assuming the operation of their core IT systems. Swisscom is driving digitisation in the healthcare sector by providing its networking solutions for service providers and implementing the electronic patient dossier system.

Wholesale

Swisscom provides a variety of copper- and fibre-optic-based connectors as per customer requirements. With the Carrier Ethernet service, Carrier Line service and TCA leased lines, Swisscom Wholesale provides telecoms service providers with high-quality, transparent, point-to-point connections that meet their needs with a range of bandwidths and interfaces and/or a flexible Ethernet service that allows for tailored bandwidths and service level agreements. Swisscom also provides basic offerings for the connection of telecommunication systems and services (interconnection) as well as infrastructure products such as the shared use of cable ducts.

Products and services in Italy

Fastweb provides its residential and corporate customers with voice and broadband services through its own ultrafast broadband network as well as via unbundled access lines and wholesale products of TIM. In 2017, Fastweb enhanced its convergence offerings by launching a mobile 4G service on the market, making its coverage and performance the best in Italy. Fastweb's offerings are characterised by a sense of simplicity (three price plans), transparency (no promotions or hidden costs) and convergence (fixed network and mobile communications bundled together). Fastweb also affirmed its leading role in the corporate customers sector in 2017, most notably in the public administration segment. During the year under review, Fastweb continued upgrading and expanding its fibre-optic network. 70% of the Fastweb FTTS network now provides speeds of up to 200 Mbps downstream; in addition, the FTTH network has been upgraded to offer speeds of 1 Gbps, and thanks to the joint venture with TIM (Flash Fiber), has been expanded to five additional major cities (Catania, Padua, Palermo, Perugia and Venice). Finally, Fastweb has upgraded its WiFi sharing solution (WoW-Fi), which can turn a customer's home router into a potential Wi-Fi access point for the entire Fastweb community. The new customer modem – known as FastGate – has one of the best WiFi performances on the market, while the new mobile app further enhances the customer experience.

Customer satisfaction

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

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

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

Innovation and development

In a dynamic environment in which the market situation and general conditions are constantly changing, a company must be innovative to ensure long-term success.

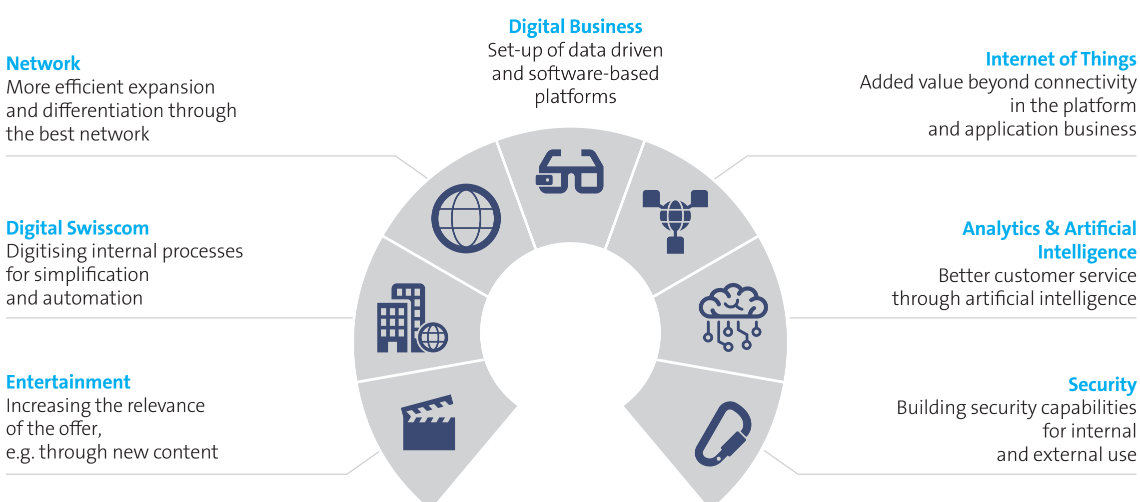
Innovation as an important driver

See www.swisscom.ch/innovation

Innovation is a key driver in the bid to enter new markets and partake in up-and-coming technologies. Due to the rapidly changing nature of Swisscom's business environment, innovation and development – in other words the commercially successful implementation of new ideas – are becoming increasingly important. Innovation is also an important lever in remaining relevant in the core business, in generating growth in new markets and in digitising internal work processes. Swisscom strives to anticipate strategic challenges, new growth areas and future customer needs early on, so as to help actively shape the future of telecommunications and the Internet. At Swisscom, innovation takes place in all areas of the company as well as beyond. Within the company, Swisscom practises and promotes decentralised product development. New ideas are generated throughout the company. Outside the company, Swisscom promotes innovation throughout the industry. In particular, Swisscom is committed to supporting young companies that offer progressive solutions in the fields of IT, communications and entertainment. It participates in start-ups as a project partner and investor, supports them by providing tailored products and services, and offers them access to infrastructures and markets. Swisscom works in collaboration with FinTech start-ups and thus makes targeted investments in promising FinTech ventures. Swisscom is also present in Silicon Valley. Its branch offices run targeted trend and technology scouting operations and help to remain at the forefront of technological development via collaborations with start-ups.

Targeted innovation

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



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

Network

- **5G for Switzerland:** As part of the "5G for Switzerland" programme, Swisscom and Ericsson are making preparations for the new generation of mobile technology. Working together with the Federal Institute of Technology Lausanne (EPFL) as a research partner, their aim is to advance the development of 5G. They are also planning to work together with industrial partners on developing and testing the potential applications in a wide range of different areas, such as smart transportation and virtual reality. The research results will influence the definition of the global 5G standard. Swisscom presented initial applications to journalists in June 2017.
- **G.fast:** (pronounced "gee dot fast"): At the end of 2017, Swisscom became the first telecommunications company in Europe to integrate the innovative G.fast transmission standard into its fixed network. G.fast is an important element of Swisscom's fixed network strategy and accommodates the continuous data growth within the network. Thanks to G.fast, customers can benefit from bandwidths of up to 500 Mbps.

Internet of Things

- **Nationwide networks in Switzerland for the Internet of Things (IoT):** Swisscom is laying the foundations for national Internet of Things applications. The expansion of the only Low Power Network in Switzerland continued to make strides in 2017. By the end of 2017, network coverage had already reached 90% of the Swiss population. The mobile communications-based IoT networks Narrowband-IoT (NB-IoT) and LTE Cat M1 are then set to be expanded from 2018 to 2020. NB-IoT is opening a whole new chapter for big data, enabling millions of networked devices, low data rates, low energy consumption, beneficial hardware, very good indoor network coverage and high security. It also offers global usability thanks to the 3GPP standard. With this, Swisscom will offer the right network for all IoT applications: be it for battery-operated sensors which send data sporadically or for applications that transmit large amounts of data regularly.

See
www.swisscom.ch/lpn

- **Smart City:** In Pully, Canton of Vaud, and other pilot cities, anonymised, aggregated mobile phone data is helping to improve traffic flows in the town and relieve the burden on the town centre by displaying extremely accurate movement patterns. The project is intended to act as a pilot: Swisscom is helping towns and cities to plan their infrastructure in a more systematic manner and find easier ways to manage it. It is currently able to convert the 20 billion or so datasets that are created daily on the mobile phone network into traffic indicators using a smart city solution. This solution will improve urban planning and accelerate the transformation of towns and cities as the data delivered increases public acceptance of projects. The first application examples are available. In the commune of Montreux, through traffic in the city centre was calculated precisely thanks to the Swisscom solution. Its annual share of the total volume of traffic worked out at 22%. As a consequence, the commune took the decision not to go ahead with the construction of a tunnel that would have cost CHF 150 million. It follows that such new indicators, as supplied by Swisscom's smart city solution among others, offer a progressive way of managing city development better than before. They are helping to overcome one of the biggest challenges of sustainable cities: traffic management.

Analytics & Artificial Intelligence

- **Artificial Intelligence:** In 2017, Swisscom made targeted improvements to its expertise in the area of artificial intelligence across various fields of application (customer support, customer experience and document insights, etc.) and achieved major development steps in the data lake. In customer service, for example, Swisscom launched a product that automatically categorises e-mails, making it possible to organise customer service work far more effectively and efficiently.

Security

- **Security thanks to artificial intelligence:** The number of threats from the Internet continues to grow and the threats themselves are becoming increasingly intelligent. Swisscom plans to use algorithms and corresponding artificial intelligence to automatically identify attacks and threats as well as to initiate the corresponding countermeasures. Artificial intelligence thus makes a considerable contribution towards ensuring a safe and secure network. Since September 2017, Swisscom has been running the Computer Security Incident Response Team. This team is able to respond to threats or existing incidents with intervention measures. For residential and SME customers, Swisscom developed the "Internet Guard" in 2017 – network-based protection against phishing websites and viruses. This protection is more comprehensive than ever before as it is based on a global blacklist.

Entertainment

- **UHD TV-Box for a new era of picture quality and voice recognition:** After eleven years, Swisscom discontinued Swisscom TV 1.0 at the end of 2017. The first generation of the IPTV offering is now only used by less than one percent of customers. When Swisscom TV came on the market in autumn 2006 it was ahead of its time. Back in 2006, high-definition television, which is commonplace these days, was still seen as an exception. Swisscom has been continuously pressing ahead with the development of Swisscom TV in recent years. An entirely new TV offering was developed with input from our own customers in Switzerland and by our own Swisscom designers and engineers. The UHD TV-Box is therefore a product for Switzerland which is developed and produced in Switzerland in line with the wishes of its customers. The developers paid particular attention to low energy consumption, dispensing with a disruptive fan and ensuring a compact form. The latest generation of the TV-Box processes images in super-sharp UHD quality. It features voice recognition in dialect, is fully accessible for customers with a sensory impairment and includes a personal on-screen programme guide that points out favourite shows that have been missed over the last seven days.

Digital Swisscom

- **Simplification of processes:** To get ahead in a digital world, Swisscom must first digitise itself and become a model digital company. In 2017, Swisscom again took a series of targeted steps to take it closer to this goal. These include work in agile structures (for example, use of the SaFE framework for agile development), as well as the simplification of crucial processes such as those involved in customer activation and problem-solving in customer service. In 2017, for example, Swisscom succeeded in making the process for solving incidents much more proactive and in providing customers with efficient, digital self-care. With the completion of All IP in 2018, Swisscom will take a giant step towards its own digitisation.

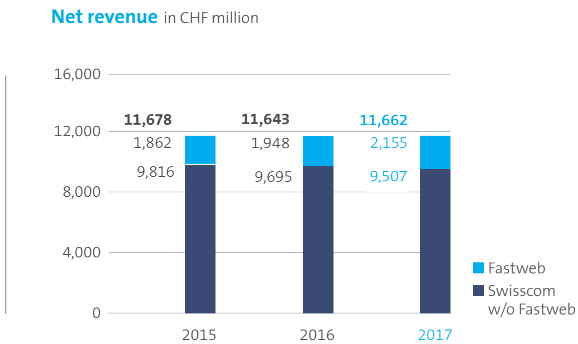
Digital Business

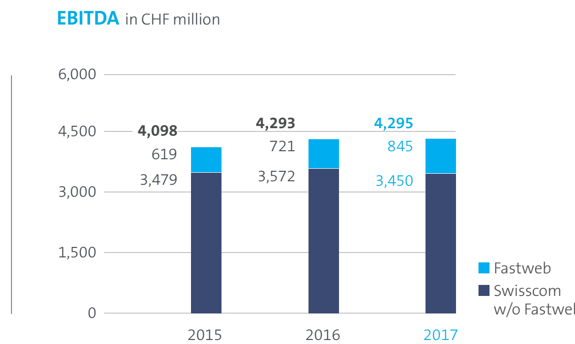
In the Digital Business innovation field, Swisscom supported key innovations in 2017, both within and outside the company, through the promotion of intrapreneurship as well as through Swisscom Ventures.

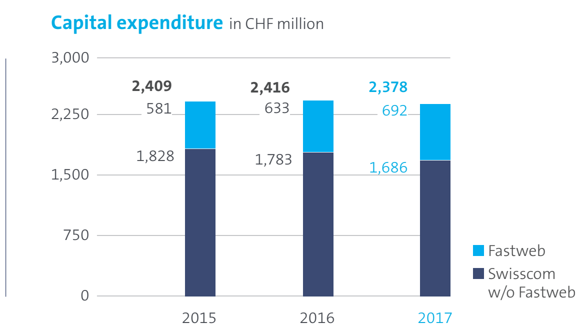
- **FinTech:** Launch of two FinTech ventures (Swiss Credit Exchange, Swisscom Blockchain Ltd)
- **siroop:** Testing of the new marketplace Evero for consumer-to-consumer relationships
- **Kickbox:** Establishment and setup of an intrapreneurship programme providing employees with resources (for example, time and budget) to realise innovation projects.

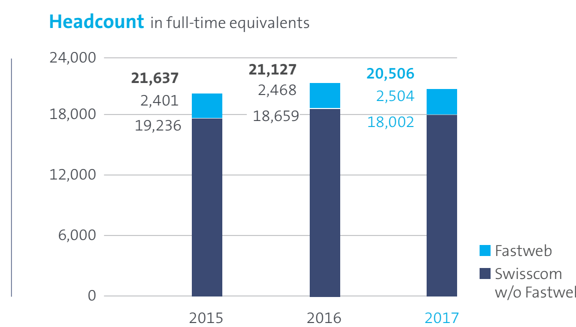
In addition to the activities it carries out in innovation fields, Swisscom is constantly investigating the opportunities offered by new technologies. In 2017, it focused on the potential of blockchain disruptive technology as well as virtual and augmented reality. The aim is for Swisscom to provide the best infrastructure for a digital Switzerland, tap new growth markets and offer its customers the best services and products.

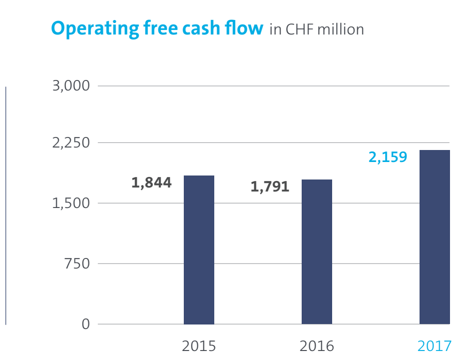
Financial review

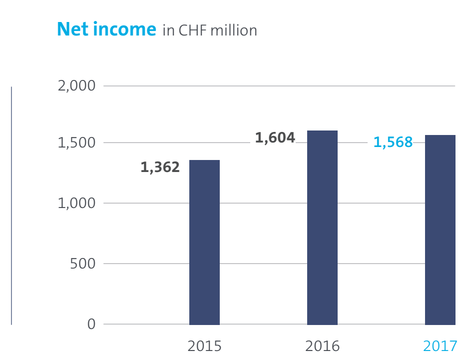












Summary

In CHF million, except where indicated	2017	2016	Change
Net revenue	11,662	11,643	0.2%
Operating income before depreciation and amortisation (EBITDA)	4,295	4,293	0.0%
EBITDA as % of net revenue	36.8	36.9	
Operating income (EBIT)	2,131	2,148	–0.8%
Net income	1,568	1,604	–2.2%
Share of net income attributable to equity holders of Swisscom Ltd	1,570	1,604	–2.1%
Earnings per share (in CHF)	30.31	30.97	–2.1%
Operating free cash flow	2,159	1,791	20.5%
Capital expenditure in property, plant and equipment and intangible assets	2,378	2,416	–1.6%
Net debt at end of year	7,447	7,846	–5.1%
Full-time equivalent employees at end of year (number)	20,506	21,127	–2.9%

Swisscom's net revenue was level with the previous year at CHF 11,662 million. Reported revenue increased by 0.2%, while on the basis of constant exchange rates it fell by 0.2%. Revenue in the Swiss core business decreased by CHF 199 million or 2.1% to CHF 9,058 million, mainly due to declining revenue from fixed-line telephony and lower income from roaming services. The Italian subsidiary Fastweb reported strong revenue and customer growth. Revenue rose by EUR 149 million or 8.3% to EUR 1,944 million and the number of broadband customers by 96,000 or 4.1% to 2.45 million.

At CHF 4,295 million, operating income before depreciation and amortisation (EBITDA) remained on a par with the previous year. It was impacted by non-recurring items, including one-off income from legal disputes at Fastweb amounting to CHF 102 million (prior year: CHF 60 million) and net expenses associated with headcount reductions in the Swiss business of CHF 61 million. Excluding non-recurring items and on the basis of constant exchange rates, EBITDA fell by CHF 23 million or 0.5%. In the Swiss core business, a decrease of 2.4% or CHF 88 million resulted on a like-for-like basis. The drop in revenue was partially offset by savings in indirect costs. Fastweb's EBITDA increased by EUR 58 million or 9.6% on an adjusted basis. Consolidated operating income (EBIT) contracted by CHF 17 million or 0.8% to CHF 2,131 million due to higher depreciation and amortisation, while net income was down CHF 36 million or 2.2% to CHF 1,568 million. Payment of an unchanged dividend of CHF 22 per share for the 2017 financial year will be proposed to the Annual General Meeting.

Capital expenditure fell by CHF 38 million or 1.6% to CHF 2,378 million. Progress continues to be made on expanding the broadband networks. In Switzerland, capital expenditure for the expansion of the broadband networks remained virtually unchanged at a high level. With other investments declining, capital expenditure in Switzerland fell overall by CHF 96 million or 5.4% to CHF 1,678 million. Capital expenditure at Fastweb rose by EUR 41 million or 7.1% to EUR 622 million, mainly as a result of higher customer-driven investment.

Operating free cash flow increased by CHF 368 million or 20.5% to CHF 2,159 million, fuelled chiefly by the improvement in net working capital. At CHF 7,447 million, net debt was CHF 399 million lower than at the end of 2016. The ratio of net debt to EBITDA is 1.7 (prior year: 1.8).

Headcount decreased year-on-year by 621 FTEs or 2.9% to 20,506 FTEs. In comparison with the previous year, headcount in Switzerland fell by 684 FTEs or 3.7% to 17,688 FTEs as a result of the declining core business. More than three quarters of the reduction was offset by natural fluctuation and vacancy management.

For 2018, Swisscom expects net revenue of around CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of less than CHF 2.4 billion. Subject to achieving its targets, Swisscom will propose payment of an unchanged dividend of CHF 22 per share for the 2018 financial year at the 2019 Annual General Meeting.

Segment results

In CHF million, except where indicated	2017	2016	Change
Net revenue			
Residential Customers	6,053	6,265	–3.4%
Enterprise Customers	2,508	2,540	–1.3%
Wholesale [1]	944	979	–3.6%
IT, Network & Infrastructure	167	173	–3.5%
Intersegment elimination	(614)	(700)	–12.3%
Swisscom Switzerland	**9,058**	**9,257**	**–2.1%**
Fastweb	2,164	1,957	10.6%
Other Operating Segments	850	789	7.7%
Group Headquarters	1	2	–50.0%
Intersegment elimination	(411)	(362)	13.5%
Revenue from external customers	**11,662**	**11,643**	**0.2%**
Operating income before depreciation and amortisation (EBITDA)			
Residential Customers	3,512	3,651	–3.8%
Enterprise Customers	832	848	–1.9%
Wholesale	446	379	17.7%
IT, Network & Infrastructure	(1,290)	(1,262)	2.2%
Swisscom Switzerland	**3,500**	**3,616**	**–3.2%**
Fastweb	845	721	17.2%
Other Operating Segments	180	164	9.8%
Group Headquarters	(111)	(114)	–2.6%
Reconciliation item pension cost [2]	(92)	(72)	27.8%
Intersegment elimination	(27)	(22)	22.7%
Operating income before depreciation and amortisation (EBITDA)	**4,295**	**4,293**	**0.0%**

[1] Including intersegment settlements of services performed by other network providers.
[2] Operating income of segments includes ordinary employer contributions as pension fund expense. The difference to the pension cost according to IAS 19 is recognised as a reconciliation item.

Swisscom's reporting focuses on the three operating divisions Swisscom Switzerland, Fastweb and Other Operating Segments. Group Headquarters, which includes non-allocated costs, is reported separately. Swisscom Switzerland comprises the customer segments Residential Customers, Enterprise Customers and Wholesale, as well as the IT, Network & Infrastructure division. Fastweb is a telecommunications provider for residential and business customers in Italy. Other Operating Segments primarily comprises the Digital Business division, Swisscom Broadcast Ltd (radio transmitters) and cablex Ltd (network construction and maintenance).
The IT, Network & Infrastructure segment does not charge any network costs to other segments, nor does Group Headquarters charge any management fees to other segments. Other services between the segments are recharged between the segments at market prices. Network costs in Switzerland are budgeted, monitored and controlled by the IT, Network & Infrastructure division, which is managed as a cost centre. For this reason, no revenue is credited to the IT, Network & Infrastructure segment within the segment reporting, with the exception of the rental and administration of buildings and vehicles. The results of the Residential Customers, Enterprise Customers and Wholesale segments correspond to a contribution margin before network costs.
Segment expenses comprise direct costs, personnel expenses and other operating costs less capitalised costs of self-constructed assets and other income. Segment expense includes ordinary employer contributions as pension fund expense. Under IAS 19, the difference between the ordinary employer contributions and the past service cost is reported as a reconciliation item between the operating incomes of the segments and Group operating income.

Swisscom Switzerland

In CHF million, except where indicated	2017	2016	Change
Net revenue and results			
Telecom services	6,464	6,662	–3.0%
Solution business	1,084	1,072	1.1%
Merchandise	648	637	1.7%
Wholesale	578	591	–2.2%
Revenue other	203	213	–4.7%
Revenue from external customers	**8,977**	**9,175**	**–2.2%**
Intersegment revenue	81	82	–1.2%
Net revenue	**9,058**	**9,257**	**–2.1%**
Direct costs	(1,943)	(2,028)	–4.2%
Indirect costs	(3,615)	(3,613)	0.1%
Segment expenses	**(5,558)**	**(5,641)**	**–1.5%**
Segment result before depreciation and amortisation (EBITDA)	**3,500**	**3,616**	**–3.2%**
Margin as % of net revenue	38.6	39.1	
Depreciation, amortisation and impairment losses	(1,485)	(1,473)	0.8%
Segment result	**2,015**	**2,143**	**–6.0%**
Operational data at end of period in thousand			
Fixed telephony access lines	2,047	2,367	–13.5%
Broadband access lines retail	2,014	1,992	1.1%
Swisscom TV access lines	1,467	1,418	3.5%
Mobile access lines	6,637	6,612	0.4%
Revenue generating units (RGU)	12,165	12,389	–1.8%
Bundles	1,907	1,672	14.1%
Unbundled fixed access lines	107	128	–16.4%
Broadband access lines wholesale	435	364	19.5%
Capital expenditure and headcount			
Capital expenditure in property, plant and equipment and intangible assets	1,654	1,755	–5.8%
Full-time equivalent employees at end of year (number)	15,157	15,876	–4.5%

Net revenue for Swisscom Switzerland fell by CHF 199 million or 2.1% to CHF 9,058 million as a result of fierce competition and the downward trend in fixed-line telephony. Revenue from telecommunications services decreased by CHF 198 million or 3.0% to CHF 6,464 million, with almost half of the drop due to the declining subscriber base in the fixed-line telephony business, which fell by 320,000 connections or 13.5% to 2.0 million. The other half of the decrease resulted from price cuts for new bundled offerings, increased promotions, the inclusion of roaming fees in basic subscription charges and lower prices in the Enterprise Customers segment. In the solutions business with large customers, revenue increased by CHF 12 million or 1.1% to CHF 1,084 million. In spite of the very competitive environment, Enterprise Customers saw a 7% rise in incoming orders to around CHF 2.7 billion. For Wholesale, lower proceeds as a result of the reduction in termination tariffs on mobile networks were largely offset by higher inbound roaming volumes.

The number of mobile subscribers rose by 25,000 or 0.4% year-on-year to 6.64 million in a saturated market. Swisscom increased the number of subscribers to its postpaid lines by 90,000 or 2.0% to 4.64 million, whereas the number of prepaid lines decreased by 65,000 or 3.2% to 2.0 million. The markets for broadband and TV are also becoming increasingly saturated, and customer growth has slowed. The number of broadband connections rose by another 22,000 or 1.1% to 2.0 million, while the number of TV connections grew by 49,000 or 3.5% to 1.47 million. By the end of December 2017, i.e. just nine months after launch, over 1.3 million customers representing approximately 2.7 million connections had opted for the inOne combined package . At the end of 2017, 1.9 million customers were using a bundled package, which represents a year-on-year increase of 14.1%. Revenue from bundled contracts increased year-on-year by CHF 335 million or 13.4% to CHF 2,837 million.

Segment expense fell by CHF 83 million or 1.5% to CHF 5,558 million. Excluding non-recurring items such as provisions recognised for headcount reduction or regulatory risks and gains from the sale of properties, the decrease was 2.0% on a like-for-like basis. The decrease of CHF 85 million or 4.2% in direct costs to CHF 1,943 million is due to the lower termination tariffs on mobile networks and lower costs of purchasing goods. At CHF 3,615 million, indirect costs were only marginally higher than the prior-year figure of CHF 3,613 million. Excluding non-recurring items, indirect costs fell by 0.7%, whereby the reduced costs resulting from the decrease in headcount were partially offset by the lower capitalised costs of self-constructed assets. Headcount fell year-on-year as a result of efficiency measures by 719 FTEs or 4.5% to 15,157. The segment result before depreciation and amortisation was CHF 116 million or 3.2% lower at CHF 3,500 million. A large portion of the drop in revenue was offset by cost savings, resulting in a decline of 2.4% on a like-for-like basis. Capital expenditure fell by CHF 101 million or 5.8% to CHF 1,654 million. Capital expenditure for the expansion of the broadband networks remained virtually unchanged at a high level, while customer-driven investment and investment in other infrastructure decreased.

Fastweb

In EUR million, except where indicated	2017	2016	Change
Residential Customers	986	906	8.8%
Corporate Business	710	706	0.6%
Wholesale	240	175	37.1%
Revenue from external customers	**1,936**	**1,787**	**8.3%**
Intersegment revenue	8	8	0.0%
Net revenue	**1,944**	**1,795**	**8.3%**
Segment expenses	(1,185)	(1,134)	4.5%
Segment result before depreciation and amortisation (EBITDA)	**759**	**661**	**14.8%**
Margin as % of net revenue	39.0	36.8	
Capital expenditure in property, plant and equipment and intangible assets	622	581	7.1%
Full-time equivalent employees at end of year (number)	2,504	2,468	1.5%
Broadband access lines at end of period in thousand	2,451	2,355	4.1%
Mobile access lines at end of period in thousand	1,065	676	57.5%

Fastweb's net revenue rose by EUR 149 million or 8.3% year-on-year to EUR 1,944 million. Despite difficult market conditions, Fastweb's broadband customer base grew by 96,000 or 4.1% to around 2.5 million in 2017. Fastweb is also growing in mobile telephony: compared to the previous year, the number of mobile access lines increased by 389,000 or 57.5% to 1.07 million due to the launch of attractive mobile offerings during 2017. The pressure on pricing in the Residential Customers segment as a consequence of fierce competition was more than offset by customer growth and the reduction in the billing period to four weeks introduced in the second quarter of 2017. Revenue from residential customers rose accordingly by EUR 80 million or 8.8% to EUR 986 million. Despite the high level of competition, Fastweb held its strong position in the market for business customers. Revenue from corporate business increased by EUR 4 million or 0.6% to EUR 710 million, while wholesale business revenue was up by EUR 65 million or 37.1% to EUR 240 million.

The segment result before depreciation and amortisation totalled EUR 759 million, equivalent to a year-on-year increase of EUR 98 million or 14.8%. This includes one-off income from legal disputes amounting to EUR 95 million (prior year: EUR 55 million). Adjusted for these effects, EBITDA rose by EUR 58 million or 9.6%. This increase was mainly the result of higher revenue and improved regulatory conditions. The adjusted EBITDA margin rose by 0.4 percentage points to 34.2%. The expansion of Italy's fibre-optic broadband network is continuing as planned. Capital expenditure remained at a high level, totalling EUR 622 million. Headcount at Fastweb rose by 36 FTEs or 1.5% to 2,504 FTEs, driven chiefly by the appointment of new employees in the corporate business segment.

Other Operating Segments

In CHF million, except where indicated	2017	2016	Change
Revenue from external customers	529	519	1.9%
Intersegment revenue	321	270	18.9%
Net revenue	**850**	**789**	**7.7%**
Segment expenses	(670)	(625)	7.2%
Segment result before depreciation and amortisation (EBITDA)	**180**	**164**	**9.8%**
Margin as % of net revenue	21.2	20.8	
Capital expenditure in property, plant and equipment and intangible assets	58	49	18.4%
Full-time equivalent employees at end of year (number)	2,580	2,493	3.5%

The net revenue of the Other Operating Segments rose year-on-year by CHF 61 million or 7.7% to CHF 850 million. The increase was mainly due to higher revenue from construction services rendered by cablex for Swisscom Switzerland. The segment result before depreciation and amortisation improved year-on-year by 9.8% or CHF 16 million to CHF 180 million. This corresponds to a profit margin of 21.2%. Headcount rose by 87 FTEs or 3.5% to 2,580 FTEs, driven primarily by the hiring of new employees at cablex.

Depreciation and amortisation, non-operating results

In CHF million, except where indicated	2017	2016	Change
Operating income before depreciation and amortisation (EBITDA)	**4,295**	**4,293**	**0.0%**
Depreciation, amortisation and impairment losses	(2,164)	(2,145)	0.9%
Operating income (EBIT)	**2,131**	**2,148**	**–0.8%**
Net interest expense	(149)	(155)	–3.9%
Other financial result	(11)	–	
Share of results of associates	(11)	(3)	
Income before income taxes	**1,960**	**1,990**	**–1.5%**
Income tax expense	(392)	(386)	1.6%
Net income	**1,568**	**1,604**	**–2.2%**
Share of net income attributable to equity holders of Swisscom Ltd	1,570	1,604	–2.1%
Share of net income attributable to non-controlling interests	(2)	–	
Earnings per share (in CHF)	30.31	30.97	–2.1%

Depreciation and amortisation increased year-on-year by CHF 19 million or 0.9% to CHF 2,164 million; at constant exchange rates this represents a rise of 0.3%. The amortisation of intangible assets related to business combinations declined, amounting to CHF 50 million (prior year: CHF 104 million). Net interest expense declined by CHF 6 million to CHF 149 million as a result of lower average interest costs. Income tax expense was CHF 392 million (prior year: CHF 386 million), corresponding to an effective income tax rate of 20.0% (prior year: 19.4%).
Net income fell by CHF 36 million or 2.2% to CHF 1,568 million. Earnings per share is calculated based on the share of net income attributable to equity holders of Swisscom Ltd and the average number of shares outstanding. Earnings per share fell from CHF 30.97 to CHF 30.31.

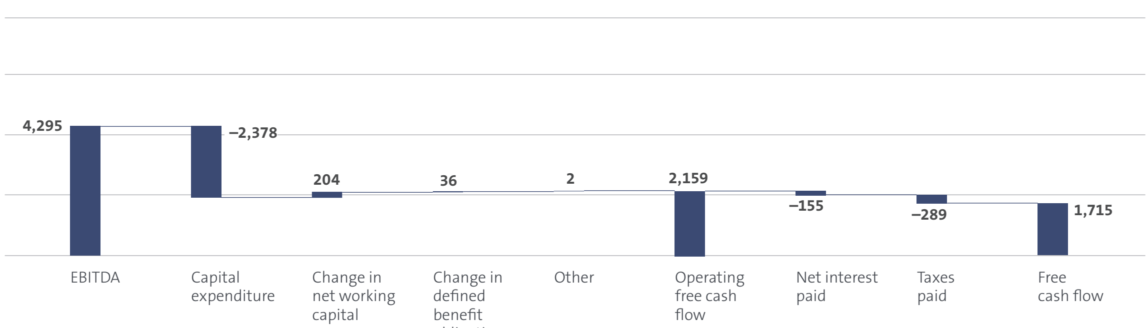
Cash flows

In CHF million	2017	2016	Change
Operating income before depreciation and amortisation (EBITDA)	4,295	4,293	2
Capital expenditure in property, plant and equipment and intangible assets	(2,378)	(2,416)	38
Change in net working capital and other cash flows from operating activities	242	(86)	328
Operating free cash flow	**2,159**	**1,791**	**368**
Net interest paid	(155)	(157)	2
Income taxes paid	(289)	(328)	39
Free cash flow	**1,715**	**1,306**	**409**
Net expenditures for company acquisitions and disposals	(106)	43	(149)
Other cash flows from investing activities, net	120	(87)	207
Issuance and repayment of financial liabilities, net	(401)	(101)	(300)
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Other cash flows	(9)	(14)	5
Net increase in cash and cash equivalents	**179**	**7**	**172**

Free cash flow increased year-on-year by CHF 409 million to CHF 1,715 million, mainly due to higher operating free cash flow. Operating free cash flow increased by CHF 368 million to CHF 2,159 million. In the previous year, cash flow was affected by the payment of the penalty of CHF 186 million for the ongoing Competition Commission proceedings regarding broadband services. Swisscom does not consider the sanction justified and has lodged an appeal with the Federal Court. It paid the penalty of CHF 186 million in the first quarter of 2016, as no suspensive effect had been granted. Excluding this payment, operating free cash flow rose by CHF 182 million or 9.2% versus the previous year. This is attributable primarily to lower trade receivables, on the one hand, and prepaid expenses, on the other. In the second quarter of 2017, the Swisscom pension fund (comPlan) also received a one-time payment of CHF 50 million as a result of the pension fund changes communicated in October 2016.

Net expenditure for company acquisitions and disposals amounted to CHF 106 million (prior year: net proceeds of CHF 43 million). This includes, in particular, the purchase of a Tiscali business division by Fastweb and the acquisition of the remaining shares of Cinetrade (prior year: sale of stake in Metroweb). Other cash flows chiefly include the taking out and repayment of fixed-term deposits. In 2017, Swisscom issued debenture bonds with an aggregate nominal value of CHF 500 million and paid back debenture bonds and private placements totalling around CHF 900 million.

Development of free cash flow in CHF million



Capital expenditure

See report
pages 24—27

Swisscom remains committed to maintaining the high quality and availability of its network infrastructures. In Switzerland this involves making targeted investments in ultrafast broadband network expansion, migrating to an All-IP-based infrastructure, and modernising the mobile network to the latest mobile network standards. In Italy, Fastweb is also systematically expanding the network infrastructure.

In CHF million, except where indicated	2017	2016	Change
Fixed access & infrastructure	486	511	–4.9%
Expansion of the fibre-optic network	469	476	–1.5%
Mobile network	269	231	16.5%
Customer driven	109	176	–38.1%
Projects and others [1]	321	361	–11.1%
Swisscom Switzerland	**1,654**	**1,755**	**–5.8%**
Fastweb	692	633	9.3%
Other Operating Segments	58	49	18.4%
Group Headquarters and eliminations	(26)	(21)	23.8%
Total capital expenditure	**2,378**	**2,416**	**–1.6%**
Thereof Switzerland	1,678	1,774	–5.4%
Thereof foreign countries	700	642	9.0%
Total capital expenditure as % of net revenue	20.4	20.8	

[1] Including All IP migration.

Capital expenditure decreased year-on-year by CHF 38 million or 1.6% to CHF 2,378 million, corresponding to 20.4% of net revenue (prior year: 20.8%). Swisscom Switzerland accounted for 70% of 2017 capital expenditure, while Fastweb accounted for 29% and Other Operating Segments for 1%.

Capital expenditure incurred by Swisscom Switzerland declined year-on-year by CHF 101 million or 5.8% to CHF 1,654 million, corresponding to 18.3% of net revenue (prior year: 19.0%). Capital expenditure for the expansion of the broadband networks with the latest technologies remained virtually unchanged at a high level, while customer-driven investment and investment in other infrastructure decreased.

Fastweb increased its capital expenditure year-on-year by CHF 59 million or 9.3% to CHF 692 million. In local currency, the rise amounted to EUR 41 million or 7.1% to EUR 622 million. Fastweb is continuing the expansion of the broadband networks in Italy as planned. The rise in capital expenditure is primarily the consequence of higher customer-driven investment. The ratio of capital expenditure to revenue was 32.0% (prior year: 32.4%).

Net asset position

In CHF million	31.12.2017	31.12.2016	Change
Property, plant and equipment	10,697	10,177	520
Goodwill	5,186	5,156	30
Intangible assets	1,758	1,756	2
Trade receivables	2,389	2,425	(36)
Trade payables	(1,753)	(1,597)	(156)
Provisions	(1,077)	(962)	(115)
Other operating assets and liabilities, net	(582)	(601)	19
Net operating assets	**16,618**	**16,354**	**264**
Net debt	(7,447)	(7,846)	399
Defined benefit obligations	(1,048)	(1,850)	802
Income tax assets and liabilities, net	(731)	(447)	(284)
Equity-accounted investees and other non-current financial assets	253	311	(58)
Equity	**7,645**	**6,522**	**1,123**
Equity ratio at end of year	34.7	30.4	
Ratio net debt/EBITDA	1.7	1.8	

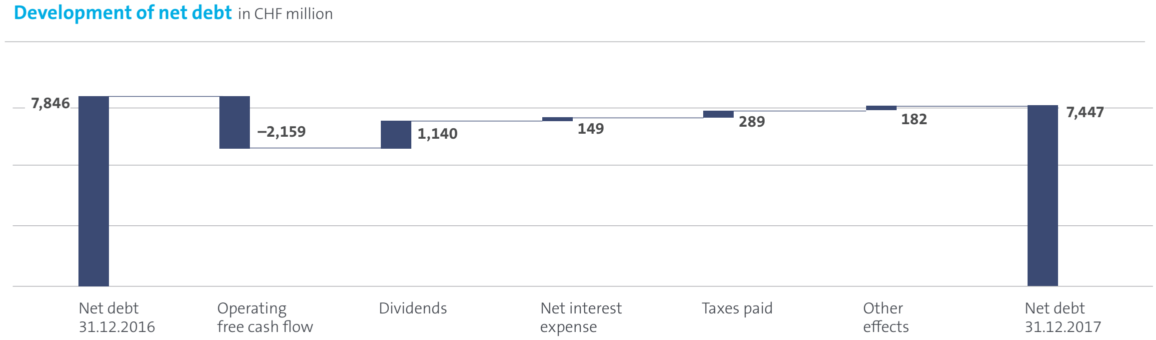
Operating assets

Net operating assets rose by CHF 0.3 billion or 1.6% to CHF 16.6 billion. The higher volume of property, plant and equipment as a result of investing activity was offset by lower net working capital. The net carrying amount of goodwill was CHF 5.2 billion, the bulk of which relates to Swisscom Switzerland (CHF 4.3 billion). This goodwill arose primarily in 2007 in connection with the repurchase of the 25% stake in Swisscom Mobile Ltd sold to Vodafone in 2001. Following the repurchase, the mobile, fixed-network and solutions businesses were organisationally combined and merged to create the new company Swisscom (Switzerland) Ltd. The valuation risk of this goodwill item is extremely low. The net carrying amount of Fastweb's goodwill is EUR 0.5 billion (CHF 0.6 billion). Fastweb's carrying amount in the consolidated financial statements totals EUR 2.9 billion (CHF 3.4 billion).

Net debt

Swisscom targets a net debt/EBITDA ratio of around 1.9. Net debt comprises financial liabilities less cash and cash equivalents, current financial assets and non-current certificates of deposit, and derivative financial instruments for financing.

Development of net debt in CHF million



The ratio of net debt to EBITDA was 1.7 at the end of 2017 (prior year: 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 interest-bearing financial liabilities amounts to 16%.

As at 31 December 2017, Swisscom's financial liabilities amounted to CHF 8.3 billion. Around 80% of the financial liabilities have a residual term to maturity of more than one year. Financial liabilities with a term of one year or less amounted to CHF 1.7 billion at 31 December 2017. In 2017, the average interest expense on all financial liabilities was 1.7% (prior year: 1.9%), and the average residual term to maturity was 5.3 years. A large proportion of the financial liabilities will fall due for repayment if a shareholder other than the Swiss Confederation gains majority control over Swisscom.

In CHF million	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due within 6 to 10 years	Due after 10 years	Total
Bank loans	–	–	445	176	100	720
Debenture bonds	1,385	–	1,670	2,085	960	6,100
Private placements	72	278	–	–	150	500
Finance lease liabilities	23	18	30	27	363	461
Other financial liabilities	235	109	28	3	–	375
Total interest-bearing financial liabilities	**1,715**	**405**	**2,173**	**2,291**	**1,573**	**8,156**

Post-employment benefits

Defined benefit obligations presented in the consolidated financial statements are measured in accordance with International Financial Reporting Standards (IFRS). Net defined benefit obligations amounted to CHF 1.0 billion, which represents a CHF 0.8 billion decline year-on-year, mainly due to the return on plan assets of CHF 0.9 billion. In accordance with the Swiss accounting standards applicable to the pension fund (Swiss GAAP ARR), the funding surplus amounts to CHF 0.8 billion, corresponding to a coverage ratio of 108%. The main reasons for the difference of CHF 1.8 billion compared with IFRS are the application of differing actuarial assumptions, for example with regard to the discount rate, life expectancy and risk sharing (CHF 1.1 billion), as well as a different actuarial measurement method (CHF 0.7 billion). Unlike Swiss GAAP, IFRS measurement takes into account future salary, contribution and pension increases and early retirements.

Equity

Equity rose by CHF 1.1 billion or 17.2% to CHF 7.6 billion, while the ratio of equity to total assets increased from 30.4% to 34.7%. The CHF 1.6 billion in net income and net gains of CHF 0.8 billion recognised directly in equity exceeded dividend payments of CHF 1.1 billion to the shareholders of Swisscom Ltd. Net gains recognised directly in equity include non-cash actuarial gains from pension plans totalling CHF 0.7 billion as well as unrealised gains of CHF 0.1 billion resulting from currency translation of foreign Group companies. The CHF/EUR exchange rate climbed from 1.074 at the end of 2016 to 1.17 at the end of 2017. On 31 December 2017, cumulative currency translation losses recognised in equity amounted to CHF 1.7 billion (after tax).
Distributable reserves are calculated on the basis of equity reported in the separate financial statements of Swisscom Ltd in accordance with Swiss company-law financial-reporting standards, rather than on the basis of equity as disclosed in the consolidated balance sheet prepared in accordance with International Financial Reporting Standards (IFRS). On 31 December 2017, the equity of Swisscom Ltd totalled CHF 5.31 billion. The difference between this amount and equity disclosed in the consolidated balance sheet is essentially due to earnings retained by subsidiaries as well as different accounting and valuation methods. Under Swiss company law, share capital and that part of the general reserves representing 20% of the share capital may not be distributed. On 31 December 2017, Swisscom Ltd held distributable reserves of CHF 5.25 billion.

Value-oriented business management

Key performance indicators for planning and managing business operations are revenue, operating income before depreciation and amortisation (EBITDA) and capital expenditure. The enterprise value/EBITDA ratio also permits comparisons of Swisscom's enterprise value derived from the share price on the balance sheet date with that of similar companies (European telecommunications companies) as well as with the prior year. The members of the Board of Directors and Group Executive Board are paid a portion of their remuneration in the form of Swisscom shares, which are blocked for a period of three years. They are also subject to a minimum shareholding requirement. Variable remuneration based on financial and non-financial targets, the partial payment of remuneration in shares and the minimum shareholding requirement ensure that the financial interests of management are aligned with the interests of shareholders.

In CHF million, except where indicated	31.12.2017	31.12.2016
Enterprise value		
Market capitalisation	26,859	23,627
Net debt	7,447	7,846
Defined benefit obligations	1,048	1,850
Equity-accounted investees and other non-current financial assets	(253)	(311)
Non-controlling interests	(11)	8
Enterprise value (EV)	**35,090**	**33,020**
Operating income before depreciation and amortisation (EBITDA)	4,295	4,293
Ratio enterprise value/EBITDA	**8.2**	**7.7**

Swisscom's enterprise value increased by 6.3% or CHF 2.1 billion to CHF 35.1 billion in 2017. The rise in stock market capitalisation of 13.7% or CHF 3.2 billion was partially offset by a reduction in net debt of CHF 0.4 billion and in pension liabilities of CHF 0.8 billion. With EBITDA remaining practically unchanged, the higher enterprise value resulted in an increase in the ratio of enterprise value to EBITDA to 8.2 (prior year: 7.7). Swisscom's relative market valuation is therefore well above the average for comparable companies in Europe's telecoms sector. The higher ratio is supported by the solid market position Swisscom has achieved thanks to a high level of investment and an attractive dividend policy, as well as the lower interest rates and lower corporate income tax rates in Switzerland as compared to other European countries.

Statement of added value

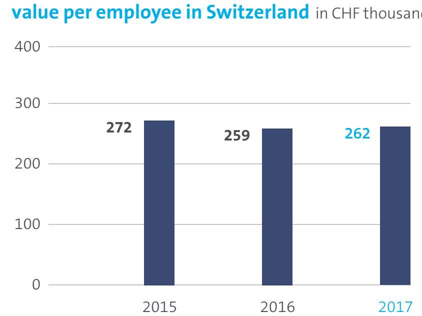
Thanks to a modern, high-performance network infrastructure and a comprehensive, needs-driven service offering, Swisscom makes an important contribution to Switzerland's competitiveness and economic success and generates direct added value. Operating added value is equivalent to net revenue less goods and services purchased, other indirect costs and depreciation and amortisation. Personnel expense in the statement of added value is treated as use of added value rather than as an intermediate input.

			2017			2016
In CHF million	Switzerland	Abroad	Total	Switzerland	Abroad	Total
Added value						
Net revenue	**9,476**	**2,186**	**11,662**	**9,665**	**1,978**	**11,643**
Capitalised self-constructed assets and other income	325	183	508	325	143	468
Direct costs	(1,946)	(720)	(2,666)	(2,036)	(723)	(2,759)
Other operating expenses [1]	(1,594)	(604)	(2,198)	(1,634)	(467)	(2,101)
Depreciation and amortisation [2]	(1,528)	(586)	(2,114)	(1,493)	(548)	(2,041)
Intermediate inputs	**(4,743)**	**(1,727)**	**(6,470)**	**(4,838)**	**(1,595)**	**(6,433)**
Operating added value	**4,733**	**459**	**5,192**	**4,827**	**383**	**5,210**
Other non-operating result [3]			(72)			(107)
Total added value			**5,120**			**5,103**
Allocation of added value						
Employees [4]	2,666	244	2,910	2,651	224	2,875
Public sector [5]	376	18	394	308	13	321
Shareholders (dividends)			1,148			1,148
Third-party lenders (net interest expense)			149			155
Company (retained earnings) [6]			519			604
Total added value			**5,120**			**5,103**

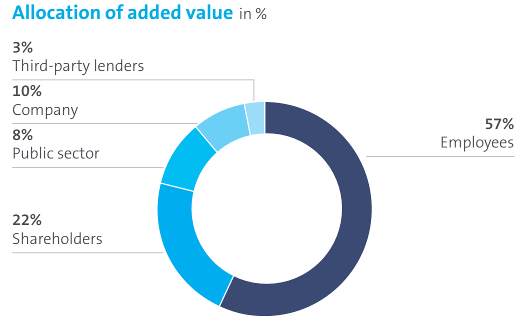
[1] Other operating expense: excluding taxes on capital and other taxes not based on income.
[2] Depreciation and amortisation: excluding amortisation of acquisition-related intangible assets such as brands or customer relations.
[3] Other non-operating result: financial result excluding net interest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

Of the consolidated operating added value of CHF 5.2 billion, 91% or CHF 4.7 billion was generated in Switzerland, which was 1.9% less than in the previous year. In contrast, added value per FTE was 1.2% higher at CHF 262,000. In addition to direct added value, purchases from suppliers provide significant indirect added value for Switzerland's economic development. Taking into account capital expenditure instead of depreciation and amortisation, the purchasing volume in the Swiss business was around CHF 4.9 billion in 2017, with added value contributed by suppliers in Switzerland of approximately 60% or CHF 2.9 billion.

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



Allocation of added value in %



Financial outlook

In CHF million, except where indicated	2017 reported	2017 pro-forma	2018 Change w/o IFRS 15	2018 Impact IFRS 15	2018 outlook [2]
Net revenue					
Swisscom Group	**11,662**	**11,662**	**< 0**	**(10)**	**~ CHF 11.6 bn**
Swisscom without Fastweb			< 0		~ CHF 9.2 bn
Fastweb			> 0		> EUR 2.0 bn
Operating income before depreciation and amortisation (EBITDA)					
Swisscom Group	**4,295**	**4,254** [1]	**< 0**	**(50)**	**~ CHF 4.2 bn**
Swisscom without Fastweb			< 0		~ CHF 3.4 bn
Fastweb			> 0		~ EUR 0.7 bn
Capital expenditure					
Swisscom Group	**2,378**	**2,378**	**< 0**	**–**	**< CHF 2.4 bn**
Swisscom without Fastweb			< 0		> CHF 1.6 bn
Fastweb			> 0		~ EUR 0.6 bn

[1] Adjustment of CHF 41 million: Fastweb litigation income of CHF 102 million less termination benefits of CHF 61 million.
[2] Echange rate CHF/EUR of 1.16 (CHF/EUR of 1.11 for financial year 2017).

For 2018, Swisscom anticipates net revenue of around CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of less than CHF 2.4 billion. Due to strong competition and price pressure, Swisscom's revenue without Fastweb is expected to decline; however, this should be partially offset by a rise in Fastweb's revenue. EBITDA for Swisscom, excluding Fastweb, is expected to be lower year-on-year. The expected reduction in EBITDA is attributable to price pressure and continued declines in the number of fixed-line telephony connections. EBITDA will be positively affected by cost savings. Fastweb's EBITDA is expected to be higher. From 2018 onwards, a new accounting standard for recognising revenue (IFRS 15) is to be applied, which is likely to have a negative effect on EBITDA of around CHF 50 million. By contrast, at the current euro exchange rate, the currency translation of Fastweb should positively affect revenue and EBITDA. Capital expenditure is expected to be slightly lower in Switzerland and slightly higher at Fastweb. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2018 financial year at the 2019 Annual General Meeting.

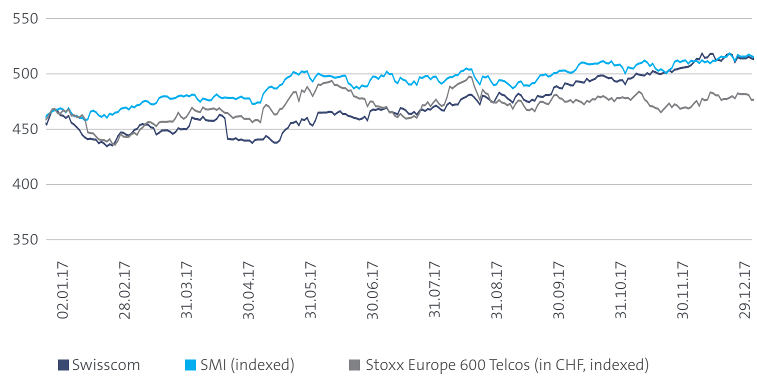
Capital market

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

Swisscom share

Swisscom's market capitalisation as at 31 December 2017 amounted to CHF 26.9 billion (previous year: CHF 23.6 billion). The number of shares issued remained the same at 51.8 million. Par value per registered share is CHF 1. Each share entitles the holder to one vote. Voting rights can only be exercised if the shareholder is entered in the share register of Swisscom Ltd with voting rights. The Board of Directors may refuse to enter a shareholder with voting rights if such voting rights exceed 5% of the company's share capital.

Share performance 2017 in CHF



See www.swisscom.ch/shareprice

The Swiss Market Index (SMI) rose by 14.1% compared with the previous year. The Swisscom share price increased by 13.7% to CHF 518.50, outperforming the Stoxx Europe 600 Telecommunications Index (+5.1% in CHF; –3.63% in EUR). Average daily trading volume grew by 16.9% year-on-year to 156,147 shares. The total trading volume of Swisscom shares in 2017 amounted to CHF 18 billion.

Shareholder return

On 7 April 2017, Swisscom paid out an ordinary dividend of CHF 22 per share. Based on the closing price at the end of 2016, this equates to a return of 4.9%. Taking into account the gain in share price, the total shareholder return (TSR) of the Swisscom share was 19.4% in 2017. The TSR for the SMI was 17.9% and for the Stoxx Europe 600 Telecommunications Index 9.8% in CHF and 0.7% in EUR.

Stock exchanges

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

Ownership structure

	31.12.2017			31.12.2016		
	Number of Shareholders	Number of Shares	Share in %	Number of Shareholders	Number of Shares	Share in %
Confederation	1	26,394,000	51.0%	1	26,394,000	51.0%
Natural persons	69,837	5,042,232	9.7%	74,224	5,497,806	10.6%
Institutions	2,938	20,365,711	39.3%	3,205	19,910,137	38.4%
Total	**72,776**	**51,801,943**	**100.0%**	**77,430**	**51,801,943**	**100.0%**

The majority shareholder as at 31 December 2017 was the Swiss Confederation, which is obligated by current law to hold the majority of the capital and voting rights. As at 31 December 2017, some 20% of the shares were held in unregistered shareholdings.

Analysts' recommendations

Investment specialists analyse Swisscom's business performance, results and market situation on an ongoing basis. Their findings and recommendations offer valuable indicators for investors. 23 analysts regularly publish studies on Swisscom. At the end of 2017, 17% of the analysts recommended a buy rating for the Swisscom share, 48% a hold rating and 35% a sell rating. The average price target at 31 December 2017, according to the analysts' estimates, was CHF 480 per share.

Dividend policy

Swisscom pursues a stable dividend policy that is focused on cash flow generation and capital allocation. At the forthcoming Annual General Meeting on 4 April 2018, the Board of Directors will propose an unchanged ordinary dividend of CHF 22 per share for the 2017 financial year. This is equivalent to a total dividend payout of CHF 1,140 million.
Since going public in 1998, Swisscom has distributed a total of CHF 30.7 billion to its shareholders: CHF 18.7 billion in dividend payments, CHF 1.6 billion in capital reductions and CHF 10.4 billion in share buybacks. Swisscom has paid out a total of CHF 367 per share since the initial public offering. Together with the overall increase in share price of CHF 178 per share, this amounts to an average annual total return of 5.4%.

Indebtedness

Level of indebtedness

Swisscom aims to have a net debt of around 1.9 times EBITDA (operating income before depreciation and amortisation). Net debt consists of total financial liabilities less cash and cash equivalents, current financial assets as well as non-current fixed interest-bearing certificates of deposit and derivative financial instruments on financing.
As at 31 December 2017, net debt amounted to CHF 7.4 billion (prior year: CHF 7.8 billion), corresponding to a net debt/EBITDA ratio of 1.7 (prior year: 1.8).

Credit ratings and financing

With a rating of A (stable) and A2 (stable) respectively, Swisscom enjoys good ratings from the Standard & Poor's and Moody's rating agencies. To avoid structural downgrading, Swisscom endeavours to raise financing at the level of Swisscom Ltd. Swisscom aims to have a broadly diversified debt portfolio. This involves paying particular attention to balancing maturities and a diversification of financing instruments, markets and currencies. Swisscom's solid financial standing enabled it unrestricted access to money and capital markets again in 2017.

Risks

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

Risk situation

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

Risk factors

Telecommunications market

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

Politics and regulation

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

See report **page 20**

Increased bandwidth in the access network

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

Employees

Constant changes in background conditions and markets mean that corporate culture needs to adapt. The key challenges in this context lie in maintaining employee motivation and high staff loyalty despite cost pressure, as well as managing growth and efficiency, increasing employees' ability to adapt and renew their skills and ensuring that Swisscom remains an attractive employer.

Competitive dynamics, regulation and recoverability of Fastweb's assets

The competitive dynamics carry risks which could have a detrimental impact on Fastweb's strategy and jeopardise projected revenue growth. The impairment test performed in 2017 confirmed the recoverable value of Fastweb's assets. The recoverability of Fastweb's net assets recognised in the consolidated financial statements is contingent above all on achieving the financial targets set out in the business plan (revenue growth, improvement in EBITDA margin and reduction in capital expenditure ratio). If future growth is lower than projected, there is a risk that this will result in a further impairment loss. Major uncertainty also surrounds the future interest rate trend and the country risk premium. An increase in interest rates or the country risk premium could lead to an impairment loss. Fastweb's business operations are also influenced by the European and Italian telecommunications legislation. Regulatory risks can jeopardise the achievement of targets and reduce the enterprise value.

Business interruption

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

Information and security technologies

Swisscom is in the midst of a transformation from line-switched TDM technology to IP technology. This transformation should enable Swisscom to produce more flexibly and efficiently than before. The experience acquired with IP technology to date has been positive. Swisscom's complex IT architecture entails risks during both the implementation and operating phases. These risks have the potential to delay the rollout of new services, increase costs and impact competitiveness. The transformation is being monitored by the Group Executive Board.
The area of Internet security has developed and changed with immense speed with respect to technology, economics and society and their interdependencies. New innovations and capabilities go hand in hand with new opportunities as well as new risks.
The wider the variety of opportunities for attack, the more difficult prevention becomes. This means it is even more important for potential threats to be recognised at an early stage, systematically understood and quickly averted.

Health and the environment

Electromagnetic radiation (e.g. from mobile antennas or mobile handsets) has repeatedly been claimed to be potentially harmful to the environment and health. Under the terms of the Ordinance on Non-Ionising Radiation (ONIR), Switzerland has adopted the precautionary principle and introduced limits for base stations which are ten times stricter than the EU's limits. The public's wary attitude to mobile antenna sites in particular is impeding Swisscom's network expansion. Even without stricter legislation, public concerns about the effects of electromagnetic radiation on the environment and health could further hamper the construction of wireless networks in the future and drive up costs.
Climate change poses risks for Swisscom. These risks are driven by legal and regulatory changes, changes to physical climatic parameters (increased levels of precipitation, higher average temperatures and temperature extremes, and the loss of permafrost) and other economic and reputational factors. The resulting developments could impact the operability of Swisscom's telecoms infrastructure, particularly in view of the potential risk to base stations, transmitter stations and local exchanges. The analysis of the risks posed by climate change is based on the official report of the Federal Office for the Environment (FOEN) on climate change, published in October 2011.

See www.cdp.net

Corporate Governance and Remuneration Report

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Corporate Governance

Corporate governance is a fundamental component of Swisscom's corporate policy. Swisscom is committed to practising effective and transparent corporate governance as part of its effort to deliver long-term value.

1 Principles

In performing their activities, the Board of Directors and Group Executive Board of Swisscom are guided by the objective of long-term and sustainable business management. They incorporate the legitimate interests of Swisscom shareholders, customers, employees and other interest groups into their decisions. To this end, the Board of Directors practises effective and transparent corporate governance, which is characterised by clearly assigned responsibilities and based on recognised standards. In this regard, Swisscom complies with the recommendations of the Swiss Code of Best Practice for Corporate Governance 2014 issued by economiesuisse, the umbrella organisation representing Swiss business, and the requirements of the Ordinance against Excessive Compensation in Listed Stock Companies (OaEC).
The interaction of investors, proxy advisors and other stakeholder groups with the respective specialist divisions allows the Board of Directors to identify new standards at an early stage and to adjust its corporate governance activities to new requirements as and when necessary.
Swisscom's principles and rules on corporate governance are set out primarily in the company's Articles of Incorporation, Organisational Rules and the Rules of Procedure of the Board of Directors' committees. Of particular importance is the Code of Conduct approved by the Board of Directors. It contains an explicit 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 responsibility for people, society and the environment, comply with applicable rules, demonstrate integrity and report any violations of the Code of Conduct.

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

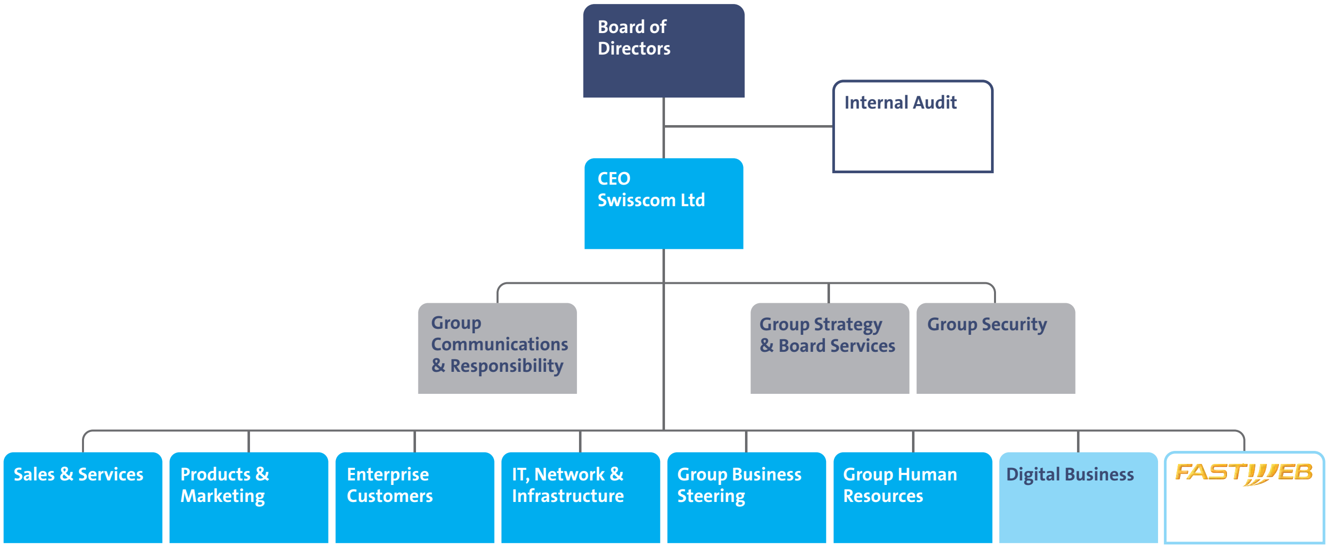
The latest versions of these documents as well as their earlier, unamended and superceded versions can be viewed online on the Swisscom website under "Basic principles".

2 Group structure and shareholders

2.1 Group structure

2.1.1. Operational Group structure

Swisscom Ltd is the holding company responsible for the overall management of the Swisscom Group. It comprises the five Group divisions Group Business Steering, Group Human Resources, Group Strategy & Board Services, Group Communication & Responsibility and Group Security. The Board of Directors delegates the day-to-day business management to the CEO of Swisscom Ltd. The CEO, together with the heads of the Group divisions Group Business Steering (CFO) and Group Human Resources (CPO) as well as the heads of the business divisions Sales & Services, Products & Marketing, Enterprise Customers and IT, Network & Infrastructure, form the Group Executive Board. The Group also operates a Digital Business division and Group companies such as the Italian subsidiary Fastweb S.p.A.



Strategic and financial management of the Group companies is assured through the rules governing the assignment of powers and responsibilities set by the Board of Directors of Swisscom Ltd. The Group companies are divided into three categories: strategic, important and other. Swisscom Ltd, Swisscom (Switzerland) Ltd and the subsidiary Fastweb S.p.A. are classified as strategic Group companies. The Board of Directors of Swisscom (Switzerland) Ltd comprises the CEO of Swisscom Ltd as Chairman, the CFO of Swisscom Ltd and the Head of IT, Network & Infrastructure. The executive management of Swisscom (Switzerland) Ltd is delegated to the Head of Swisscom (Switzerland) Ltd. This position is occupied by the CEO of Swisscom Ltd. Seats on the Board of Directors of Fastweb S.p.A. are held by the CEO of Swisscom Ltd, who acts as Chairman, together with the CFO of Swisscom Ltd, the Head of IT, Network & Infrastructure and other representatives of Swisscom. The Board of Directors also includes an external member. The Board of Directors of Fastweb S.p.A. has empowered the Delegate of the Board of Directors with the executive management of the company. In the important Group companies, the responsibilities of the Chairman of the Board of Directors are fulfilled by the CEO of Swisscom Ltd, the CEO of a strategic Group company, the head of a Group or business division or other persons appointed by the CEO. Other representatives of Swisscom and, in some cases, external parties also serve as members of the Board of Directors. A list of Group companies, including company name, registered office, percentage of shares held and share capital, is provided in Note 5.4 to the consolidated financial statements.

See report **pages 137—138**

For financial reporting purposes, the business divisions of Swisscom are allocated to individual segments. Further information on segment reporting can be found in the Management Commentary.

See report **page 40**

2.1.2 Listed company

Swisscom Ltd is a company governed by Swiss law and has its registered office in Ittigen (Canton of Berne, Switzerland). It is listed in the Standard for Equity Securities, Sub-Standard International Reporting, of the SIX Swiss Exchange (Securities No.: 874251; ISIN: CH0008742519; ticker symbol SCMN).
Trading in the United States is conducted over-the-counter (OTC) as a Level 1 programme (ticker symbol: SCMWY; ISIN: CH008742519; CUSIP for ADR: 871013108). Within the framework of the programme, The Bank of New York Mellon Corporation issues the American Depository Shares (ADS). ADS are American securities which represent Swisscom shares. Ten ADS correspond to one share. The ADS are evidenced by American Depositary Receipts (ADR).
As at 31 December 2017, the stock market capitalisation of Swisscom Ltd was CHF 26,859 million. The Swisscom Group comprises no other listed companies.

2.2 Major shareholders

Pursuant to Article 120 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIA), there is a duty to disclose shareholdings to Swisscom Ltd and SIX Swiss Exchange whenever a person or group subject to the disclosure obligation reaches, exceeds or falls below 3, 5, 10, 15, 20, 25, $33^{1/3}$, 50 or $66^{2/3}$ per cent of the voting rights of Swisscom Ltd, irrespective of whether or not the voting rights can be exercised. The detailed disclosure requirements and the method for calculating these limits are specified in the FINMA Financial Market Infrastructure Ordinance (FMIO-FINMA). Under the FMIO-FINMA, nominee companies, which are not able to independently decide how voting rights are exercised, need not report when any of their shareholdings reach, exceed or fall below these limits. In August 2017, BlackRock, Inc., New York, reported a shareholding of 3.44% in Swisscom Ltd. The notification of the shareholding can be viewed on the website of SIX Exchange Regulation at https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.
According to the Swisscom share register, Chase Nominee Ltd., London, held 3.04% of the voting rights in Swisscom Ltd on 31 December 2017.
On 31 December 2017, the Swiss Confederation (“the Confederation”), as majority shareholder, continued to hold 50.95% of the issued share capital of Swisscom Ltd, which is unchanged from the previous year. The Telecommunications Enterprises Act (TEA) provides that the Confederation shall hold the majority of the share capital and voting rights of Swisscom Ltd.

2.3 Cross-shareholdings

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

3 Capital structure

3.1 Capital

On 31 December 2017, 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. The share capital was unchanged in the years 2015 to 2017. There is no authorised or conditional share capital. Additional information concerning equity can be found in the financial statements of Swisscom Ltd.

See report **page 152**

3.2 Shares, participation and profit-sharing certificates

Each registered share of Swisscom Ltd has a par value of CHF 1. Each share entitles the holder to one vote. Shareholders may only exercise their voting rights, however, if they have been entered with voting rights in the share register of Swisscom Ltd.
All registered shares with the exception of treasury shares held by Swisscom are eligible for a dividend. There are no preferential rights.
Registered shares of Swisscom Ltd are not issued in certificate form, but are held as book-entry securities in the depositary holdings of SIX SIS AG, up to a maximum limit determined by the Swiss Confederation. Shareholders may at any time request confirmation of the registered shares they hold. However, they have no right to request the printing and delivery of certificates for their shares (registered shares with no right to printed certificates).

The holder of an ADR possesses the rights listed in the Deposit Agreement (e.g. the right to issue instructions for the execution of voting rights and the right to dividends). The Bank of New York Mellon Corporation, which acts as the ADR depository, is listed as the shareholder in the share register. ADR holders are therefore unable to directly enforce and exercise shareholder rights. The Bank of New York Mellon Corporation exercises the voting rights in accordance with the instructions it receives from the ADR holders. If it does not receive instructions, it does not exercise the voting rights.

See report page 77

Further details on the shares are available in Section 7 "Shareholders' participation rights" as well as in the Management Commentary.

See report page 51

Swisscom Ltd has issued neither participation nor profit-sharing certificates.

3.3 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 restrictions of any kind. In accordance with Article 3.5.1 of the Articles of Incorporation, the Board of Directors may refuse to recognise an acquirer of shares as a shareholder if its total holding, when the new shares are added to any voting shares already registered in its name, exceeds the limit of 5% of all registered shares entered in the commercial register. With the other shares, the acquirer is entered in the share register as a shareholder or beneficial holder without voting rights. The other statutory provisions on restricted transferability are described in section 7.1 of this report, "Voting right restrictions and proxies".

See www.swisscom.ch/basicprinciples

Swisscom has issued special regulations governing the registration of trustees and nominees in the share register. To facilitate the tradability of the company's shares on the stock exchange, the Articles of Incorporation (Article 3.6) allow the Board of Directors, by means of regulations or agreements, to permit the fiduciary entry of registered shares with voting rights for trustees and nominees in excess of the 5% threshold, provided they disclose their trustee capacity. In addition, they must be subject to supervision by a banking or financial market supervisory authority or otherwise provide the necessary assurance that they are acting for the account of one or more unrelated parties. They must also be able to provide evidence of the names, addresses and holdings of the beneficial owners of the shares. This provision of the Articles of Incorporation may be changed by resolution of the Annual General Meeting, for which an absolute majority of valid votes cast is required. In accordance with this provision, the Board of Directors has issued regulations governing the entry of trustees and nominees in the Swisscom Ltd share register. The entry of trustees and nominees as shareholders with voting rights is subject to application and the conclusion of an agreement by which the trustee or nominee acknowledges the applicable entry restrictions and disclosure obligations as binding. Trustees and nominees related in terms of capital or voting rights either contractually or through common management or other means are treated as a single shareholder (trustee or nominee).

3.4 Convertible bonds, debenture bonds and options

See report page 109

Swisscom has no convertible bonds outstanding. Details of the debenture bonds are given in Note 2.2 to the consolidated financial statements.
Swisscom does not issue options on registered shares of Swisscom Ltd to its employees.

4 Board of Directors





4.1 Members of the Board of Directors

The Board of Directors currently consists of nine members. The representative of the Swiss Confederation, Hans Werder, stepped down from the Board of Directors at the Annual General Meeting on 3 April 2017. The Swiss Confederation has delegated Renzo Simoni as his successor.
As of 31 December 2017, the Board of Directors comprises the following non-executive members:

Name	Nationality	Year of birth	Function	Taking office at the Annual General Meeting
Hansueli Loosli [1]	Switzerland	1955	Chairman	2009
Roland Abt	Switzerland	1957	Member	2016
Valérie Berset Bircher	Switzerland	1976	Member, representative of the employees	2016
Alain Carrupt	Switzerland	1955	Member, representative of the employees	2016
Frank Esser	Germany	1958	Member	2014
Barbara Frei	Switzerland	1970	Member	2012
Catherine Mühlemann	Switzerland	1966	Member	2006
Theophil Schlatter	Switzerland	1951	Deputy Chairman	2011
Renzo Simoni [2]	Switzerland	1961	Member, representative of the Confederation	2017

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

4.2 Education, professional activities and affiliations

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

See www.swisscom.ch/basicprinciples

Hansueli Loosli

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

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

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

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

Mandates by order of Swisscom: Member of the Board of Directors and Executive Committee of economiesuisse, until August 2017

Other significant activities: –

Roland Abt

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

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

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

Mandates in non-listed companies: Member of the Board of Directors, Raiffeisenbank, Zufikon; Chairman of the Board of Directors, Eisenbergwerk Gonzen AG, Sargans; member of the Board of Directors, BDWM Transport AG, Bremgarten, since May 2017

Other significant activities: –

Valérie Berset Bircher

Education: Doctorate in law (Dr. iur.)
Career history: 2005 Office of the International Labour Organization (ILO), specialist in employment law in the Department of International Labour Standards; 2006–2007 International Organization for Standardization (ISO), Human Resources Department; since 2007 Deputy Head of the International Labour Affairs section of the State Secretariat for Economic Affairs (SECO) in which role she has served on committees of the United Nations (UN) and the International Labour Organization (ILO) addressing economics, finance and development issues and as a member of the Federal Advisory Committee for the National Contact Points on OECD Guidelines for Multinational Companies and the tripartite ILO Committee; 2011–2014 and since 2017 Member of the ILO Board of Directors.
Mandates: –
Other significant activities: Member of the Committee on Freedom of Association, ILO, Geneva, since June 2017

Alain Carrupt

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

Frank Esser

Education: Graduate in business administration, Doctorate in Economics (Dr. rer. pol.)
Career history: 1988–2000 Mannesmann Deutschland, most recently from 1996 as a member of the Executive Board of Mannesmann Eurokom; 2000–2012 Société Française du Radiotéléphone (SFR): 2000–2002 Chief Operating Officer (COO), 2002–2012 CEO, in this function from 2005–2012 also a member of the Group Executive Board of the Vivendi Group
Mandates in listed companies: Member of the Supervisory Board, Dalenys Group S.A (formerly Rentabiliweb Group S.A.S.), Brussels; member of the Board of Directors, interXion Holding N.V., Amsterdam
Other significant activities: –

Barbara Frei

Education: Degree in mechanical engineering, ETH; Doctorate (Dr. sc. techn.), ETH; Master of Business Administration, IMD Lausanne
Career history: 1998–2016 ABB Group in various managerial positions, including, in particular, 2008–2010 ABB s.r.o., Prague, Country Manager; 2010–2013 ABB S.p.A., Sesto San Giovanni (Italy), Country Manager and Regional Manager Mediterranean; November 2013–December 2015 Drives and Control Unit, Managing Director; 2016 Head of Strategic Portfolio Reviews for the Power Grids division; since December 2016 Schneider Electric, Paris: Chairman of the Executive Committee of Schneider Electric GmbH, Germany, in which capacity she was also Zone President Germany until June 2017 and since July 2017 Zone President Germany, Austria and Switzerland for the group Schneider Electric, Paris
Mandates: Mandates for Schneider Electric Group: CEO of ELSO GmbH, Merten GmbH, Schneider Electric GmbH, Schneider Electric Holding Germany GmbH, SE Real Estate GmbH and, since July 2017, Schneider Electric “Austria” Ges.m.b.H, and member of the Supervisory Board of Schneider Electric Sachsenwerk GmbH
Other significant activities: –

Catherine Mühlemann

Education: Lic. phil. I

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

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

Mandates in non-listed companies: Vice-Chairwoman of Switzerland Tourism; member of the Supervisory Board of Messe Berlin GmbH, Berlin, since July 2017

Other significant activities: –

Theophil Schlatter

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

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

Mandates in non-listed companies: Member of the Board of Directors, Schweizerische Cement-Industrie-Aktiengesellschaft, Rapperswil-Jona

Other significant activities: –

Renzo Simoni

Education: Doctorate in mechanical engineering (Dr. sc. techn.), ETH

Career history: 1985–1989 Gruner Group, technical assistant in Civil Engineering and Building Construction; 1989–1995 Federal Institute of Technology in Zurich (ETH Zurich), scientific assistant; 1995–1998 ETH Zurich, lecturer (part-time); 1995–2002 Ernst Basler + Partner AG, Civil Engineering Developer Consulting Services; 2002–2006 Helbling Beratung + Bauplanung AG, member of the Management Board, most recently as Co-CEO; 2007–2017 AlpTransit Gotthard AG, Chairman of the Management Board

Mandates in non-listed companies: Member of the Board of Directors, Gruner AG, Basel, since April 2017

Other significant activities: Member of the Advisory Committee of Deutsche Bahn Stuttgart-Ulm GmbH (PSU) Project Company (“Stuttgart 21”); Chairman of the Board of the Psychiatric Hospital of the University of Zurich, since January 2018

4.3 Election and term of office

Under the terms of the Articles of Incorporation, the Board of Directors comprises between seven and nine members and, if necessary, the number can be increased temporarily. 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. Currently, Renzo Simoni is the only representative appointed by the Federal government. 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 stipulate that the Board of Directors must include two employee representatives. Employees are entitled to make proposals for their employee representatives. Since the Annual General Meeting of April 2016, the elected employee representatives have been Valérie Berset Bircher and Alain Carrupt. Valérie Berset Bircher was nominated by the transfair staff association and Alain Carrupt was nominated by the syndicom trade union. With the exception of the representative of the Swiss Confederation, the Board of Directors of Swisscom Ltd is elected by the shareholders at the Annual General Meeting. The Annual General Meeting elects the members and the Chairman of the Board of Directors as well as the members of the Compensation Committee individually for a term of one year. The term of office runs until the conclusion of the following Annual General Meeting. Re-election is permitted. If the office of the Chairman is vacant or the number of members of the Compensation Committee falls below the minimum number of three members, the Board of Directors nominates a chairman from among its members or appoints the missing member(s) of the Compensation Committee to serve until the conclusion of the next Annual General Meeting. Otherwise, the Board of Directors constitutes itself.
The maximum term of office for members elected by the Annual General Meeting, as a rule, is a total of twelve years. This flexible arrangement makes it possible for shareholders to extend the maximum term of office in exceptional cases if special circumstances exist. Members who reach the age of 70 retire from the Board as of the date of the next Annual General Meeting. The maximum term of office and age limit for the Federal representative are determined by the Federal Council.

4.4 Independence

In order to determine independence, the Board of Directors applies the criteria set out in the Swiss Code of Best Practice for Corporate Governance. Independent members shall thus mean non-executive members of the Board of Directors who were never a member of the executive management or who have not been a member of the executive management for at least three years and who have no or only comparatively minor business relations with the company. The term of office of a member of the Board of Directors is not a criterion that can be used to assess independence. No members of the Board of Directors hold an executive role within the Swisscom Group or have held such a role in any of the three business years prior to the reporting year. The Board members have no significant commercial links with Swisscom Ltd or the Swisscom Group. The Swiss Confederation, represented on the Board by Renzo Simoni, holds the majority of the capital and voting rights in Swisscom in accordance with the TEA. Customer and supplier relationships exist between the Swiss Confederation and Swisscom. Details of these are provided in Note 6.2 to the consolidated financial statements.

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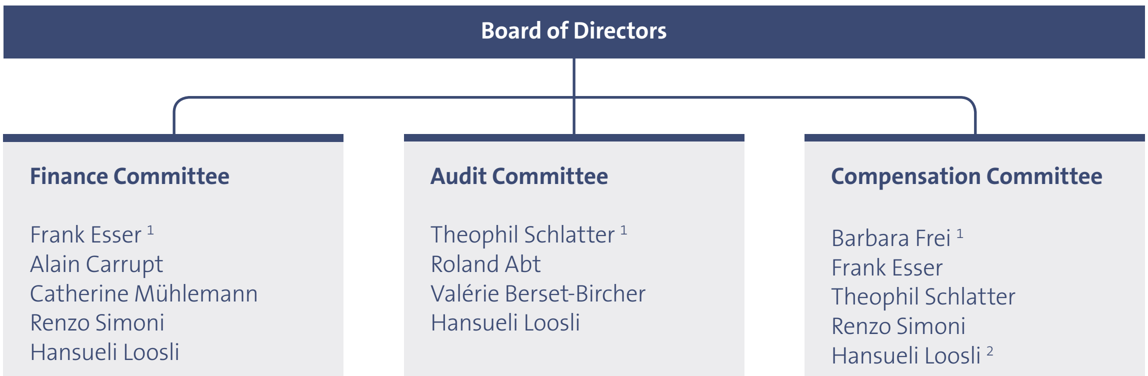
4.5 Internal organisation and modus operandi

The Board of Directors is responsible for the strategic and financial management of Swisscom and for monitoring the company's executive management. As the supreme governing body of the Company, it has decision-making authority unless such authority is granted to the Annual General Meeting by virtue of law. The Board of Directors has delegated individual tasks to committees. The standing committees of the Board of Directors of Swisscom Ltd were constituted as follows as at 31 December 2017:



[1] Chairman (-woman) of the Committee of the Board of Directors
[2] Without voting rights

The Board of Directors is usually convened once per month by the Chairman (except in July) for a one-to-two-day meeting. Further meetings are convened as business requires. In the event that the Chairman is unavailable, the meeting is convened by the Vice-Chairman. The CEO, the CFO and the Head of Group Strategy & Board Services regularly attend the meetings of the Board of Directors. The Chairman sets the agenda. Any Board member may request the inclusion of further items on the agenda. Board members receive documents prior to the meeting to allow them to prepare for the items on the agenda. To further ensure appropriate reporting to the members of the Board, the Board of Directors invites members of the Group Executive Board, senior employees of Swisscom, auditors and other internal and external experts, as appropriate, to attend its meetings on specific issues. Furthermore, the Chairman of the Board of Directors and the CEO report to each meeting of the Board of Directors on particular events, on the general course of business and major business transactions, as well as on any measures that have been implemented.

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

The duties, responsibilities and modus operandi of the Board of Directors and its conduct with respect to conflicts of interest are defined in the Organisational Rules and in the rules governing the standing committees.

The Board of Directors attaches great importance to the ongoing development and continuing education of the Board and its individual members. The Board of Directors and the committees conduct self-assessments, usually once a year and most recently in January 2017. A one-day mandatory training course was held at the beginning of 2017. Each quarter, the members of the Board of Directors also have the opportunity to explore the upcoming challenges facing the Group and business divisions in-depth as part of "company experience days". The majority of members of the Board of Directors regularly take advantage of these opportunities. In addition, individual members of the Board of Directors attended selected presentations and seminars during the year. New Board members are given a task-specific introduction to their activities. At a one-day introduction, they are provided with an overview of Group management and the current operational challenges. They are also given an in-depth look at topics related to the Italian subsidiary Fastweb and attend task-related training sessions. Whenever possible, the Board of Directors attends the Swisscom Group's annual management meeting.

The following table gives an overview of the Board of Directors' meetings, conference calls and circular resolutions in 2017.

	Meetings	Conference calls	Circular resolutions
Total	12	1	–
Average duration (in hours)	5:30	0:15	–
Participation:			–
Hansueli Loosli, Chairman	12	1	–
Roland Abt	11	1	–
Valérie Berset Bircher	12	1	–
Alain Carrupt	12	1	–
Frank Esser	12	1	–
Barbara Frei	11	1	–
Catherine Mühlemann	12	1	–
Theophil Schlatter, Deputy Chairman	12	1	–
Renzo Simoni [1]	9	1	–
Hans Werder [2]	2	0	–

[1] Elected to the Board of Directors as of 3 April 2017.
[2] Resigned from the Board of Directors as of 3 April 2017.

4.6 Chairman of the Board of Directors

See www.swisscom.ch/basicprinciples

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

4.7 Committees of the Board of Directors

The Board of Directors has three standing committees (Audit, Finance and Compensation) and one ad-hoc committee (Nomination) tasked with carrying out detailed examinations of matters of importance. The committees usually consist of three to six members. As a rule, every member of the Board of Directors always also sits on at least one of the standing committees. Subject to being appointed to the Compensation Committee (without voting rights), the Chairman of the Board of Directors is a member of all the standing committees. The committees are chaired by other members, however. At the following meeting of the Board of Directors, the chairs of the committees report verbally on the latest committee meetings. All members of the Board of Directors also receive copies of all Finance and Audit Committee meeting minutes. The minutes of the Compensation Committee are provided to the other members of the Board of Directors upon request.

Finance Committee

See www.swisscom.ch/basicprinciples

The Finance Committee prepares information for the Board of Directors on corporate transactions, for example, in connection with setting up or dissolving significant Group companies, acquiring or disposing of significant shareholdings, and entering into or terminating strategic alliances. The Committee also acts in an advisory capacity on matters relating to major investments and divestments. The Finance Committee has the ultimate decision-making authority when it comes to issuing rules of procedure and directives in the areas of Mergers & Acquisitions and Corporate Venturing. Details of the Committee's activities are set out in the Finance Committee rules of procedure.
The Finance Committee is convened by the Chairman or at the request of a Committee member as often as business requires, but as a rule once per quarter. The CEO, the CFO and the Head of Group Strategy and Board Services attend meetings of the Finance Committee. Depending on the agenda item, other members of the Group Executive Board, the Management Boards of the strategic Group companies and project managers are called upon, as appropriate, to also attend the meetings.
The following table gives an overview of the Finance Committee's composition, meetings, conference calls and circular resolutions in 2017.

	Meetings	Conference calls	Circular resolutions
Total	3	–	–
Average duration (in hours)	3:35	–	–
Participation:			
Frank Esser, Chairman	3	–	–
Alain Carrupt	3	–	–
Catherine Mühlemann	3	–	–
Renzo Simoni [1]	3	–	–
Hansueli Loosli	3	–	–

[1] Elected to the Board of Directors as of 3 April 2017.

Audit Committee

The Audit Committee handles all business relating to financial management (for example, accounting, financial controlling, financial planning and financing), assurance (risk management, the internal control system, compliance and the internal audit) and the external audit. It also handles matters dealt with by the Board of Directors that call for specific financial expertise (dividend policy, for example). The Committee is the Board of Directors' most important controlling instrument and is responsible for monitoring the Group-wide assurance functions. It formulates positions on business matters which lie within the decision-making authority of the Board of Directors and has the final say on those business matters for which it has the corresponding competence. Details of the Committee's activities are set out in the Audit Committee rules of procedure.

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

The Chairman and one other member of the Committee are experts in the financial field, and the majority of the remaining Committee members are experienced in finance and accounting. The Audit Committee is convened by the Chairman or at the request of a Committee member as often as business requires, but at least once per quarter. The CEO, CFO, Head of Group Strategy & Board Services, Head of Accounting, Head of Internal Audit and the external auditors attend the Audit Committee meetings. Depending on the agenda, other members of Swisscom management are called upon to attend. The Audit Committee can also involve independent third parties such as lawyers, public accountants and tax experts as required.
The following table gives an overview of the Audit Committee's composition, meetings, conference calls and circular resolutions in 2017.

	Meetings	Conference calls	Circular resolutions
Total	5	1	–
Average duration (in hours)	4:55	0:30	–
Participation:			
Theophil Schlatter, Chairman [1]	5	1	–
Roland Abt [1]	5	1	–
Valérie Berset Bircher	5	1	–
Hans Werder [2]	1	1	–
Hansueli Loosli	5	1	–

[1] Financial expert.
[2] Resigned from the Board of Directors as of 3 April 2017.

Compensation Committee

See report **page 81**

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

Nomination Committee

The Nomination Committee is formed on an ad-hoc basis for the purpose of preparing the groundwork for electing new members to the Board of Directors and the Group Executive Board when needed. The Committee is presided over by the Chairman and its composition is determined on a case-by-case basis. The Committee carries out its work based on a specific requirements profile defined by the Board of Directors and presents suitable candidates to the Board of Directors. The Board of Directors appoints the members of the Group Executive Board or decides upon the motion to be submitted to the Annual General Meeting for the election and approval of members of the Board of Directors. A Nomination Committee comprising the following members was formed in the 2017 financial year: Hansueli Loosli (Chair), Valérie Berset Bircher and Frank Esser. The Committee held two meetings lasting an average of two hours and twenty minutes.

4.8 Assignment of powers of authority

The Telecommunications Enterprise Act (TEA) makes reference to the Swiss Code of Obligations regarding the non-transferable and irrevocable duties of the Board of Directors of Swisscom Ltd. Pursuant to Article 716a of the Code of Obligations, the Board of Directors is responsible first and foremost for the overall management and supervision of persons entrusted with managing the company's operations.
It decides on the appointment and removal of members of the Group Executive Board. The Board of Directors also determines the strategic, organisational, financial planning and accounting guidelines, taking into account the goals that the Swiss Confederation, as majority shareholder, aims to achieve. The Swiss Federal Council formulates these goals for a four-year period in accordance with the provisions of the TEA.

See www.swisscom.ch/targets_2018-2021

The Board of Directors has delegated day-to-day business management to the CEO in accordance with the TEA and the Articles of Incorporation. In addition to its statutory duties, the Board of Directors decides on business transactions of major importance to the Group, including, for example, the acquisition or disposal of companies with a financial exposure in excess of CHF 20 million and investments or divestments with a financial exposure in excess of CHF 50 million. The division of powers between the Board of Directors and the CEO is set out in detail in the Organisational Rules and in Annex 2 to the Organisational Rules, "Rules of Procedure and Accountability" (see function table).

See www.swisscom.ch/basicprinciples

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

The Board of Directors is briefed comprehensively so it can fulfil its powers and responsibilities. The Chairman of the Board of Directors and the CEO meet at least once a month to discuss fundamental issues concerning Swisscom Ltd and its Group companies. The Chairman also meets in person with each member of the Group Executive Board as well as the heads of other Group and business divisions once a year for an in-depth discussion of topical issues.
At every ordinary meeting of the Board of Directors, the CEO also provides the Board of Directors with detailed information on the course of business, major projects and events, and any measures adopted. Every month, the Board of Directors receives a report containing all key performance indicators relating to the Group and the segments. In addition, the Board of Directors receives a quarterly report on the course of business, financial position, results of operations, cash flows and risk position of the Group and the segments. It also receives projections for operational and financial developments for the current financial year. The management reporting is carried out in accordance with the same accounting principles and standards as external financial reporting. It also includes key non-financial information that is important for controlling and steering purposes. Every member of the Board of Directors is entitled to request information on all matters relating to the Group at any time, provided this does not conflict with the provisions regarding the reclusion of a member from Board deliberations or confidentiality obligations. The Board of Directors is informed immediately of any events of an exceptional nature.
The Board of Directors is responsible for establishing and monitoring the Group-wide assurance functions of risk management, internal control system, compliance and internal audit and is briefed comprehensively on these matters.

4.9.1 Risk management

The Board of Directors has set the objective of protecting the company's enterprise value through the implementation of Group-wide risk management. A corporate culture that promotes the conscious handling of risks and opportunities facilitates the achievement of this objective. Accordingly, Swisscom has implemented a Group-wide, central risk management system which takes account of both external and internal events. It captures risks in the areas of strategy (including market risks), operations (including finance risks), compliance and financial reporting. Swisscom engages in level-appropriate, comprehensive reporting and maintains the appropriate documentation. The objective is to identify, assess and address significant risks and opportunities in good time. To this end, the central Risk Management unit, which reports to both the CFO and the Controlling department, collaborates closely with the Controlling department, the Strategy department, other assurance functions and line functions. Swisscom assesses its risks and their quantitative effects in the event that the risks crystallise. The risks are managed on the basis of a risk strategy. The risks are evaluated in terms of their impact on key performance indicators. Swisscom reviews and updates its risk profile on a quarterly basis. The Audit Committee and the Group Executive Board are informed about significant risks, their potential effects and the status of remedial measures on a quarterly basis, and the Board of Directors on a semi-annual basis. In urgent cases, the Chairman of the Audit Committee is informed without delay about any significant new risks. Significant risk factors are described in the Risks section of the Management Commentary.

See report pages 53—54

4.9.2 Internal control system and financial reporting

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

4.9.3 Compliance Management

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

4.9.4 Internal audit

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

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

Internal Audit possesses maximum independence. It is under the direct control of the Chairman of the Board of Directors and reports to the Audit Committee. At its meetings, which are held at least on a quarterly basis, the Audit Committee is briefed on audit findings and the status of any corrective measures implemented. In addition to ordinary reporting, Internal Audit informs the Audit Committee of any irregularities which come to its attention. At an administrative level, Internal Audit provides reports to the Head of Group Strategy & Board Services.

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

5 Group Executive Board

5.1 Members of the Group Executive Board

In accordance with the Articles of Incorporation, the Executive Board shall comprise one or more members, who must not be members of the Board of Directors of Swisscom Ltd at the same time. Temporary exceptions are only permitted in exceptional cases. Accordingly, the Board of Directors has delegated responsibility for the overall executive management of Swisscom Ltd to the CEO. The CEO is entitled to delegate his powers to subordinates, for the main part to other members of the Group Executive Board. The members of the Group Executive Board are appointed by the Board of Directors. In June 2017, Christian Petit left the Group Executive Board, at which time Urs Lehner took over as Head of Enterprise Customers.

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An overview of the composition of the Group Executive Board as at 31 December 2017 is given in the table below.

Name	Nationality	Year of birth	Function	Appointed to the Group Executive Board as of
Urs Schaeppi [1]	Switzerland	1960	CEO Swisscom Ltd	March 2006
Mario Rossi	Switzerland	1960	CFO Swisscom Ltd	January 2013
Hans C. Werner	Switzerland	1960	CPO Swisscom Ltd	September 2011
Marc Werner	Switzerland and France	1967	Head of Sales & Services	January 2014
Urs Lehner	Switzerland	1968	Head of Enterprise Customers	June 2017
Heinz Herren	Switzerland	1962	Head of IT, Network & Infrastructure	January 2014
Dirk Wierzbitzki	Germany	1965	Head of Products & Marketing	January 2016

[1] Since November 2013 CEO.

5.2 Education, professional activities and affiliations

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

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

None of the members of the Group Executive Board exceed the set limits for mandates.

Urs Schaeppi

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

Career history: 1994–1998 plant manager at Biberist paper factory; 1998–2006 Head of Commercial Business, Swisscom Mobile; 2006–2007 CEO, Swisscom Solutions Ltd; 2007–August 2013 Head of Enterprise Customers, Swisscom (Switzerland) Ltd; since January 2013 Head of Swisscom (Switzerland) Ltd; 23 July–6 November 2013 acting CEO, Swisscom Ltd, since 7 November 2013 CEO

Since March 2006 member of the Swisscom Group Executive Board

Mandates by order of Swisscom: Member of the Executive Board, Association Suisse des Télécommunications (asut), Berne; member of the Foundation Board, IMD International Institute for Management Development, Lausanne; member of the Foundation Council, Swiss Innovation Park Foundation, Berne; member of the Board of Directors, Admeira AG, Berne; member of the Board of Trustees of the Swiss Entrepreneurs Foundation, since December 2017

Other significant activities: Member of the Board of Directors, Swiss-American Chamber of Commerce, Zurich; member of the Executive Board, Glasfasernetz Schweiz, Berne; member of the Advisory Board of the Department of Economics of the University of Zurich; member of the Steering Committee of digitalswitzerland, Zurich (formerly Digital Zurich 2025); member of the Advisory Board on Digital Transformation for the Federal Department of the Environment, Transport, Energy and Communications (DETEC) and the Federal Department of Economic Affairs, Education and Research (EAER), since June 2017

Mario Rossi

Education: Commercial apprenticeship; Swiss Certified Public Accountant

Career history: 1998–2002 Swisscom Ltd, Head of Group Controlling; 2002–2006 Swisscom Fixnet Ltd, Chief Financial Officer (CFO); 2006–2007 Swisscom Ltd, CFO and member of the Group Executive Board; 2007–2009 Fastweb S.p.A., CFO; 2009–2012 Swisscom (Switzerland) Ltd, CFO; since January 2013 Swisscom Ltd, CFO and member of the Swisscom Group Executive Board

Mandates by order of Swisscom: Vice-President of the Board of Trustees, comPlan, Berne

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: Member of the Foundation Board of the Hasler Foundation, Berne

Other significant activities: Member of the Sanctions Committee, SIX Swiss Exchange Ltd, Zurich

Hans C. Werner

Education: Graduate in business management, PhD in business administration (Dr. oec.)

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

Mandates by order of Swisscom: Member of the Board, Swiss Employer's Association, Zurich; member of the Board of Trustees, comPlan, Berne

Other significant activities: President of the Institute Council and member of the Advisory Board of the International Institute of Management in Technology (iimt)

Marc Werner

Education: Technical apprenticeship with specialised secondary school diploma, Swiss Certified Marketing Executive; Senior Management Programme (University of St. Gallen); Senior Executive Programme at London Business School

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

Mandates in non-listed companies: Member of the Board of Directors of Net-Metrix AG, Zurich, until March 2017

Mandates by order of Swisscom: Chairman of the Board of Directors, siroop AG, Zurich; member of the Board of Directors, Digital Festival AG, since September 2017

Mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations: Member of the Board of Directors of simsa – Swiss Internet Industry Association, Zurich, until April 2017

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

Urs Lehner

Education: Degree in IT Engineering (UAS, university of applied sciences), Executive MBA in Business Engineering, University of St. Gallen (HSG)
Career history: 1997–2013 Trivadis Group, most recently: 2004–2008 Solution Portfolio Manager, member of the Group Executive Board of Trivadis Group, 2008–2011 Chief Operating Officer (COO) of Trivadis Group, 2011–2013 member of the Board of Directors of Trivadis Holding AG; July 2011–June 2017 Swisscom (Switzerland) Ltd: July 2011–December 2013 Head of Marketing & Sales Corporate Business, 2014–2015 Head of Marketing & Sales Enterprise Customers, 2016–June 2017 Head of Sales & Services Enterprise Customers; since June 2017 Swisscom, Head of Enterprise Customers and member of the Group Executive Board
Mandates: –
Other significant activities: –

Dirk Wierzbitzki

Education: Degree in electrical engineering (Dipl. Ing.)
Career history: 1994–2001 Mannesmann (now Vodafone Germany): various management roles in the area of product management; 2001–2010 Vodafone Group: 2001–2003 Director for Innovation Management, Vodafone Global Products and Services, 2003–2006 Director for Commercial Terminals, 2006–2008 Director for Consumer Internet Services and Platforms, 2008–2010 Director for Communications Services; 2010–2015 Swisscom (Switzerland) Ltd: member of Management Residential Customers, 2010–2012 Head of Customer Experience Design for Residential Customers, 2013–2015 Head of Fixed-network Business & TV for Residential Customers; since January 2016, Swisscom, Head of Products & Marketing and member of the Swisscom Group Executive Board
Mandates by order of Swisscom: Member of the Board of Directors, SoftAtHome, Paris
Other significant activities: –

Heinz Herren

Education: Degree in electronic engineering (HTL)
Career history: 1994–2000 3Com Corporation; 2000 Inalp Networks Inc.; 2001–2007 Swisscom Fixnet AG: 2001–2005 Head of Marketing Wholesale, 2005–2007 Head of Small and Medium-Sized Enterprises; 2007–December 2012 Swisscom, member of the Group Executive Board; 2007–2013 Swisscom (Switzerland) Ltd: 2007–2010 Head of Small and Medium-Sized Enterprises, 2011–2013 Head of Network & IT; since January 2014 Swisscom, Head of IT, Network & Infrastructure (formerly IT, Network & Innovation) and member of the Group Executive Board
Mandates in non-listed companies: Member of the Board of Directors, Schweizerische Mobiliar Genossenschaft, Berne, since May 2017
Mandates by order of Swisscom: Member of the Board of Directors, Belgacom International Carrier Services S.A., Brussels; member of the Board of Directors and Executive Board of economiesuisse, since August 2017
Other significant activities: –

5.3 Management agreements

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

6 Remuneration, shareholdings and loans

See report page 81

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

7 Shareholders' participation rights

7.1 Voting right restrictions and proxies

Each registered share entitles the holder to one vote. Voting rights can only be exercised if the shareholder is entered in the share register of Swisscom Ltd with voting rights. The Board of Directors may refuse to recognise an acquirer of shares as a shareholder or beneficial holder with voting rights if the latter's total holding, when the new shares are added to any voting shares already registered in its name, exceeds the limit of 5% of all registered shares entered in the commercial register. With the other shares, the acquirer is entered in the share register as a shareholder or beneficial holder without voting rights. This restriction on voting rights also applies to registered shares acquired through the exercise of subscription, option or conversion rights. A Group clause applies to the calculation of the percentage restriction.

The 5% voting right restriction does not apply to the Swiss Confederation which, under the terms of the Telecommunications Enterprise Act (TEA), holds the capital and voting majority of Swisscom Ltd. The Board of Directors may also recognise an acquirer of shares with more than 5% of all registered shares as a shareholder or beneficial holder with voting rights, in particular in the following exceptional cases:

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

In addition to the percentage restriction on voting rights, the Board of Directors may refuse to recognise and enter as a shareholder or beneficial holder with voting rights any person acquiring shares who fails to expressly declare upon request that he/she has acquired the shares in his/her own name and for his/her own account or as beneficial holder. Should an acquirer of shares refuse to make such a declaration, he/she will be entered as a shareholder without voting rights.

Where an entry has been made on the basis of false statements by the acquirer, the Board of Directors may, after consulting the party concerned, delete their share register entry as a shareholder with voting rights and enter him/her as a shareholder without voting rights. The acquirer must be notified of the deletion immediately.

The restrictions on voting rights provided for in the Articles of Incorporation may be changed by resolution of the Annual General Meeting, for which an absolute majority of valid votes cast is required.

During the year under review, the Board of Directors did not recognise any acquirers of shares with more than 5% of all registered shares as a shareholder or beneficial holder with voting rights, did not reject any requests for recognition or registration and did not remove any shareholders with voting rights from the share register due to the provision of false data.

7.2 Statutory quorum requirements

The Annual General Meeting of Shareholders of Swisscom Ltd adopts its resolutions and holds its elections by the absolute majority of valid votes cast. Abstentions are not deemed to be votes cast. In addition to the special 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
- Change in the Articles of Incorporation concerning special quorums for resolutions

7.3 Convocation of the Annual General Meeting and agenda items

The Board of Directors must convene the Annual General Meeting at least 20 calendar days prior to the date of the meeting by means of an announcement in the Swiss Commercial Gazette. The meeting can also be convened by registered or unregistered letter to all registered shareholders. One or more shareholders who together represent at least 10% of the share capital can demand in writing that an extraordinary general meeting be convened, stating the agenda item and the proposal and, in the case of elections, the names of the proposed candidates.
The Board of Directors is responsible for defining the agenda. Shareholders representing shares with a par value of at least CHF 40,000 may request that an item be placed on the agenda. This request must be submitted in writing to the Board of Directors at least 45 days prior to the Annual General Meeting, stating the agenda item and the proposal (Article 5.4.3 of the Articles of Association).

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

7.4 Representation at the Annual General Meeting

Shareholders may be represented at the Annual General Meeting by another shareholder with voting rights or by the independent proxy elected by the Annual General Meeting. The law firm Reber Rechtsanwälte, Zurich, was appointed as independent proxy for the period up until the conclusion of the General Annual Meeting in April 2018. Partnerships and legal entities may be represented by authorised signatories, while minors and wards may be represented by their legal representative even if the latter is not a shareholder.
Authorisation may be granted in writing or electronically via the shareholders' platform operated by Computershare Switzerland Ltd. Shareholders who are represented by a proxy may issue instructions for each agenda item and also for all unannounced agenda items and motions, stating whether they wish to vote for or against the motion or abstain. The independent proxy must cast the votes entrusted to him by shareholders according to their instructions. If it receives no instructions, it shall abstain. Abstentions are not deemed to be cast votes (Article 5.7.4 of the Articles of Incorporation).

7.5 Entries in the share register

Shareholders entered in the share register with voting rights are entitled to vote at the Annual General Meeting. To ensure due procedure, the Board of Directors defines a cut-off date at its own discretion for determining voting entitlements, which is a few business days before the respective Annual General Meeting. Entries into and deletions from the share register can be made at any time regardless of the cut-off date. The cut-off date is announced with the invitation to the Annual General Meeting and also published in the financial calendar on the Swisscom website. Shareholders entered in the share register with voting rights as of 4 p.m. on 29 March 2017 were entitled to vote at the Annual General Meeting of 3 April 2017.

8 Change of control and defensive measures

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

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9 Auditor

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

The statutory auditor is appointed annually by the Annual General Meeting following a proposal submitted by the Board of Directors. Re-election is permitted. The policies for appointing the statutory auditor have been set forth in a policy by the Board of Directors. A new tender is issued for the statutory auditor's mandate at least every 10 to 14 years. The statutory auditor's tenure is limited to 20 years. The Audit Committee steers the selection process, defines transparent selection criteria and submits two proposals accompanied by a substantiated recommendation in favour of one audit firm to the Board of Directors. The last tendering process was launched in 2007 with effect from the 2008 financial year. The Board of Directors of Swisscom Ltd has decided to issue a new tender for the statutory auditor's mandate in 2018 with effect from the 2019 financial year.
KPMG AG, Muri bei Bern, has acted as the statutory auditor of Swisscom Ltd and its Group companies (with the exception of Fastweb S.p.A, which is audited by PriceWaterhouseCoopers S.p.A.) since 1 January 2004.
As regulated by the Swiss Code of Obligations, the person who leads the audit may only perform the mandate for a maximum of seven years. Hanspeter Stocker of KPMG AG has been responsible for the audit mandate as Auditor-in-charge since 2015.

9.2 Audit fees

Remuneration for the auditing services provided by KPMG AG in 2017 amounted to CHF 2,843 thousand (previous year: CHF 3,239 thousand). PricewaterhouseCoopers S.p.A. as auditors for Fastweb received an audit fee of CHF 671 thousand in 2017 (prior year: CHF 768 thousand).

9.3 Supplementary fees

The fees owed to KPMG AG for additional audit-related services amounted to CHF 388 thousand (previous year: CHF 283 thousand), and the fees for other services were CHF 121 thousand (prior year: CHF 127 thousand). The audit-related services comprise certifications of electronic signatures, special reviews and reporting-related advisory services. The other services comprise tax advising and consulting services regarding regulatory requirements.
The fees owed to PricewaterhouseCoopers S.p.A. for additional audit-related and other services for Fastweb amounted to CHF 319 thousand (prior year: CHF 112 thousand).

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

The Audit Committee verifies the qualifications and independence of the statutory auditors as a licensed, state-supervised auditing firm as well as the quality of the audit services performed as commissioned by the Board of Directors. It is also responsible for observing the statutory rotation principle for the Auditor-in-charge and for reviewing and issuing the new tender for the audit mandate. It approves the integrated strategic audit plan, which includes the annual audit plan of both the internal and external auditors, and the annual fee for the auditing services provided to the Group and Group companies. The Audit Committee has defined guidelines for additional service mandates (including a list of prohibited services). In a regulation, it has also set a threshold for fees charged for additional services, which is defined as a percentage of the audit fees. In order to ensure the independence of the auditors, additional service mandates must be approved by the CFO of the local Group company or by the Audit Committee (where the fee exceeds CHF 300 thousand). The Audit Committee is reported to quarterly by the CFO and annually by the auditors on current mandates being performed by the auditors, broken down according to audit services, audit-related services and non-audit services.
The statutory auditors, represented by the Auditor-in-charge and his deputy, usually attend all Audit Committee meetings. They inform the Committee in detail on the performance and results of their work, in particular regarding the annual financial statement audit. They submit a written report to the Board of Directors and the Audit Committee on the conduct and results of the audit of the annual financial statements, as well as on their findings with regard to accounting and the internal control system. The Chairman of the Audit Committee liaises closely with the Auditor-in-charge beyond the meetings of the Committee and regularly reports to the Board of Directors. The statutory auditors and Internal Audit took part in all five meetings of the Audit Committee in 2017. They did not participate in the meetings of the full Board of Directors.

10 Information policy

Swisscom pursues an open, active information policy vis-à-vis the general public and the capital markets. It publishes comprehensive, consistent and transparent financial information on a quarterly basis. It also publishes an annual sustainability report in accordance with the Global Reporting Initiative (GRI) and an annual report including a management commentary, corporate governance report, remuneration report and the financial statements. The interim reports and annual report are available on the Swisscom website under "Investors" or may be ordered directly from Swisscom. The Sustainability Report is available on the Swisscom website under "Company".

See **www.swisscom.ch/financialreports**

See **www.swisscom.ch/cr-report2017**

Swisscom meets investors regularly throughout the year, presents its financial results at analysts' meetings and road shows, attends selected conferences for financial analysts and investors, and keeps its shareholders continuously informed about its business through press releases.
Related presentations and the ad-hoc press release published by Swisscom are available on the Swisscom website under "Investors". It is possible to subscribe to the ad-hoc messages published by Swisscom.

See **www.swisscom.ch/adhoc**

The comprehensive minutes of the Annual General Meeting of 3 April 2017 and minutes from past meetings are available on the Swisscom website.
Those responsible for investor relations can be contacted via the website or by e-mail, telephone or post. The contact details and address of the head office may be found in the website imprint.

See **www.swisscom.ch/generalmeeting**

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11 Financial calendar

- Annual General Meeting for the 2017 financial year: 4 April 2018, Forum Fribourg, Granges-Paccot
- 1st Quarter Interim Report: 2 May 2018
- Half-year Interim Report: 16 August 2018
- 3rd Quarter Interim Report: 1 November 2018
- Annual Report 2018: February 2019

The detailed financial calendar is published on the Swisscom website under "Investors" and is updated on a regular basis.

See **www.swisscom.ch/financialcalendar**

Remuneration Report

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

1 Governance

1.1 General principles

The Remuneration Report is based on sections 3.5 and 5 of the annex to the Corporate Governance Directive issued by SIX Swiss Exchange and Articles 13 to 16 of the Ordinance against Excessive Compensation in Listed Stock Companies (OaEC). Swisscom implements the requirements of the OaEC and complies with the recommendations of the Swiss Code of Best Practice for Corporate Governance 2014 issued by economiesuisse, the umbrella organisation representing Swiss business.
Swisscom's internal principles for determining the level of remuneration are primarily set out in the Articles of Incorporation, the Organisational Rules and the Regulations of the Compensation Committee. The latest version of these documents as well as revised or superseded versions can be viewed online on the Swisscom website under "Basic principles".

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

As in previous years, the Remuneration Report will be put to a consultative vote at the Annual General Meeting on 4 April 2018.

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

The Annual General Meeting approves the maximum total remuneration amounts payable to the Board of Directors and the Group Executive Board for the following financial year upon the motion proposed by the Board of Directors. Details of the relevant regulation and the consequences of a negative decision by the Annual General Meeting are set out in Articles 5.7.7 and 5.7.8 of the Articles of Incorporation. Article 7.2.2 of the Articles of Incorporation also defines the requirements for and the maximum level of the additional amount that can be paid to a member of the Group Executive Board who is newly appointed during a period for which the Annual General Meeting has already approved the remuneration.
The Board of Directors approves, inter alia, the personnel and remuneration policy for the entire Group, as well as the general terms and conditions of employment for members of the Group Executive Board. It sets the remuneration of the Board of Directors and decides on the remuneration of the CEO as well as the total remuneration for the Group Executive Board. In doing so, it takes into account the maximum amounts approved by the Annual General Meeting for the remuneration to be paid to the Board of Directors and the Group Executive Board for the financial year in question.
The Compensation Committee handles all business matters of the Board of Directors concerning remuneration, submits proposals to the Board of Directors in this context, and, within the framework of the approved total remuneration, is empowered to decide upon the remuneration of the individual Group Executive Board members (with the exception of the CEO). Neither the CEO nor the other members of the Group Executive Board are entitled to participate in meetings at which their remuneration is discussed or decided. The conduct of the members of the Board of Directors with respect to conflicts of interest is defined in section 2.6 of the Organisational Rules.
The decision-making powers are governed by the Articles of Incorporation, the Organisational Rules of the Board of Directors and the Regulations of the Compensation Committee.

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

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

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

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

1.3 Election, composition and modus operandi of the Compensation Committee

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

See www.swisscom.ch/basicprinciples

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

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The members of the Compensation Committee neither work nor have worked for Swisscom in an executive capacity, nor do they maintain any significant commercial links with Swisscom Ltd or the Swisscom Group. Customer and supplier relationships exist between the Swiss Confederation and Swisscom. Details of these are provided in Note 6.2 to the consolidated financial statements.

The following table gives an overview of the composition of the Committee, the Committee meetings, conference calls and circular resolutions held or taken in 2017.

	Meetings	Conference calls	Circular resolutions
Total	3	–	–
Average duration (in hours)	0:50	–	–
Participation:			
Barbara Frei, Chairwoman	3	–	–
Frank Esser	3	–	–
Renzo Simoni [1, 2]	2	–	–
Theophil Schlatter	3	–	–
Hans Werder [2, 3]	1	–	–
Hansueli Loosli [4]	3	–	–

[1] Elected to the Compensation Committee as of 3 April 2017.
[2] Representative of the Confederation.
[3] Resigned from the Board of Directors as of 3 April 2017.
[4] Participation without voting rights.

2 Remuneration of the Board of Directors

2.1 Principles

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

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

The remuneration is made up of a Director's fee which varies in relation to the member's function, meeting attendance fees as well as pension fund and any fringe benefits. No variable performance-related emoluments are paid. The members of the Board of Directors are obligated to draw a portion of their fee in the form of equity shares and to comply with the requirements on minimum shareholdings, thus ensuring they directly participate financially in the performance of Swisscom's shares. The remuneration is reviewed every December for the following year for ongoing appropriateness. In December 2016, the Board of Directors assessed the appropriateness of the remuneration as part of a discretionary decision based on the study published in 2016 by ethos, the Swiss Foundation for Sustainable Development. This study provides information for the 2015 financial year on the remuneration of the management of Switzerland's 204 largest listed companies that are constituents of the Swiss Performance Index. No external consultants were called on with regard to the structuring of remuneration. The Board of Directors opted not to adjust remuneration for the 2017 financial year.

2.2 Remuneration components

Director's fee

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

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

Under the Management Incentive Plan, the members of the Board of Directors are obligated to draw 25% of their Director's fee in the form of shares, with Swisscom adding a 50% top-up to the amount invested in shares. In this manner, the remuneration (excluding meeting attendance fees, pension fund benefits and fringe benefits) is made up of a two-thirds cash portion and a one-third equity share portion. The amount of the share purchase obligation can vary in the case of members who join, leave, assume or give up a function during the year. Shares are allocated on the basis of their value accepted for tax purposes, rounded up to the next whole number of shares, and are subject to a blocking period of three years. This restriction on disposal also applies if members leave the company during the blocking period. The shares, which are allocated in April of each reporting year in respect of the reporting year, are recorded at market value on the date of allocation. The share-based remuneration is augmented by a factor of 1.19 in order to take account of the difference between the tax value and the market value. In April 2017, 1,493 shares were allocated to the members of the Board of Directors (prior year: 1,308 shares) with a tax value of CHF 387 per share (prior year: CHF 439). Their market value was CHF 461 (prior year: CHF 522.50) per share.

Meeting attendance fees

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

Pension fund and fringe benefits

Swisscom assumes the costs of social insurance, in particular old-age and survivors' insurance and unemployment insurance, for the members of the Board of Directors. The disclosed remuneration paid to the members of the Board of Directors includes the employee's share of social insurance contributions. The employer's share of contributions is disclosed separately and is also included in the total remuneration.
With regards to the disclosure of service-related and non-cash benefits and expenses, a tax-based point of view is taken. No significant service-related and non-cash benefits are rendered. Expenses are reimbursed on the basis of actual costs incurred. Accordingly, neither service-related and non-cash benefits nor out-of-pocket expenses are included in the reported remuneration.

2.3 Total remuneration

Total remuneration paid to the individual members of the Board of Directors for the 2017 and 2016 financial years is presented in the tables below, broken down into individual components. The higher amount of total remuneration for 2017 is attributable to the change in the composition of the committees and the fact that a greater number of meetings were held.

	Base salary and functional allowances				
2017, in CHF thousand	Cash remuneration	Share-based payment	Meeting attendance fees	Employer contributions to social security	Total 2017
Hansueli Loosli	315	186	28	29	558
Roland Abt	96	57	21	10	184
Valérie Berset Bircher	96	57	22	10	185
Alain Carrupt	96	57	18	10	181
Frank Esser	120	71	21	12	224
Barbara Frei	112	66	16	11	205
Catherine Mühlemann	96	57	18	10	181
Theophil Schlatter	158	93	21	12	284
Renzo Simoni [1]	90	78	15	10	193
Hans Werder [2]	45	3	5	2	55
Total remuneration to members of the Board of Directors	**1,224**	**725**	**185**	**116**	**2,250**

[1] Elected to the Board of Directors as of 3 April 2017.
[2] Resigned from the Board of Directors as of 3 April 2017.

2016, in CHF thousand	Base salary and functional allowances: Cash remuneration	Base salary and functional allowances: Share-based payment	Meeting attendance fees	Employer contributions to social security	Total 2016
Hansueli Loosli	315	186	27	29	557
Roland Abt [1]	59	49	11	7	126
Valérie Berset Bircher [1]	64	53	16	8	141
Alain Carrupt [1]	64	53	14	8	139
Frank Esser [4]	112	70	19	11	212
Barbara Frei	112	66	17	11	206
Hugo Gerber [2, 3]	34	4	6	3	47
Michel Gobet [3]	32	4	5	2	43
Torsten Kreindl [3, 4]	40	5	5	3	53
Catherine Mühlemann	96	57	16	10	179
Theophil Schlatter	158	93	21	12	284
Hans Werder	134	80	23	11	248
Total remuneration to members of the Board of Directors [4]	**1,220**	**720**	**180**	**115**	**2,235**

[1] Elected to the Board of Directors as of 6 April 2016.
[2] The cash remuneration (including meeting attendance fees) till 6 April 2016 for the mandate as member of the Board of Directors of Worklink AG of CHF 2,500 is included.
[3] Resigned from the Board of Directors as of 6 April 2016.
[4] In comparison to last year's report, remuneration for 2016 was adjusted with regard to compensation for social security contributions made abroad.

Total remuneration paid to the members of the Board of Directors for the 2017 financial year is within the maximum total amount approved by the 2016 Annual General Meeting (AGM) for 2017 of CHF 2.5 million.

2.4 Minimum shareholding requirement

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

2.5 Shareholdings of the members of the Board of Directors

Blocked and non-blocked shares held by members of the Board of Directors and/or related parties as at 31 December 2016 and 2017 are listed in the table below:

Number	31.12.2017	31.12.2016
Hansueli Loosli	2,733	2,350
Roland Abt	205	88
Valérie Berset Bircher	213	96
Alain Carrupt	213	96
Frank Esser	478	332
Barbara Frei	784	648
Catherine Mühlemann	1,443	1,326
Theophil Schlatter	1,419	1,225
Renzo Simoni [1]	160	–
Hans Werder [2]	–	1,128
Total shares held by the members of the Board of Directors	**7,648**	**7,289**

[1] Elected to the Board of Directors as of 3 April 2017.
[2] Resigned from the Board of Directors as of 3 April 2017.

None of the individuals/entities required to make notification holds voting shares exceeding 0.1% of the share capital.

3 Remuneration of the Group Executive Board

3.1 Principles

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

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

The remuneration of the Group Executive Board is a balanced combination of fixed and variable salary components. The fixed component is made up of a base salary, fringe benefits (primarily, the use of a company car) and pension fund benefits. The variable remuneration includes a performance-related component settled in cash and shares.
The members of the Group Executive Board are required to hold a minimum shareholding, which strengthens their direct financial participation in the medium-term performance of the Swisscom share and thus aligns their interests with those of shareholders. To facilitate compliance with the minimum shareholding requirement, Group Executive Board members have the possibility to draw up to 50% of the variable performance-related component of their salary in shares.
The basic principles regarding the performance-related remuneration and the profit and participation plans of the Group Executive Board are set out in Article 8.1 of the Articles of Incorporation.

See www.swisscom.ch/basicprinciples

	Remuneration		Assets
Instruments	**Fixed remuneration** Base salary Pension benefits Fringe benefits	**Variable remuneration** Performance-related component in cash and shares	**Minimum shareholding requirement** Requirement to hold a minimum amount of Swisscom shares
Influencing factors	Function, experience and qualifications, market	Achievement of annual performance targets	Long-term growth of enterprise value
Purpose	Employee recruitment, employee retention and protection	Focus on annual targets and sustainable corporate results	Alignment with shareholders interests

The Compensation Committee decides at its discretion on the level of remuneration, taking into consideration the external market value of the function in question, the internal salary structure and individual performance.
For the purpose of assessing market values, Swisscom relies on cross-sector market comparisons with Swiss companies as well as international sector comparisons. These two comparative perspectives allow Swisscom to form an optimal overview of the relevant employment market for managerial positions. In the year under review, Swisscom referred to two comparative studies conducted by Towers Watson, a recognised consultancy firm. The comparison with the Swiss market covers major companies domiciled in Switzerland from various sectors, with the exception of the financial and pharmaceutical sectors. On average, these companies generate revenue of CHF 4.7 billion and employ 13,000 people. The sector comparison covers telecommunications companies from eleven western European countries with an average revenue of CHF 8.9 billion and an average workforce of 18,800 employees. The evaluation of the two comparative studies takes into account the extent of responsibility in terms of revenue, number of employees and international scope.
As a rule, the Compensation Committee reviews individual remuneration paid to members of the Group Executive Board every three years of employment. Taking into account the benchmarks, the Board of Directors adjusted the salaries of two members of the Group Executive Board during the course of the reporting year in order to take the performance of these members into account and to bring the salaries into line with standard market remuneration levels.

3.2 Remuneration components

Base salary

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

Variable performance-related salary component

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

Targets for the variable performance-related component

The targets underlying the variable performance-related component are adopted annually in December for the following year by the Board of Directors following a proposal submitted by the Compensation Committee. The targets relevant to the reporting year remained largely unchanged in line with the Group's continuing corporate strategy. The targets are based on the Swisscom Group's budget figures for 2017.

All members of the Group Executive Board are measured against targets at the levels "Group", "Customers" and "Segments". Group targets consist of financial targets. Customer targets for the reporting year are measured using the Net Promoter Score – a recognised indicator of customer loyalty – taking into account the customer group for which the Group Executive Board member is responsible. Further information on customer satisfaction can be found in the Management Commentary.

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

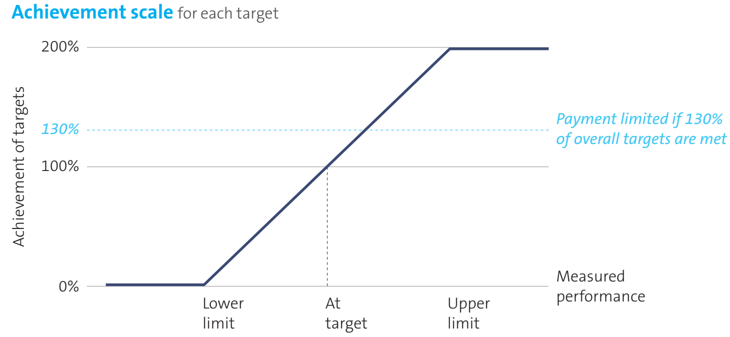
The following table illustrates the target structure valid for the CEO and other Group Executive Board members in the year under review, showing the three target levels, individual targets and the respective weighting.

Target levels	Objectives	Weighting of targets level CEO	Weighting of targets level of other members of the Group Executive Board
Group	Net revenue	18%	12–18%
	EBITDA margin	18%	12–18%
	Operating free cash flow	24%	16–24%
Customers	Net promoter score	20%	20%
Segments	Segment targets	20%	20–40%
Total		**100%**	**100%**

Achievement of targets

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

Achievement scale for each target



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

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

In the year under review, the financial targets of the Group were on the whole exceeded. The customer targets were not fully met. Most of the other targets of the segments were achieved.

The subsequent payment of the performance-related component is 105% of the target bonus for the CEO and between 102% and 106% of the target bonus for the other members of the Group Executive Board.

Payment of the variable performance-related component

The variable performance-related component is paid in April of the following year, with 25% being paid in the form of Swisscom shares, in accordance with the Management Incentive Plan. Group Executive Board members may opt to increase this share by up to a maximum of 50%. The remaining portion of the performance-related component is settled in cash. In the event of a departure from the Group Executive Board during the course of the year, the payment of the performance-related component for the current year is generally made in full in cash. The decision of what percentage of the variable performance-related salary component is to be drawn in the form of shares must be communicated prior to the end of the reporting year, but no later than in November following the publication of the third-quarter results. In the year under review, three members of the Group Executive Board opted for a higher share component. The shares are allocated on the basis of their tax value, rounded up to whole numbers of shares, and are subject to a three-year blocking period. This restriction on disposal also applies if the employment relationship is terminated during the blocking period. The share-based remuneration disclosed in the year under review is augmented by a factor of 1.19 in order to take account of the difference between the market value and the tax value. The market value is determined as of the date of allocation. Shares in respect of the current year are allocated in April 2018.

In April 2017, a total of 2,121 shares (prior year: 1,841 shares) with a tax value of CHF 387 (prior year: CHF 439) per share and a market value of CHF 461 (prior year: CHF 522.50) per share were allocated for the 2016 financial year to the members of the Group Executive Board.

Pension fund and fringe benefits

The members of the Group Executive Board, like all eligible employees in Switzerland, are insured against the risks of old age, death and disability through the comPlan pension plan (see pension fund regulations at www.pk-complan.ch). The disclosed pension benefits (amounts which give rise to or increase pension entitlements) encompass all savings, guarantee and risk contributions paid by the employer to the pension plan. They also include the pro rata costs of the AHV bridging pension paid by comPlan in the event of early retirement and the premium for the supplementary life insurance concluded for Swisscom management staff in Switzerland. Further information about this is provided in Note 4.3 to the consolidated financial statements.

See report
pages 129—134

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

3.3 Total remuneration

The following table shows total remuneration paid to the members of the Group Executive Board for the 2016 and 2017 financial years, broken down into individual components and including the highest amount paid to one member. In the year under review, the variable performance-related salary component for members of the Group Executive Board (CHF 2,867 thousand in total) was 76.7% of the base salary (CHF 3,736 thousand in total). The total remuneration paid to the highest-earning member of the Group Executive Board (CEO, Urs Schaeppi) increased by 1.9% compared to the prior year. The increase in total remuneration paid to the Group Executive Board and the CEO is primarily attributable to the higher variable remuneration as compared to the previous year.

In CHF thousand	Total Group Executive Board 2017	Total Group Executive Board 2016	Thereof Urs Schaeppi 2017	Thereof Urs Schaeppi 2016
Fixed base salary paid in cash	3,736	3,782	882	882
Variable performance-related remuneration paid in cash	1,966	1,604	486	284
Variable performance-related remuneration paid in shares [1]	901	975	193	338
Service-related and non-cash benefits	92	84	21	14
Employer contributions to social security [2]	591	541	145	126
Retirement benefits [3]	847	1,064	141	189
Total remuneration to members of the Group Executive Board	**8,133**	**8,050**	**1,868**	**1,833**
Benefits paid following retirement from Group Executive Board [4]	629	–	–	–
Total remuneration paid to Group Executive Board, incl. benefits paid following retirement from Board	**8,762**	**8,050**	**1,868**	**1,833**

[1] The shares are reported at market value and are blocked from sale for three years.
[2] Employer contributions to social security (AHV, IV, EO and FAK, incl. administration costs, and daily sickness benefits and accident insurance) are included in the total remuneration.
[3] The amount for 2016 includes the share attributable to the Group Executive Board members of the non-recurring special pension-fund contribution made to cushion the impact of pension reductions resulting from the lowering of the conversion rate.
[4] Contractual compensation payments made during the notice period to a Group Executive Board member who resigned from Board during the financial year.

Total remuneration paid to the members of the Group Executive Board for the 2017 financial year is within the maximum total amount approved by the 2016 Annual General Meeting (AGM) for 2017 of CHF 9.7 million.

3.4 Minimum shareholding requirement

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

3.5 Shareholdings of the members of the Executive Board

Blocked and non-blocked shares held by members of the Group Executive Board or related parties as at 31 December 2016 and 2017 are listed in the table below:

Number	31.12.2017	31.12.2016
Urs Schaeppi (CEO)	3,964	3,229
Mario Rossi	1,236	1,027
Hans C. Werner	1,068	897
Marc Werner	750	382
Urs Lehner[1]	115	–
Christian Petit[2]	–	1,337
Heinz Herren	1,586	1,333
Dirk Wierzbitzki	234	64
Total shares held by the members of the Group Executive Board	**8,953**	**8,269**

[1] Joined the Group Executive Board as of 21 June 2017.
[2] Resigned from the Group Executive Board as of 21 June 2017.

None of the individuals/entities required to make notification hold voting shares exceeding 0.1% of the share capital.

3.6 Employment contracts

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

4 Other remuneration

4.1 Remuneration for additional services

Swisscom may pay remuneration to members of the Board of Directors for assignments in Group companies and for those performed by order of Swisscom (Article 6.4 of the Articles of Incorporation). The members of the Board of Directors were not paid out any remuneration for work of this kind in the year under review.
The members of the Group Executive Board are not entitled to separate remuneration for any directorships they hold either within or outside the Swisscom Group.

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

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

4.3 Loans and credits granted

Swisscom Ltd has no statutory basis for the granting of loans, credit facilities and pension fund benefits apart from the retirement benefits paid to the members of the Board of Directors and Group Executive Board.
In the 2017 financial year, Swisscom granted no guarantees, loans, advances or credit facilities of any kind either to former or current members of the Board of Directors or related parties, or to former or current members of the Group Executive Board or related parties. Nor are there any receivables of any kind outstanding.

Report of the Statutory Auditor

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

We have audited the accompanying remuneration report of Swisscom Ltd for the year ended 31 December 2017. The audit was limited to the information according to articles 14 - 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the sections 2.3, 2.5, 3.3, 3.5 and 4.1 to 4.3 on pages 81 to 91 of the remuneration report.

Responsibility of the Board of Directors

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the remuneration report for the year ended 31 December 2017 of Swisscom Ltd. complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Hanspeter Stocker
Licensed Audit Expert
Auditor in Charge

Daniel Haas
Licensed Audit Expert

Gümligen-Berne, 6 February 2018

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

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Consolidated statement of comprehensive income

In CHF million, except for per share amounts	Note	2017	2016
Income statement			
Net revenue	1.1	**11,662**	**11,643**
Direct costs	1.2	(2,666)	(2,759)
Personnel expense	1.2, 4.1	(3,002)	(2,947)
Other operating expense	1.2	(2,207)	(2,112)
Capitalised self-constructed assets and other income	1.2	508	468
Operating income before depreciation, amortisation and impairment losses		**4,295**	**4,293**
Depreciation, amortisation and impairment losses	3.2–3.4	(2,164)	(2,145)
Operating income		**2,131**	**2,148**
Financial income	2.4	44	80
Financial expense	2.4	(204)	(235)
Result of equity-accounted investees	5.3	(11)	(3)
Income before income taxes		**1,960**	**1,990**
Income tax expense	6.1	(392)	(386)
Net income		**1,568**	**1,604**
Other comprehensive income			
Actuarial gains and losses from defined benefit pension plans	2.1	679	924
Other comprehensive income from equity-accounted investees	2.1, 5.3	–	(5)
Items that will not be reclassified to income statement		**679**	**919**
Foreign currency translation adjustments of foreign subsidiaries	2.1	143	(99)
Change in available-for-sale financial assets	2.1	(5)	4
Change in cash flow hedges	2.1	(5)	9
Other comprehensive income from equity-accounted investees	2.1	2	(2)
Items that are or may be reclassified subsequently to income statement		**135**	**(88)**
Other comprehensive income		**814**	**831**
Comprehensive income			
Net income		1,568	1,604
Other comprehensive income		814	831
Comprehensive income		**2,382**	**2,435**
Share of net income and comprehensive income			
Equity holders of Swisscom Ltd		1,570	1,604
Non-controlling interests		(2)	–
Net income		**1,568**	**1,604**
Equity holders of Swisscom Ltd		2,384	2,435
Non-controlling interests		(2)	–
Comprehensive income		**2,382**	**2,435**
Earnings per share			
Basic and diluted earnings per share (in CHF)	2.1	**30.31**	**30.97**

Consolidated balance sheet

In CHF million	Note	31.12.2017	31.12.2016
Assets			
Cash and cash equivalents		525	329
Trade receivables	3.1	2,389	2,425
Other operating assets	3.1	729	680
Other financial assets		78	177
Current income tax assets	6.1	10	18
Total current assets		**3,731**	**3,629**
Property, plant and equipment	3.2	10,697	10,177
Goodwill	3.3	5,186	5,156
Intangible assets	3.4	1,758	1,756
Equity-accounted investees	5.3	152	193
Other financial assets		337	262
Deferred tax assets	6.1	197	281
Total non-current assets		**18,327**	**17,825**
Total assets		**22,058**	**21,454**
Liabilities and equity			
Financial liabilities	2.2	1,834	1,125
Trade payables	3.1	1,753	1,597
Provisions	3.5	177	182
Other operating liabilities	3.1	1,165	1,123
Current income tax liabilities	6.1	213	125
Total current liabilities		**5,142**	**4,152**
Financial liabilities	2.2	6,452	7,371
Defined benefit obligations	4.3	1,048	1,850
Provisions	3.5	900	780
Deferred gain on sale and leaseback of real estate	2.2	146	158
Deferred tax liabilities	6.1	725	621
Total non-current liabilities		**9,271**	**10,780**
Total liabilities		**14,413**	**14,932**
Share capital		52	52
Capital reserves		136	136
Retained earnings	2.1	9,155	8,148
Foreign currency translation adjustments	2.1	(1,689)	(1,834)
Other reserves	2.1	2	12
Equity attributable to equity-holders of Swisscom Ltd		**7,656**	**6,514**
Non-controlling interests		(11)	8
Total equity		**7,645**	**6,522**
Total liabilities and equity		**22,058**	**21,454**

Consolidated statement of cash flows

In CHF million	Note	2017	2016
Net income		1,568	1,604
Income tax expense	6.1	392	386
Result of equity-accounted investees	5.3	11	3
Financial income	2.4	(44)	(80)
Financial expense	2.4	204	235
Depreciation, amortisation and impairment losses	3.2–3.4	2,164	2,145
Gain on sale of property, plant and equipment	1.2	(24)	(20)
Loss on disposal of property, plant and equipment		2	9
Expense for share-based payments		2	3
Change in provisions	3.5	51	(141)
Change in defined benefit obligations	4.3	36	68
Change in operating assets and liabilities	3.1	165	(17)
Change in deferred gain from the sale and leaseback of real estate	2.2	(12)	(5)
Interest received		26	27
Dividends received	5.3	20	17
Interest paid	2.2	(181)	(184)
Income taxes paid	6.1	(289)	(328)
Cash flow from operating activities		**4,091**	**3,722**
Purchase of property, plant and equipment and intangible assets	3.2, 3.4	(2,378)	(2,416)
Sale of property, plant and equipment and intangible assets		30	27
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5.2	(63)	(38)
Purchase of equity-accounted investees	5.2	(20)	(3)
Proceeds from sale of equity-accounted investees	5.2	76	88
Purchase of other financial assets		(58)	(196)
Proceeds from other financial assets		158	92
Cash flow used in investing activities		**(2,255)**	**(2,446)**
Issuance of financial liabilities	2.2	757	898
Repayment of financial liabilities	2.2	(1,158)	(999)
Dividends paid to equity holders of Swisscom Ltd	2.1	(1,140)	(1,140)
Dividends paid to non-controlling interests		(8)	(8)
Acquisition of non-controlling interests	5.2	(99)	(4)
Other cash flows from financing activities		(9)	(16)
Cash flow used in financing activities		**(1,657)**	**(1,269)**
Net increase in cash and cash equivalents		**179**	**7**
Cash and cash equivalents at 1 January		329	324
Foreign currency translation adjustments in respect of cash and cash equivalents		17	(2)
Cash and cash equivalents at 31 December		**525**	**329**

Consolidated statement of changes in equity

In CHF million	Share capital	Capital reserves	Retained earnings	Foreign currency translation adjustments	Other reserves	Equity attributable to equity holders of Swisscom	Non-controlling interests	Total equity
Balance at 31 December 2015	**52**	**136**	**6,783**	**(1,733)**	**(1)**	**5,237**	**5**	**5,242**
Net income	–	–	1,604	–	–	1,604	–	1,604
Other comprehensive income	–	–	919	(101)	13	831	–	831
Comprehensive income	**–**	**–**	**2,523**	**(101)**	**13**	**2,435**	**–**	**2,435**
Dividends paid	–	–	(1,140)	–	–	(1,140)	(8)	(1,148)
Treasury shares	–	–	(1)	–	–	(1)	–	(1)
Transactions with non-controlling interests	–	–	(17)	–	–	(17)	11	(6)
Balance at 31 December 2016	**52**	**136**	**8,148**	**(1,834)**	**12**	**6,514**	**8**	**6,522**
Net income	–	–	1,570	–	–	1,570	(2)	1,568
Other comprehensive income	–	–	679	145	(10)	814	–	814
Comprehensive income	**–**	**–**	**2,249**	**145**	**(10)**	**2,384**	**(2)**	**2,382**
Dividends paid	–	–	(1,140)	–	–	(1,140)	(8)	(1,148)
Transactions with non-controlling interests	–	–	(102)	–	–	(102)	(9)	(111)
Balance at 31 December 2017	**52**	**136**	**9,155**	**(1,689)**	**2**	**7,656**	**(11)**	**7,645**

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.

About this report

Compared to the prior year, the contents and structure of the 2017 Swisscom consolidated financial statements are fundamentally redesigned in order to enhance, for its addressees, the transparency and relevance of the financial reporting information for decision-making purposes. These amendments encompass the following:

- modification of the structure of the notes.
- elimination of irrelevant and immaterial information.
- reduction of the complexity of note disclosures through highlighting and the use of tables.

In addition, the following changes were made to improve the presentation of the consolidated financial statements:

- expenses for materials and services used are now designated as «direct costs». Commissions paid to dealers are now classified under contract acquisition costs as part of direct costs. In addition, usage charges for networks of other telecommunication providers abroad are now disclosed under traffic charges of subsidiaries abroad. Until the present, dealer commissions and traffic charges were classified under other operating costs.
- all revenue and cost accruals which apply in the normal course of business are now disclosed as current items in the balance sheet.
- dividends received as well as interest paid and received are now disclosed under cash flow from operating activities.

The prior-year amounts were restated as follows:

In CHF million	Reported	Adjustment	Restated
Income statement			
Direct costs	(2,323)	(436)	(2,759)
Other operating expense	(2,548)	436	(2,112)
Balance sheet			
Current assets	3,535	94	3,629
Non-current assets	17,919	(94)	17,825
Current liabilities	(3,978)	(174)	(4,152)
Non-current liabilities	(10,954)	174	(10,780)
Cash flow statement			
Cash flow from operating activities	3,862	(140)	3,722
Cash flow used in investing activities	(2,402)	(44)	(2,446)
Cash flow used in financing activities	(1,453)	184	(1,269)

General information

The Swisscom Group (hereinafter referred to as “Swisscom”) provides telecommunication services and is active primarily in Switzerland and Italy. The consolidated financial statements as of and for the year ended 31 December 2017 comprise Swisscom Ltd, as parent company, and its subsidiaries. Swisscom Ltd is a limited-liability company incorporated in accordance with Swiss law, under a private statute, and has its registered office in Ittigen (Berne). Its address is: Swisscom Ltd, Alte Tiefenaustrasse 6, 3048 Worblaufen. Swisscom is listed on the SIX Swiss Exchange. The number of issued shares, as in the prior year, aggregated 51,801,943. The shares have a nominal value of CHF 1 and are fully paid-up. Each share entitles the holder to one vote. The majority shareholder of Swisscom Ltd remains, as in the prior year, the Swiss Confederation (“Confederation”). The Confederation is obligated by current law to hold the majority of the capital and voting rights. The Board of Directors of Swisscom has approved the issuance of these consolidated financial statements on 6 February 2018. As of this date, no material post-balance-sheet events had occurred. The consolidated financial statements will be submitted for approval to the Annual General Meeting of Shareholders of Swisscom Ltd to be held on 4 April 2018.

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) which corresponds to the functional currency of Swisscom Ltd. Unless otherwise noted, all amounts are stated in millions of Swiss francs. The consolidated financial statements are drawn up on the historical cost basis, unless a standard or interpretation prescribes another measurement basis for a particular caption in which case this is explicitly stated in the financial statement reporting policies. Material financial statement reporting policies of relevance for an understanding of the consolidated financial statements are set out in the specific notes to the financial statements.

Significant accounting judgments, estimates and assumptions in applying the financial statement accounting policies

The preparation of consolidated financial statements is dependent upon estimates and assumptions being made in applying the accounting policies for which management can exercise a certain degree of judgment. This concerns the following positions:

Description	Further information
Useful lives of property, plant and equipment and intangible assets	Note 3.2 and 3.4
Recoverability of Goodwill	Note 3.3
Provisions for dismantlement and restoration costs	Note 3.5
Provision for regulatory and competition law procedures	Note 3.5
Defined benefit obligations	Note 4.3

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

As from 1 January 2017 onwards, Swisscom adopted various amendments to existing International Financial Reporting Standards (IFRS) and Interpretations, which have no material impact on the results or financial position of the Group.

Standard	Name
Amendements to IAS 7	Disclosure initiative
Amendements to IAS 12	Recognition of deferred tax assets for unrealised losses

Further information as to the changes in IFRS which must be applied in 2018 or later are set out in Note 6.3.

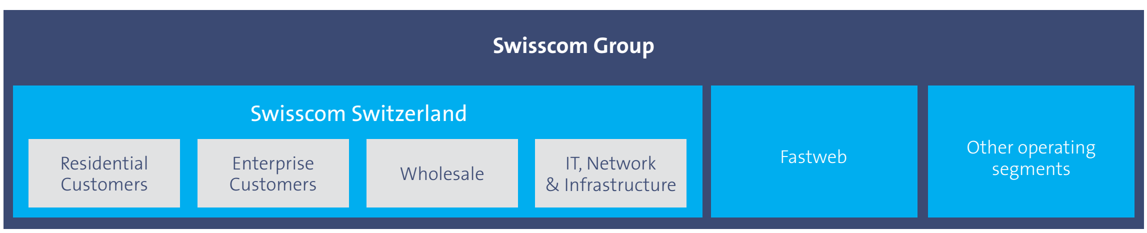
1 Operational performance

This chapter sets outs information on the operating performance of Swisscom for the current reporting year. The classification according to operating segments corresponds to the reporting system used internally to evaluate performance and allocate resources, as well as to Swisscom's management structure.

1.1 Segment information

General

Swisscom has further increased the level of digitalisation within its organisational structure in order to strengthen areas with close customer proximity and boost the company's effectiveness in the ICT market. In this manner, Swisscom strives to improve the customer experience from a single source, simplify processes and enhance efficiency in order to create greater scope for innovation. As a result of the organisational changes, the Small and Medium-Sized Enterprises segment (SME) of Swisscom Switzerland was split up. The SME telecommunications business is now included in the Residential Customers segment as part of segment reporting. Swisscom Directories (localsearch) has been transferred to the new Digital Business division, which is reported under Other Operating Segments. In addition, all field service functions of Swisscom Switzerland are reported under the Residential Customers segment. Fleet management from the Participations division (Other Operating Segments) has also been transferred to the IT, Network & Infrastructure segment and the Health division merged into the Enterprise Customers segment. The prior-year amounts were restated accordingly. Segment reporting is now made in accordance with the following segments:



Segment	Activity
Residential Customers	The segment Residential Customers comprises connection fees for broadband and TV services, fixed-network and mobilephone subscriptions as well as national and international telephone and data traffic for residential customers and customers from small- and medium size enterprises. Furthermore, the segment includes the sale of merchandise.
Enterprise Customers	Enterprise Customers focuses on complete communication solutions for large business customers. Its product offering in the field of business ICT infrastructure covers the whole range of services from individual products to complete business solutions.
Wholesale	This segment comprises the use of Swisscom fixed and mobile networks by other telecommunication service providers and the use of third-party networks by Swisscom. It also includes roaming with foreign operators whose customers use Swisscom's mobile networks, as well as broadband services and regulated products as a result of the unbundling of the "last mile" for other telecommunication service providers.
IT, Network & Infrastructure	The segment IT, Network & Infrastructure is responsible for the planning, operation and maintenance of Swisscom's network infrastructure and all IT systems. It is responsible for the development and production of standardised IT and network services in Switzerland. In addition, IT, Network & Infrastructure also includes the support functions Finances, Human Resources and Strategy for Swisscom Switzerland as well as the management of real estate and the vehicle fleet in Switzerland.
Fastweb	Fastweb is one of the largest providers of broadband services in Italy. Its product portfolio covers voice, data, broadband and TV services as well as video-on-demand for residential and corporate customers. In addition, Fastweb offers mobile phone services on the basis of an MVNO contract (as a virtual network operator). It also provides comprehensive network services and customised solutions.
Other Operating Segments	Other Operating Segments mainly comprise the areas Digital Business und Participations. Digital Business comprises primarily Swisscom Directories AG (localsearch), which is active in the field of online and telephone directories. Participations consist principally of the subsidiaries Billag Ltd, cablex Ltd and Swisscom Broadcast Ltd. Billag Ltd collects radio and TV license fees on behalf of the Swiss Confederation. cablex Ltd operates in the field of construction and maintenance of wired and wireless networks in Switzerland, primarily in the field of telecommunication. Swisscom Broadcast Ltd is the leading provider in Switzerland of radio services, of cross-platform services for customers in the media field and of securitised radio transmissions.

Reporting is made on the basis of the segments "Residential Customers", "Enterprise Customers", "Wholesale", and "IT, Network & Infrastructure", which are grouped under Swisscom Switzerland, as well as "Fastweb" and "Other Operating Segments". In addition, "Group Headquarters", which includes non-allocated costs, is disclosed separately in segment reporting.

Group Headquarters does not charge any management fees to other segments for its financial management services, nor does the IT, Network & Infrastructure segment charge any network costs to other segments. The remaining services between the segments are recharged at market prices. Segment expense encompasses the direct and indirect costs which include personnel expense, other operating costs less capitalised costs of self-constructed assets and other income. Retirement-benefit expense includes ordinary employer contributions. The difference between the ordinary employer contributions and the pension cost as provided for under IAS 19 is reported in the column "Eliminations". In 2017, an expense of CHF 92 million is disclosed under "Eliminations" as a pension cost reconciliation item in accordance with IAS 19 (prior year: CHF 72 million). The results of the segments "Residential Customers", "Enterprise Customers" and "Wholesale" correspond to a contribution margin prior to network costs. The segment result of IT, Network & Infrastructure consists of operating expenses and depreciation and amortisation less revenues from the rental and administration of buildings and vehicles as well as capitalised costs of property, plant and equipment and other income. The segment results of Swisscom Switzerland and of the other operating segments do not reflect the retirement-benefit reconciliation item in accordance with IAS 19. The segment results of Fastweb correspond to the operating results.

Restatement of segment information 2016

In CHF million	Reported	Adjustment	Restated
Net revenue financial year 2016			
Residential Customers	5,160	1,105	6,265
Small and Medium-Sized Enterprises	1,367	(1,367)	–
Enterprise Customers	2,611	(71)	2,540
Wholesale	989	(10)	979
IT, Network & Infrastructure (before IT, Network & Innovation)	129	44	173
Elimination	(816)	116	(700)
Swisscom Switzerland	**9,440**	**(183)**	**9,257**
Fastweb	1,957	–	1,957
Other Operating Segments	594	195	789
Group Headquarters	2	–	2
Elimination	(350)	(12)	(362)
Total net revenue	**11,643**	**–**	**11,643**
Segment result financial year 2016			
Residential Customers	2,748	753	3,501
Small and Medium-Sized Enterprises	847	(847)	–
Enterprise Customers	722	32	754
Wholesale	388	(9)	379
IT, Network & Infrastructure (before IT, Network & Innovation)	(2,508)	17	(2,491)
Swisscom Switzerland	**2,197**	**(54)**	**2,143**
Fastweb	124	–	124
Other Operating Segments	27	54	81
Group Headquarters	(114)	–	(114)
Reconciliation pension cost	(72)	–	(72)
Elimination	(14)	–	(14)
Total segment result	**2,148**	**–**	**2,148**

Segment information 2017

2017, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	Total
Residential customers	5,971	1,097	–	–	–	7,068
Corporate customers	2,428	791	529	1	–	3,749
Wholesale customers	578	267	–	–	–	845
Net revenue from external customers	**8,977**	**2,155**	**529**	**1**	**–**	**11,662**
Net revenue from other segments	81	9	321	–	(411)	–
Net revenue	**9,058**	**2,164**	**850**	**1**	**(411)**	**11,662**
Direct costs	(1,943)	(716)	(31)	–	24	(2,666)
Indirect costs [1]	(3,615)	(603)	(639)	(112)	268	(4,701)
Segment result before depreciation and amortisation	**3,500**	**845**	**180**	**(111)**	**(119)**	**4,295**
Depreciation, amortisation and impairment losses	(1,485)	(589)	(96)	–	6	(2,164)
Segment result	**2,015**	**256**	**84**	**(111)**	**(113)**	**2,131**
Financial income and financial expense, net						(160)
Result of equity-accounted investees						(11)
Income before income taxes						**1,960**
Income tax expense						(392)
Net income						**1,568**
Segment result before depreciation and amortisation	3,500	845	180	(111)	(119)	4,295
Capital expenditure in property, plant and equipment and intangible assets	(1,654)	(692)	(58)	–	26	(2,378)
Change in provisions	39	(4)	9	7	–	51
Change in defined benefit obligations	(56)	(1)	–	1	92	36
Change in operating net working capital	184	38	(50)	7	(14)	165
Other [2]	(11)	–	–	–	1	(10)
Operating free cash flow	**2,002**	**186**	**81**	**(96)**	**(14)**	**2,159**

[1] Including capitalised costs of self-constructed assets and other income.
[2] Proceeds from the sale of property, plant and equipment, non-cash change in net working capital from operating activities, change in deferred gain from the sale and leaseback of real estate, and dividend payments to owners of non-controlling interests.

Segment information Swisscom Switzerland 2017

2017, in CHF million	Residential Customers	Enterprise Customers	Whole-sale	IT, Network & Infrastructure	Elimi-nation	Total Swisscom Switzerland
Telecom services	5,363	1,101	–	–	–	6,464
Solution business	–	1,084	–	–	–	1,084
Merchandise	451	197	–	–	–	648
Wholesale	–	–	578	–	–	578
Revenue other	157	20	–	26	–	203
Net revenue from external customers	**5,971**	**2,402**	**578**	**26**	**–**	**8,977**
Net revenue from other segments	82	106	366	141	(614)	81
Net revenue	**6,053**	**2,508**	**944**	**167**	**(614)**	**9,058**
Direct costs	(1,397)	(728)	(478)	(12)	672	(1,943)
Indirect costs [1]	(1,144)	(948)	(20)	(1,445)	(58)	(3,615)
Segment result before depreciation and amortisation	**3,512**	**832**	**446**	**(1,290)**	**–**	**3,500**
Depreciation, amortisation and impairment losses	(126)	(84)	–	(1,275)	–	(1,485)
Segment result	**3,386**	**748**	**446**	**(2,565)**	**–**	**2,015**
Capital expenditure in property, plant and equipment and intangible assets	(186)	(72)	–	(1,396)	–	(1,654)

[1] Including capitalised costs of self-constructed assets and other income.

Segment information 2016

2016, in CHF million, restated	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	Total
Residential customers	6,132	988	–	–	–	7,120
Corporate customers	2,452	769	519	1	–	3,741
Wholesale customers	591	191	–	–	–	782
Net revenue from external customers	**9,175**	**1,948**	**519**	**1**	**–**	**11,643**
Net revenue from other segments	82	9	270	1	(362)	–
Net revenue	**9,257**	**1,957**	**789**	**2**	**(362)**	**11,643**
Direct costs	(2,028)	(721)	(34)	–	24	(2,759)
Indirect costs [1]	(3,613)	(515)	(591)	(116)	244	(4,591)
Segment result before depreciation and amortisation	**3,616**	**721**	**164**	**(114)**	**(94)**	**4,293**
Depreciation, amortisation and impairment losses	(1,473)	(597)	(83)	–	8	(2,145)
Segment result	**2,143**	**124**	**81**	**(114)**	**(86)**	**2,148**
Financial income and financial expense, net						(155)
Result of equity-accounted investees						(3)
Income before income taxes						**1,990**
Income tax expense						(386)
Net income						**1,604**
Segment result before depreciation and amortisation	3,616	721	164	(114)	(94)	4,293
Capital expenditure in property, plant and equipment and intangible assets	(1,755)	(633)	(49)	–	21	(2,416)
Change in provisions	(160)	1	4	14	–	(141)
Change in defined benefit obligations	(3)	–	1	(2)	72	68
Change in operating net working capital	(62)	45	–	(41)	41	(17)
Other [2]	4	–	–	–	–	4
Operating free cash flow	**1,640**	**134**	**120**	**(143)**	**40**	**1,791**

[1] Including capitalised costs of self-constructed assets and other income.
[2] Proceeds from the sale of property, plant and equipment, non-cash change in net working capital from operating activities, change in deferred gain from the sale and leaseback of real estate, and dividend payments to owners of non-controlling interests.

Segment information Swisscom Switzerland 2016

2016, in CHF million, restated	Residential Customers	Enterprise Customers	Whole-sale	IT, Network & Infrastructure	Elimi-nation	Total Swisscom Switzerland
Telecom services	5,518	1,144	–	–	–	6,662
Solution business	–	1,072	–	–	–	1,072
Merchandise	457	180	–	–	–	637
Wholesale	–	–	591	–	–	591
Revenue other	157	25	–	31	–	213
Net revenue from external customers	**6,132**	**2,421**	**591**	**31**	**–**	**9,175**
Net revenue from other segments	133	119	388	142	(700)	82
Net revenue	**6,265**	**2,540**	**979**	**173**	**(700)**	**9,257**
Direct costs	(1,427)	(772)	(562)	(12)	745	(2,028)
Indirect costs [1]	(1,187)	(920)	(38)	(1,423)	(45)	(3,613)
Segment result before depreciation and amortisation	**3,651**	**848**	**379**	**(1,262)**	**–**	**3,616**
Depreciation, amortisation and impairment losses	(150)	(94)	–	(1,229)	–	(1,473)
Segment result	**3,501**	**754**	**379**	**(2,491)**	**–**	**2,143**
Capital expenditure in property, plant and equipment and intangible assets	(187)	(126)	–	(1,442)	–	(1,755)

[1] Including capitalised costs of self-constructed assets and other income.

Disclosure by geographical regions

In CHF million	2017 Net revenue	2017 Non-current assets	2016 Net revenue	2016 Non-current assets
Switzerland	9,476	14,400	9,665	14,273
Italy	2,155	3,359	1,948	2,877
Other countries	31	34	30	132
Not allocated	–	534	–	543
Total	**11,662**	**18,327**	**11,643**	**17,825**

Disclosure by products and services

In CHF million	2017	2016
Telecom services	8,269	8,321
Solution business	1,084	1,072
Merchandise	699	697
Wholesale	845	782
Revenue other	765	771
Total net revenue	**11,662**	**11,643**

Accounting policies

Category	Revenue recognition
Telecom services	The telecom services include the provision of mobile and fixed-line telecommunications in Switzerland and abroad. Mobile phone services encompass basic subscription charges; and in addition, domestic and international mobile phone traffic generated by Swisscom customers in Switzerland or abroad as well as roaming by foreign operators whose customers use the Swisscom network. Swisscom offers subscriptions at a fixed monthly flat-rate fee, the revenue from which is recognised on a straight-line basis over the term of the contract. Depending on the subscription, revenue is recorded on the basis of the actual minutes used. Connection fees are deferred and released to income over the minimum contract term on a straight-line basis. If no minimum contract term has been agreed, revenue is recognised on the date of connection. If a mobile handset is sold as a part of a bundled offering with a subscription, it is treated as a multi-component transaction. The price of the entire multi-component transaction is spread on a pro-rata basis over the various component parts on the basis of the respective individual sales prices thereof. In this respect, the revenue to be recognised for each individual component is limited by that part of the total consideration provided by the customer for the multi-component transaction whose payment is not dependent on the provision of additional services. Fixed-network services encompass primarily national and international telephony traffic for residential and business customers, as well as business with prepaid calling cards. 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. Swisscom provides bundled service offerings which include Internet and TV as well as an optional fixed-line connection with telephony services. The subscription fees are fixed (flat rate). Revenue is recognised on a straight-line basis over the contractual term.
Solution business	Services in the field of communication and IT solutions primarily include consultancy services as well as the implementation, maintenance and operation of communication infrastructures. Furthermore, they include applications and services as well as the integration, operation and maintenance of data networks and outsourcing services. Revenues from customer-specific construction contracts are accounted for using the percentage-of-completion method which is based on the ratio of costs incurred to date to the estimated total costs. Revenue for long-term outsourcing contracts is recorded based on the volume of services provided to the customer. Start-up costs relating to and the integration of new outsourcing transactions are capitalised as other assets and amortised on a straight-line basis over the duration of the contract. Revenue from maintenance is recorded evenly over the term of the maintenance contracts.
Merchandise	Revenue arising from the sale of mobile phones, fixed-line devices, routers, TV-Boxes and other accessories is recorded at the time of delivery and when the service is provided.
Wholesale	The services encompass primarily leased lines and the use of Swisscom's fixed network by other telecommunication service providers (roaming). Revenue from leased lines is recorded on a straight-line basis over the duration of the contract. Roaming services are recorded as revenue on the basis of the minutes used or the agreed contractual rates at the time the service is provided. Revenue from roaming services with other telecommunication service providers is recorded gross.

1.2 Operating expenses

Direct costs

In CHF million	2017	2016
Customer premises equipment and merchandise	1,128	1,141
Services purchased	431	471
Traffic fees of foreign subsidiaries	400	392
International traffic fees	302	282
Costs of obtaining a contract	296	304
National traffic fees	109	169
Total direct costs	**2,666**	**2,759**

Indirect costs

In CHF million	2017	2016
Salary and social security expenses	2,856	2,868
Other personnel expense	146	79
Total personnel expense [1]	**3,002**	**2,947**
Information technology cost	306	271
Maintenance expense	284	256
Rental expense	206	199
Energy costs	105	114
Advertising and selling expenses	249	216
Consultancy expenses and freelance workforce	176	191
Administration expense	108	122
Allowances for receivables	91	94
Miscellaneous operating expenses	682	649
Total other operating expense	**2,207**	**2,112**
Capitalised self-constructed assets	(327)	(347)
Income from litigations [2]	(102)	(60)
Gain on sale of property, plant and equipment	(24)	(20)
Miscellaneous income	(55)	(41)
Total capitalised self-constructed assets and other income	**(508)**	**(468)**
Total indirect costs	**4,701**	**4,591**

[1] See Note 4.1.
[2] See Note 3.5.

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.

Accounting policies

Subscriber acquisition costs

Swisscom pays commissions to dealers for the acquisition and retention of customers. The commission payable is dependent on the type of subscription. Subscriber acquisition and loyalty-programme costs are expensed immediately and disclosed as costs of obtaining a contract.

2 Capital and financial risk management

Set out below are the procedures and guidelines governing the active management of equity resources and of the financial risks to which Swisscom is exposed. Swisscom strives to achieve a robust capital equity basis which guarantees its ability to continue as a going concern and to offer its investors an appropriate return based on the risks assumed. Furthermore, Swisscom maintains financial resources to enable it to make capital investments which will provide future benefits to customers and enhanced returns to investors.

2.1 Capital management and equity

Net-debt-to-EBITDA ratio

Swisscom strives to achieve a net indebtedness of approximately 1.9 x EBITDA (operating result before taxes, interest and depreciation, amortisation and impairment losses). Exceeding this ratio temporarily is permitted. Net debt consists of total financial liabilities less cash and cash equivalents, current financial assets as well as non-current fixed interest-bearing certificates of deposit and derivative financial instruments for financing received. The net-debt-to-EBITDA ratio is as follows:

In CHF million	31.12.2017	31.12.2016
Net debt	7,447	7,846
Operating income before depreciation, amortisation and impairment losses	4,295	4,293
Ratio net debt/EBITDA	**1.7**	**1.8**

Equity ratio

Swisscom strives to achieve an equity ratio of 30%, at a minimum. The equity ratio is computed as follows:

In CHF million	31.12.2017	31.12.2016
Equity	7,645	6,522
Total assets	22,058	21,454
Equity ratio in %	**34.7**	**30.4**

Dividend policy

Swisscom aims to achieve a stable dividend policy which is based on cash-flow generation and allocation of capital. Distributable reserves are not determined on the basis of the equity as reported in the consolidated financial statements but rather on the basis of equity as reported in the statutory financial statements of the parent company, Swisscom Ltd. At 31 December 2017, Swisscom Ltd's distributable reserves amounted to CHF 5,251 million. The dividend is proposed by the Board of Directors and must be approved by the Annual General Meeting of Shareholders. Treasury shares are not entitled to a dividend. Swisscom paid the following dividends in 2016 and 2017:

In CHF million, except where indicated	2017	2016
Number of registered shares eligible for dividend (in millions of shares)	51.801	51.800
Ordinary dividend per share (in CHF)	22.00	22.00
Dividends paid	**1,140**	**1,140**

The Board of Directors proposes to the Annual Shareholders' Meeting of Swisscom Ltd to be held on 4 April 2018 the payment of an ordinary dividend of CHF 22 per share in respect of the 2017 financial year. This equates to an aggregate dividend distribution of CHF 1,140 million. The expected dividend payment date is on 10 April 2018.

Earnings per share

In CHF million, except where indicated	2017	2016
Share of net income attributable to equity holders of Swisscom Ltd	1,570	1,604
Weighted average number of shares outstanding (number)	51,800,771	51,800,352
Basic and diluted earnings per share (in CHF)	**30.31**	**30.97**

Supplementary information on equity

Development of retained earnings and other reserves as well as comprehensive income 2017

In CHF million	Retained earnings	Foreign currency translation adjustments	Fair value reserve	Hedging reserve	Equity holders of Swisscom	Non-controlling interests	Total
Balance at 31 December 2016	**8,148**	**(1,834)**	**9**	**3**	**6,326**	**8**	**6,334**
Net income	**1,570**	**–**	**–**	**–**	**1,570**	**(2)**	**1,568**
Actuarial gains and losses from defined benefit pension plans	850	–	–	–	850	–	850
Income tax expense	(171)	–	–	–	(171)	–	(171)
Items that will not be reclassified to income statement	**679**	**–**	**–**	**–**	**679**	**–**	**679**
Foreign currency translation adjustments of foreign subsidiaries	–	166	–	–	166	–	166
Change in fair value	–	–	(11)	–	(11)	–	(11)
Gains and losses transferred to income statement	–	(4)	5	(6)	(5)	–	(5)
Equity-accounted investees	–	2	–	–	2	–	2
Income tax expense	–	(19)	1	1	(17)	–	(17)
Items that are or may be reclassified subsequently to income statement	**–**	**145**	**(5)**	**(5)**	**135**	**–**	**135**
Other comprehensive income	**679**	**145**	**(5)**	**(5)**	**814**	**–**	**814**
Comprehensive income	**2,249**	**145**	**(5)**	**(5)**	**2,384**	**(2)**	**2,382**
Dividends paid	(1,140)	–	–	–	(1,140)	(8)	(1,148)
Transactions with non-controlling interests	(102)	–	–	–	(102)	(9)	(111)
Balance at 31 December 2017	**9,155**	**(1,689)**	**4**	**(2)**	**7,468**	**(11)**	**7,457**

Development of retained earnings and other reserves as well as comprehensive income 2016

In CHF million	Retained earnings	Foreign currency translation adjustments	Fair value reserve	Hedging reserve	Equity holders of Swisscom	Non-controlling interests	Total
Balance at 31 December 2015	**6,783**	**(1,733)**	**5**	**(6)**	**5,049**	**5**	**5,054**
Net income	**1,604**	**–**	**–**	**–**	**1,604**	**–**	**1,604**
Actuarial gains and losses from defined benefit pension plans	1,162	–	–	–	1,162	–	1,162
Equity-accounted investees	(5)	–	–	–	(5)	–	(5)
Income tax expense	(238)	–	–	–	(238)	–	**(238)**
Items that will not be reclassified to income statement	**919**	**–**	**–**	**–**	**919**	**–**	**919**
Foreign currency translation adjustments of foreign subsidiaries	–	(21)	–	–	(21)	–	(21)
Change in fair value	–	–	7	8	15	–	15
Gains and losses transferred to income statement	–	5	(3)	2	4	–	4
Equity-accounted investees	–	(2)	–	–	(2)	–	(2)
Income tax expense	–	(83)	–	(1)	(84)	–	(84)
Items that are or may be reclassified subsequently to income statement	**–**	**(101)**	**4**	**9**	**(88)**	**–**	**(88)**
Other comprehensive income	**919**	**(101)**	**4**	**9**	**831**	**–**	**831**
Comprehensive income	**2,523**	**(101)**	**4**	**9**	**2,435**	**–**	**2,435**
Dividends paid	(1,140)	–	–	–	(1,140)	(8)	(1,148)
Treasury shares	(1)	–	–	–	(1)	–	(1)
Transactions with non-controlling interests	(17)	–	–	–	(17)	11	(6)
Balance at 31 December 2016	**8,148**	**(1,834)**	**9**	**3**	**6,326**	**8**	**6,334**

2.2 Financial liabilities

In CHF million	2017	2016
Balance at 1 January	**8,496**	**8,593**
New bank loans	177	2
Issuance of debenture bonds	500	700
Issuance of private placements	–	175
Issuance of other financial liabilities	80	21
Issuance of financial liabilities	**757**	**898**
Repayment of bank loans	(247)	(599)
Repayment of debenture bonds	(640)	–
Repayment of private placements	(250)	(375)
Repayment of finance lease liabilities	(19)	(22)
Repayment of other financial liabilities	(2)	(3)
Repayment of financial liabilities	**(1,158)**	**(999)**
Interest expense	160	168
Interest payments	(181)	(184)
Foreign currency translation adjustments	224	(20)
Change in finance lease liabilities	(26)	19
Change in fair value	(3)	2
Other changes	17	19
Balance at 31 December	**8,286**	**8,496**
Bank loans	760	753
Debenture bonds	6,137	6,140
Private placements	493	738
Finance lease liabilities	461	508
Derivative financial instruments [1]	60	63
Other financial liabilities [2]	375	294
Total financial liabilities	**8,286**	**8,496**
Thereof current financial liabilities	1,834	1,125
Thereof non-current financial liabilities	6,452	7,371

[1] See Note 2.5.
[2] See Note 5.1.

Credit lines

Swisscom has two confirmed lines of credit from banks each amounting to CHF 1,000 million maturing in 2020 and 2022, respectively. As of 31 December 2017, none of these lines of credit had been drawn down, as in the prior year.

Bank loans

					Carrying amount	
In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	31.12.2017	31.12.2016
Bank loans in CHF [1]	2016–2017	70	–0.20%	–0.20%	–	70
Bank loans in EUR [1]	2016–2017	60	0.05%	–0.22%	–	64
Bank loans in EUR [1,3]	2013–2020	180	Euribor +0.386%	0.11%	211	258
Bank loans in EUR [2]	2015–2020	200	0.76%	–0.52%	238	219
Bank loans in EUR [2,3]	2017–2024	150	0.67%	0.67%	175	–
Bank loans in USD [2]	2009–2028	54	8.30%	4.62%	74	76
Bank loans in USD [2]	2009–2028	48	7.65%	4.63%	62	66
Total bank loans					**760**	**753**

[1] Variable interest-bearing.
[2] Fixed interest-bearing.
[3] Designated for hedge accounting of net investments in foreign operations.

During the fourth quarter of 2017, Swisscom took up a bank loan of EUR 150 million maturing in 2024. The financing so received was applied to repay existing loans. In 2016, Swisscom took up short-term bank loans on a weekly and monthly basis in the amounts of CHF 70 million and EUR 60 million.
The bank loans may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below one third or if another shareholder can exercise control over Swisscom.

Debenture bonds

In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	Carrying amount 31.12.2017	Carrying amount 31.12.2016
Debenture bond in CHF (ISIN: CH0032254739)	2007–2017	600	3.75%	3.76%	–	610
Debenture bond in CHF (ISIN: CH0104691628)	2009–2018	1,385	3.25%	3.44%	1,396	1,434
Debenture bond in EUR (ISIN: XS0972165848)	2013–2020	500	2.00%	2.22%	585	535
Debenture bond in EUR (ISIN: XS1051076922) [1]	2014–2021	500	1.88%	2.06%	585	536
Debenture bond in CHF (ISIN: CH0114695379)	2010–2022	500	2.63%	2.81%	500	500
Debenture bond in CHF (ISIN: CH0268988174)	2015–2023	250	0.25%	–0.37%	253	253
Debenture bond in CHF (ISIN: CH0188335365)	2012–2024	500	1.75%	1.77%	504	504
Debenture bond in EUR (ISIN: XS1288894691) [1]	2015–2025	500	1.75%	–0.06%	599	554
Debenture bond in CHF (ISIN: CH0247776138)	2014–2026	200	1.50%	1.47%	202	202
Debenture bond in CHF (ISIN: CH0344583783)	2016–2027	200	0.38%	–0.39%	197	198
Debenture bond in CHF (ISIN: CH0362748359)	2017–2027	350	0.38%	0.38%	351	–
Debenture bond in CHF (ISIN: CH0317921663)	2016–2028	200	0.38%	0.30%	202	202
Debenture bond in CHF (ISIN: CH0254147504)	2014–2029	160	1.50%	1.47%	161	161
Debenture bond in CHF (ISIN: CH0336352775)	2016–2032	300	0.13%	0.14%	299	299
Debenture bond in CHF (ISIN: CH0373476164)	2017–2033	150	0.75%	0.71%	151	–
Debenture bond in CHF (ISIN: CH0268988182)	2015–2035	150	1.00%	0.96%	152	152
Total debenture bonds					**6,137**	**6,140**

[1] Designated for hedge accounting of net investments in foreign operations.

In the second quarter of 2017, Swisscom took up a debenture bond of a nominal amount of CHF 350 million with a coupon rate of 0.375% and a duration of 10 years. In the fourth quarter of 2017, Swisscom issued a debenture bond of a nominal amount of CHF 150 million with a coupon rate of 0.75% and a term of 16 years. The funds received were applied to repay existing debt. In the third quarter of 2017, Swisscom repaid a debenture bond of a nominal amount of CHF 600 million upon maturity.
In 2016, Swisscom issued three debenture bonds of an aggregate nominal amount of CHF 700 million. The financing so received was applied to repay existing loans.

Private placements

In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	Carrying amount 31.12.2017	31.12.2016
Private placements in CHF	2007–2017	250	0.80%	1.56%	–	249
Private placements in CHF	2007–2018	72	Variable	1.31%	71	70
Private placements in CHF	2007–2019	278	Variable	1.25%	272	269
Private placements in CHF	2016–2031	150	0.56%	0.56%	150	150
Total private placements					**493**	**738**

In the fourth quarter of 2017, Swisscom repaid a private placement of CHF 250 million on maturity. In 2016, a maturing private placement of CHF 150 million was prolonged for a further term of 15 years.
The Swiss-franc-denominated private placements with a carrying value of CHF 343 million maturing in 2018 to 2019 may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below 35% or if another shareholder can exercise control over Swisscom. The investors in the remaining private placements are entitled to resell their investments to Swisscom should the Swiss Confederation permanently give up its majority shareholding in Swisscom.

Finance lease liabilities

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 2017, the deferred gains totalled CHF 146 million (prior year: CHF 158 million). The deferred gains are released to other income over the term of the individual leases. The effective interest rate of the finance lease liabilities was 4.9%.
The minimum lease payments, financial liabilities and the future payment thereof, in terms of their net present value, relating to these leaseback agreements are set out in the following table:

	Minimum lease payments		Carrying amount	
In CHF million	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Within 1 year	48	45	23	16
Between 1 and 5 years	144	149	48	40
After 5 years	793	984	390	452
Total minimum lease payments/carrying amount	**985**	**1,178**	**461**	**508**
Thereof current finance lease liabilities			23	16
Thereof non-current finance lease liabilities			438	492
Net carrying amount of buildings acquired under finance lease			328	382

Accounting policies

Financial liabilities

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

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 passed on. 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 estimated useful life and the lease term. The interest component of the lease payments is recognised as interest expense over the lease term computed on the basis of the effective interest method. Lease contracts for land and buildings are recorded separately if the lease payments can be reliably allocated. Gains on sale-and-leaseback transactions are deferred and released on a straight-line basis over the lease term as other income. Losses on sale-and-leaseback transactions are expensed immediately.

2.3 Operating leases

Operating leases relate primarily to the rental of real estate held for business purposes. In 2017, payments for operating leases amounted to CHF 201 million (prior year: CHF 198 million). Future minimum lease payments in respect of operating lease contracts are as follows:

In CHF million	31.12.2017	31.12.2016
Within 1 year	178	162
Between 1 and 2 years	157	142
Between 2 and 3 years	138	126
Between 3 and 4 years	112	113
Between 4 and 5 years	85	88
After 5 years	317	305
Total minimum lease payments from operating lease	**987**	**936**

Accounting policies

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.

2.4 Financial result

In CHF million	2017	2016
Interest income on financial assets	11	13
Foreign exchange gains	10	7
Change in fair value of interest rate swaps [1]	8	–
Gain from sale of equity-accounted investees [2]	6	42
Capitalised borrowing costs	5	6
Other financial income	4	12
Total financial income	**44**	**80**
Interest expense on financial liabilities	(160)	(168)
Interest expense on defined benefit obligations [3]	(11)	(25)
Present-value adjustments on provisions [4]	(6)	(11)
Change in fair value of interest rate swaps [1]	–	(10)
Other financial expense	(27)	(21)
Total financial expense	**(204)**	**(235)**
Financial income and financial expense, net	**(160)**	**(155)**
Net interest expense	(149)	(155)

[1] See Note 2.5.
[2] See Note 5.2.
[3] See Note 4.3.
[4] See Note 3.5.

2.5 Financial risk management

Swisscom is exposed to various financial risks arising from its business and financing activities. Financial risk management is conducted in accordance with established guidelines with the objective of containing the potential adverse effects thereof on the financial situation of Swisscom. The identified risks and measures to minimise them are presented below:

Risk	Source	Risk reduction
Currency risks	Swisscom is exposed to foreign exchange changes which can impact the Group's cash flows, financial result and equity.	> Reduction in volatility by use of financial instruments and designation for hedge-accounting purposes (foreign-currency transaction and translation risk) > Deployment of foreign currency forward transactions, foreign-currency options and currency swaps > Foreign-currency financing (EUR & USD)
Interest rate risk	Interest-rate risks result from changes in interest rates which can negatively impact the financial situation of Swisscom. Interest-rate fluctuations can impact the market value of certain financial assets, liabilities and hedging instruments.	> Active interest-rate risk management > Deployment of interest-rate swaps to reduce the volatility of planned cash flows
Credit risks from operating business activities and financial transactions	Through its operating business activities and derivative financial instruments and financial investments, Swisscom is exposed to the risk of default of a counterparty.	> Guideline establishing minimum requirements for counterparties > Designated counterparty limits > Employment of netting agreements foreseen under ISDA (International Swaps and Derivatives Association) > Use of collateral agreements
Liquidity risk	Prudent liquidity management involves the holding of adequate reserves of cash and cash equivalents, negotiable securities as well as the possibility of obtaining corresponding credits.	> Procedures and principles to ensure adequate liquidity > Two guaranteed bank credit lines each of CHF 1,000 million

Foreign exchange risks

As regards financial instruments, the currency risks and hedging contracts for foreign currencies as of 31 December 2016 and 2017 are to be analysed as follows:

	31.12.2017		31.12.2016	
In CHF million	EUR	USD	EUR	USD
Cash and cash equivalents	89	3	55	3
Trade receivables	7	3	8	10
Other financial assets	103	230	93	244
Financial liabilities	(2,377)	(144)	(2,161)	(148)
Trade payables	(71)	(80)	(66)	(68)
Net exposure at carrying amounts	**(2,249)**	**12**	**(2,071)**	**41**
Net exposure to forecasted cash flows in the next 12 months	1	(405)	89	(470)
Net exposure before hedges	**(2,248)**	**(393)**	**(1,982)**	**(429)**
Forward currency contracts	–	–	–	(4)
Foreign currency swaps	83	189	97	406
Currency swaps	819	–	752	–
Hedges	**902**	**189**	**849**	**402**
Net exposure	**(1,346)**	**(204)**	**(1,133)**	**(27)**

In addition, Swisscom has financial liabilities outstanding as of 31 December 2017 with an aggregate nominal value of EUR 1,330 million (CHF 1,555 million) (prior year: EUR 1,240 million; CHF 1,332 million) which were designated as net investments in foreign shareholdings for hedge-accounting purposes.

Foreign currency sensitivity analysis

The following sensitivity analysis shows the impact on the income statement should the EUR/CHF and USD/CHF exchange rates change in line with their implicit volatility over the next twelve months. This analysis assumes that all other variables, in particular the interest rate level, remain constant.

In CHF million	Income impact on balance sheet items	Hedges for balance sheet items	Planned cash flows	Hedges for planned cash flows
31.12.2017				
EUR volatility 6.25%	140	(56)	–	–
USD volatility of 7.78%	(1)	5	32	(20)
31.12.2016				
EUR volatility of 7.47%	155	(63)	(7)	–
USD volatility of 10.35%	(4)	7	49	(49)

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

The structure of interest-bearing financial instruments at nominal values is as follows:

In CHF million	31.12.2017	31.12.2016
Fixed interest-bearing financial liabilities	7,220	7,331
Variable interest-bearing financial liabilities	655	765
Total interest-bearing financial liabilities	**7,875**	**8,096**
Fixed interest-bearing financial assets	(127)	(117)
Variable interest-bearing financial assets	(603)	(489)
Total interest-bearing financial assets	**(730)**	**(606)**
Total interest-bearing financial assets and liabilities, net	**7,145**	**7,490**
Variable interest-bearing	52	276
Variable through interest rate swaps	1,244	1,177
Variable interest-bearing, net	**1,296**	**1,453**
Fixed interest-bearing	7,093	7,214
Variable through interest rate swaps	(1,244)	(1,177)
Fixed interest-bearing, net	**5,849**	**6,037**
Total interest-bearing financial assets and liabilities, net	**7,145**	**7,490**

Interest rate sensitivity analysis

A shift in interest rates by 100 basis points has no material impact on the income statement and equity as of 31 December 2016 and 2017.

Credit risks

Credit risks from financial transactions

The carrying values of cash and cash equivalents and other financial assets exposed to credit risk (excluding trade debtors) may be analysed as follows:

In CHF million	31.12.2017	31.12.2016
Cash and cash equivalents	525	329
Loans and receivables	201	274
Derivative financial instruments	100	41
Other assets valued at fair value	61	63
Total carrying amount of financial assets	**887**	**707**

The carrying amounts analysed by Standard & Poor's rating of the counterparties may be summarised as follows:

In CHF million	31.12.2017	31.12.2016
AAA	34	14
AA– to AA+	433	351
A– to A+	342	243
BBB– to BBB+	22	57
Without rating	56	42
Total	**887**	**707**

Financial risks from operating activities
Credit risks on trade receivables and other receivables arise from the Group's operating activities. Credit risks from other receivables are insignificant. The split of trade receivables by operating segment is as follows:

In CHF million	31.12.2017	31.12.2016
Trade receivables		
Residential Customers	956	1,020
Enterprise Customers	531	495
Wholesale	102	149
IT, Network & Infrastructure	43	82
Swisscom Switzerland	**1,632**	**1,746**
Fastweb	814	744
Other Operating Segments	136	118
Total trade receivables	**2,582**	**2,608**
Allowances for doubtful debts		
Residential Customers	(47)	(48)
Enterprise Customers	(3)	(3)
Wholesale	–	(1)
IT, Network & Infrastructure	(2)	(2)
Swisscom Switzerland	**(52)**	**(54)**
Fastweb	(131)	(116)
Other Operating Segments	(10)	(13)
Total allowances for doubtful debts	**(193)**	**(183)**
Trade receivables, net		
Total trade receivables, net	**2,389**	**2,425**

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

	31.12.2017		31.12.2016	
In CHF million	Gross amount	Allowances	Gross amount	Allowances
Not due	1,824	(4)	1,881	(7)
Past due up to 3 months	377	(18)	366	(3)
Past due 4 to 6 months	124	(17)	92	(7)
Past due 7 to 12 months	90	(24)	101	(25)
Past due over 1 year	167	(130)	168	(141)
Total	**2,582**	**(193)**	**2,608**	**(183)**

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

In CHF million	2017	2016
Balance at 1 January	**183**	**184**
Additions to allowances	93	95
Write-off of irrecoverable receivables subject to allowance	(90)	(92)
Release of unused allowances	(3)	(4)
Foreign currency translation adjustments	10	–
Balance at 31 December	**193**	**183**

Liquidity risk

Contractual maturities including estimated interest payable

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
31.12.2017						
Bank loans	760	830	80	80	328	342
Debenture bonds	6,137	6,575	1,497	67	1,836	3,175
Private placements	493	514	74	280	2	158
Finance lease liabilities	461	985	48	42	102	793
Other financial liabilities	375	375	235	109	28	3
Trade payables	1,753	1,753	1,718	23	12	–
Other payables	343	343	340	3	–	–
Derivative financial instruments	60	108	7	4	11	86
Total	**10,382**	**11,483**	**3,999**	**608**	**2,319**	**4,557**

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
31.12.2016						
Bank loans	753	826	207	73	367	179
Debenture bonds	6,140	6,658	731	1,533	1,248	3,146
Private placements	738	765	253	73	281	158
Finance lease liabilities	508	1,178	45	44	105	984
Other financial liabilities	294	294	4	261	3	26
Trade payables	1,597	1,597	1,576	10	11	–
Other payables	299	299	299	–	–	–
Derivative financial instruments	63	108	4	4	11	89
Total	**10,392**	**11,725**	**3,119**	**1,998**	**2,026**	**4,582**

Derivative financial instruments

In CHF million	Contract value 31.12.2017	Contract value 31.12.2016	Positive fair value 31.12.2017	Positive fair value 31.12.2016	Negative fair value 31.12.2017	Negative fair value 31.12.2016
Interest rate swaps in CHF	425	425	2	3	(3)	(2)
Currency swaps in EUR	819	752	97	29	–	–
Total fair value hedges	**1,244**	**1,177**	**99**	**32**	**(3)**	**(2)**
Currency swaps in USD	149	235	–	4	(2)	–
Total cash flow hedges	**149**	**235**	**–**	**4**	**(2)**	**–**
Interest rate swaps in CHF	200	200	–	–	(54)	(60)
Currency swaps in USD	210	335	1	5	(1)	(1)
Currency swaps in EUR	101	97	–	–	–	–
Forward currency contracts in USD	–	4	–	–	–	–
Total other derivative financial instruments	**511**	**636**	**1**	**5**	**(55)**	**(61)**
Total derivative financial instruments	**1,904**	**2,048**	**100**	**41**	**(60)**	**(63)**
Thereof current derivative financial instruments			1	9	(4)	(1)
Thereof non-current derivative financial instruments			99	32	(56)	(62)

Accounting policies

Derivative financial instruments

Derivative financial instruments are initially recorded at fair value and subsequently re-measured at fair value. The method of recording the fluctuations in fair value depends on the underlying transaction and the objective pursued by entering such transaction. On the date a derivative contract is entered into, management designates the purpose of the hedging relationship: hedge of the fair value of an asset or liability ("fair value hedge") or a hedge of future cash flows in the case of future transactions ("cash flow hedge"). Changes in the fair value of derivative financial instruments that were designated as hedging instruments for "fair value hedges" are recognised in the income statement. Changes in the fair value of derivative financial instruments that were designated as "cash flow hedges" are dealt with in other comprehensive income and recognised in the hedging reserve as part of equity. If a hedge of a future transaction subsequently results in the recording of a financial asset or financial liability, the amount included in equity is recognised in the income statement in the same period in which the financial asset or financial liability impacts the results. Otherwise, the amounts recorded in equity are recognised in the income statement as income or expense in the same period the cash flows of the intended or agreed future transaction occur. Changes in the fair value of derivative financial instruments that are not designated as hedging instruments are taken immediately to income.

Valuation categories and fair value of financial instruments

Estimation of fair values

Fair values are allocated to one of the following three hierarchical levels:

- **Level 1:** 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.

The fair value of publicly traded equity and debt instruments of Level 1 is based upon their -exchange quotations as of the balance-sheet date. The fair value of Level 2 financial assets and liabilities which are not quoted on exchanges are computed on the basis of future maturing payments discounted at market interest rates. Level 3 assets consist of investments in various investment funds and individual companies. The fair value is determined on the basis of a computational model. Interest-rate and currency swaps are discounted at market rates. Foreign-currency forward transactions and foreign-currency swaps are valued by reference to foreign exchange forward rates as of the balance sheet date.

Valuation categories and fair value of financial instruments

The carrying amounts and fair values of financial assets and financial liabilities are summarised in the following table. Not included therein are cash and cash equivalents, trade receivables and payables as well as miscellaneous receivables and liabilities whose carrying amount corresponds to a reasonable estimation of their fair value.

	31.12.2017			31.12.2016		
In CHF million	Carrying amount	Fair value	Level	Carrying amount	Fair value	Level
Other financial assets						
Term deposits	7	7	2	93	93	2
Certificates of deposit	145	162	2	152	168	2
Loans	49	49	2	29	29	2
Loans and receivables	**201**	**218**		**274**	**290**	
Equity instruments valued at fair value	10	10	1	15	15	1
Equity instruments valued at fair value	2	2	3	5	5	3
Equity instruments valued at cost	41	41	–	41	41	–
Available-for-sale	**53**	**53**		**61**	**61**	
Debt instruments held for trading	61	61	1	63	63	1
Derivative financial instruments	100	100	2	41	41	2
Fair value through profit or loss	**161**	**161**		**104**	**104**	
Total other financial assets	**415**	**432**		**439**	**455**	
Financial liabilities						
Bank loans	760	788	2	753	782	2
Debenture bonds	6,137	6,439	1	6,140	6,517	1
Private placements	493	504	2	738	758	2
Finance lease liabilities	461	879	2	508	1,049	2
Derivative financial instruments	60	60	2	63	63	2
Other financial liabilities	375	375	2	294	294	2
Total financial liabilities	**8,286**	**9,045**		**8,496**	**9,463**	

Financial assets amounting to CHF 145 million (prior year: CHF 152 million) are not freely available, as they serve as security for bank loans.

3 Operating assets and liabilities

The following section discloses information on the movement in net current assets as well as in material non-current tangible and intangible assets. In addition, it provides information as to the allocation of goodwill over the individual cash-generating units and on the results of any applicable impairment tests. Furthermore, movements in provisions, contingent liabilities and contingent assets are presented in this section.

3.1 Net current operating assets

Movements in operating assets and liabilities

In CHF million	31.12.2016	Operational changes	Other changes [1]	31.12.2017
Financial year 2017				
Trade receivables	2,425	(98)	62	2,389
Other operating assets	680	29	20	729
Trade payables	(1,597)	(85)	(71)	(1,753)
Other operating liabilities	(1,123)	(11)	(31)	(1,165)
Total operating assets and liabilities, net	**385**	**(165)**	**(20)**	**200**

[1] Foreign currency translation and adjustments from acquisition and sale of subsidiaries.

In CHF million	31.12.2015	Operational changes	Other changes [1]	31.12.2016
Financial year 2016				
Trade receivables	2,396	34	(5)	2,425
Other operating assets	631	53	(4)	680
Trade payables	(1,486)	(117)	6	(1,597)
Other operating liabilities	(1,171)	47	1	(1,123)
Total operating assets and liabilities, net	**370**	**17**	**(2)**	**385**

[1] Foreign currency translation and adjustments from acquisition and sale of subsidiaries.

As of 31 December 2017, the portion of other operating assets which will be consumed 12 months after the balance sheet date amounts to CHF 85 million (prior year: CHF 94 million) and that of other operating liabilities CHF 145 million (prior year: CHF 174 million).

Trade receivables

In CHF million	31.12.2017	31.12.2016
Billed revenue	2,389	2,401
Accrued revenue	193	207
Allowances	(193)	(183)
Total trade receivables [1]	**2,389**	**2,425**

[1] Credit risks. See Note 2.5.

Other operating assets

In CHF million	31.12.2017	31.12.2016
Accruals from international roaming traffic	35	45
Receivables from construction contracts	41	29
Receivables from collection activities	10	9
Other receivables	34	31
Allowances	(7)	(7)
Total other receivables	**113**	**107**
Inventories	**168**	**154**
Prepaid expenses	277	263
Advance payments made	74	51
Costs to fulfill a contract	69	67
Value-added taxes receivable	20	4
Other non-financial assets	8	34
Total other non-financial assets	**448**	**419**
Total other operating assets	**729**	**680**

Other operating liabilities

In CHF million	31.12.2017	31.12.2016
Accruals for variable performance-related bonus	157	143
Accruals from international roaming traffic	43	32
Liabilities from collection activities	16	18
Liabilities from construction contracts	8	14
Miscellaneous liabilities	119	92
Total other liabilities	**343**	**299**
Deferred revenue	460	440
Value-added taxes payable	91	94
Accruals for annual holiday, overtime	66	62
Advance payments received	19	30
Other non-financial liabilities	186	198
Total other non-financial liabilities	**822**	**824**
Total other operating liabilities	**1,165**	**1,123**

Deferred revenues mainly comprise deferred payments for prepaid cards and prepaid subscription fees.

Accounting policies

Operating assets and liabilities

Total operating assets and liabilities used in the normal course of business are disclosed as current items in the balance sheet.

Trade receivables

Trade and other receivables are measured at amortised cost less impairment losses. Impairment losses on trade receivables are recognised, depending on the nature of the underlying transaction, in the form of individual valuation allowances or portfolio-based general valuation allowances which cover the anticipated default risk. As regards portfolio-based general valuation allowances, financial assets are grouped together based on heterogeneous credit-risk attributes and reviewed collectively for impairment and whenever required, valuation allowances are recognised. In addition to contractually foreseen payment conditions, historical default rates are taken into consideration in determining the expected future cash flows from the portfolio. Valuation allowances for trade receivables are recognised as other operating expense.

3.2 Property, plant and equipment

In CHF million	Technical installations	Land, buildings and leasehold improvements [1]	Other assets	Advances made and assets under construction	Total
At cost					
Balance at 31 December 2015	**26,129**	**2,762**	**3,838**	**362**	**33,091**
Additions	1,423	7	242	197	1,869
Disposals	(550)	(30)	(141)	(1)	(722)
Adjustment to dismantlement and restoration costs	(47)	–	(2)	–	(49)
Reclassifications	108	5	82	(204)	(9)
Foreign currency translation adjustments	(40)	(1)	–	–	(41)
Balance at 31 December 2016	**27,023**	**2,743**	**4,019**	**354**	**34,139**
Additions	1,298	4	270	234	1,806
Disposals	(663)	(63)	(137)	–	(863)
Adjustment to dismantlement and restoration costs	36	–	13	–	49
Reclassifications	95	4	107	(226)	(20)
Foreign currency translation adjustments	386	8	1	2	397
Balance at 31 December 2017	**28,175**	**2,696**	**4,273**	**364**	**35,508**
Accumulated depreciation and impairment losses					
Balance at 31 December 2015	**(18,716)**	**(1,996)**	**(2,524)**	**–**	**(23,236)**
Depreciation	(1,103)	(37)	(308)	–	(1,448)
Disposals	550	13	136	–	699
Reclassifications	1	1	–	–	2
Foreign currency translation adjustments	21	–	–	–	21
Balance at 31 December 2016	**(19,247)**	**(2,019)**	**(2,696)**	**–**	**(23,962)**
Depreciation	(1,114)	(35)	(315)	–	(1,464)
Disposals	668	17	132	–	817
Reclassifications	21	–	(12)	–	9
Foreign currency translation adjustments	(208)	(3)	–	–	(211)
Balance at 31 December 2017	**(19,880)**	**(2,040)**	**(2,891)**	**–**	**(24,811)**
Net carrying amount					
Net carrying amount at 31 December 2017	**8,295**	**656**	**1,382**	**364**	**10,697**
Net carrying amount at 31 December 2016	**7,776**	**724**	**1,323**	**354**	**10,177**
Net carrying amount at 31 December 2015	**7,413**	**766**	**1,314**	**362**	**9,855**

[1] Buildings acquired under finance lease. See Note 2.2.

Commitments for future capital expenditures

Firm contractual commitments for future investments in property, plant and equipment as of 31 December 2017 aggregated CHF 857 million (prior year: CHF 741 million).

Non-cash investing and financing transactions

Additions to property, plant and equipment include additions from finance leases amounting to CHF 20 million (prior year: CHF 19 million). As a result of changes in the assumptions made in estimating the provisions for dismantlement and restoration costs, an increase of CHF 49 million (prior year: decrease of CHF 49 million) was recognised in property, plant and equipment with no impact on the income statement. See Note 3.5.

Material accounting judgements or estimation uncertainties

Management estimates the useful economic lives and residual values of technical facilities, real estate and other installations and equipment on the basis of the anticipated period over which economic benefits will accrue to the company from the use of the assets. Useful economic lives are reviewed annually on the basis of historical and forecast expectations concerning future technological developments, economic and legal changes as well as further external factors.

Accounting policies

Property, plant and equipment is recorded at acquisition or manufacturing cost less accumulated depreciation/amortisation and impairment losses. In addition to the purchase cost and the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, purchase or manufacturing cost also includes the estimated costs for dismantling and restoration of the site. External 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. Systematic depreciation/amortisation is calculated using the straight-line method except for land, which is not depreciated. The estimated useful lives for the main categories of property, plant and equipment are:

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

[1] Technical installations.

Whenever significant parts of an item of property, plant and equipment comprise individual components with differing useful lives, each component is depreciated/amortised separately. The process for determining useful estimated lives takes into account the anticipated use by the company, the expected wear and tear, technological developments as well as empirical values with comparable assets. 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 impact from changing useful economic lives and residual values are recorded on a prospective basis.

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

The carrying amount of an item of property, plant and equipment is de-recognised upon 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 recorded as other income or other operating expenses.

3.3 Goodwill

In CHF million	Residential Customers Swisscom Switzerland	Small and medium-sized enterprises Swisscom Switzerland [1]	Enterprise Customers Swisscom Switzerland	Fastweb	Other cash-generating units [2]	Total
At cost						
Balance at 31 December 2015	**2,620**	**656**	**907**	**1,916**	**445**	**6,544**
Foreign currency translation adjustments	–	–	–	(17)	(1)	(18)
Balance at 31 December 2016	**2,620**	**656**	**907**	**1,899**	**444**	**6,526**
Additions	–	–	–	2	–	2
Reclassifications	656	(656)	25	–	(25)	–
Foreign currency translation adjustments	1	–	–	169	3	173
Balance at 31 December 2017	**3,277**	**–**	**932**	**2,070**	**422**	**6,701**
Accumulated impairment losses						
Balance at 31 December 2015	**–**	**–**	**–**	**(1,383)**	**–**	**(1,383)**
Foreign currency translation adjustments	–	–	–	13	–	13
Balance at 31 December 2016	**–**	**–**	**–**	**(1,370)**	**–**	**(1,370)**
Impairment losses	–	–	–	–	(23)	(23)
Foreign currency translation adjustments	–	–	–	(122)	–	(122)
Balance at 31 December 2017	**–**	**–**	**–**	**(1,492)**	**(23)**	**(1,515)**
Net carrying amount						
Net carrying amount at 31 December 2017	**3,277**	**–**	**932**	**578**	**399**	**5,186**
Net carrying amount at 31 December 2016	**2,620**	**656**	**907**	**529**	**444**	**5,156**
Net carrying amount at 31 December 2015	**2,620**	**656**	**907**	**533**	**445**	**5,161**

[1] Telecom business with small and medium-sized enterprises in Switzerland.
[2] The cash-generating units include Wholesale Swisscom Switzerland, Swisscom Directories and Improve Digital.

Swisscom amended its organisational structure and dissolved the Small and Medium-Sized Enterprises Swisscom Switzerland segment and merged the Health division into the segment Enterprise Customers Swisscom Switzerland (see Note 1.1). The segment Small and Medium-Sized Enterprises Swisscom Switzerland consisted of the cash-generating units Telecommunications Business with small and medium-sized enterprises in Switzerland (SME telecommunications business) and Swisscom Directories. The SME telecommunications business was fully merged into the organisation and business processes of the Residential Customers Swisscom Switzerland unit. Accordingly, the previous goodwill amounting to CHF 656 million was transferred to the cash-generating unit Residential Clients Swisscom Switzerland. The goodwill of Swisscom Directories continues to be classified in the consolidated financial statements under other cash-generating units. In connection with the merger of Health division, goodwill amounting to CHF 25 million was transferred to the cash-generating unit Enterprise Customers Swisscom Switzerland.

Impairment testing

In the fourth quarter of 2017 and after completion of business planning, individual goodwill amounts were subjected to an impairment test. The recoverable amount of a cash-generating unit is determined based on its value in use, using the discounted cash flow (DCF) method. The projected free cash flows are estimated on the basis of the business plans approved by management. In general, the business plans cover a three-year period. A planning horizon of five years is used for the impairment test of Fastweb. For the free cash flows extending beyond the detailed planning period, a terminal value was computed by capitalising the normalised cash flows using an assumed long-term constant growth rate. The growth rates applied are those customarily assumed for the country or market. The discount rate is derived from the Capital Asset Pricing Model (CAPM). This latter comprises the weighted cost of own equity and external borrowing costs. For the risk-free interest rate underlying the discount rate, the yield from government bonds (abroad – Germany) with a duration of 10 years and a zero-interest rate is used, subject to a minimum interest rate of 1.5% (Switzerland) and 2.0% (abroad). In the prior year, a minimum interest rate of 2.5% (Switzerland) and 3.0% (abroad) was used. For cash-generating units abroad, a risk premium for the country risk is then added.

Discount rates and long-term growth rates

	2017			2016		
Cash-generating unit	WACC pre-tax	WACC post-tax	Long-term growth rate	WACC pre-tax	WACC post-tax	Long-term growth rate
Residential Customers Swisscom Switzerland	5.92%	4.64%	0%	6.66%	5.25%	0%
Enterprise Customers Swisscom Switzerland	5.88%	4.64%	0%	6.64%	5.25%	0%
SME telecommunication business Switzerland	–	–	–	6.66%	5.25%	0%
Fastweb	9.10%	7.02%	1.0%	9.63%	7.38%	1.0%
Other cash-generating units	5.88–14.38%	4.64–9.72%	0–1.5%	6.6–12.2%	5.3–9.5%	0–1.0%

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.

Results and sensitivity of impairment tests

Residential Customers and Enterprise Customers Swisscom Switzerland

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 believes none of the anticipated changes in key assumptions which can rationally be expected would cause the carrying amount of the cash-generating units to exceed the recoverable amount.

Fastweb

As of the date of the impairment test, no impairment of goodwill resulted. The recoverable amount exceeded the net carrying amount by EUR 332 million (CHF 386 million). In the prior year, the difference amounted to EUR 710 million (CHF 768 million). The following changes in material assumptions lead to a situation where the value in use equates to the net carrying amount:

	2017		2016	
	Assumptions	Sensitivity	Assumptions	Sensitivity
Average annual growth rate with the same EBITDA margin as in the business plan	5.2%	2.8%	6.3%	4.3%
Normalised EBITDA margin	33%	31%	34%	31%
Normalised capital expenditure rate	21%	23%	20%	23%
Post-tax discount rate	7.02%	7.71%	7.38%	8.84%
Long-term growth rate	1.0%	0.1%	1.0%	–0.8%

Material accounting judgements or estimation uncertainties

The allocation of goodwill to the cash-generating units as well as the computation of the recoverable amount is subject to Management's judgement. This comprises the estimation of future cash flows, the determination of the discounting factor and the rate of growth on the basis of historic data and forecast expectations.

Accounting policies

For the purposes of the impairment test, goodwill is allocated to the cash-generating units. The impairment test is performed annually on a mandatory basis. If there is any indication during the year that goodwill may be impaired, the cash-generating unit is tested for impairment at that time. An impairment loss is recognised if the recoverable amount of a cash-generating unit is lower than its carrying amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use.

3.4 Intangible assets

In CHF million	Purchased software	Internally generated software	Licenses	Brands and customer relations	Other intangible assets	Total
At cost						
Balance at 31 December 2015	**2,035**	**1,471**	**454**	**1,332**	**612**	**5,904**
Additions	187	138	–	–	247	572
Disposals	(75)	(202)	(3)	(12)	(51)	(343)
Reclassifications	31	71	–	–	(93)	9
Business combinations	–	–	–	22	–	22
Foreign currency translation adjustments	(12)	(1)	–	(10)	(1)	(24)
Balance at 31 December 2016	**2,166**	**1,477**	**451**	**1,332**	**714**	**6,140**
Additions	215	152	5	–	225	597
Disposals	(105)	(443)	(52)	(852)	(61)	(1,513)
Reclassifications	39	228	9	–	(256)	20
Business combinations	2	1	–	53	–	56
Sales of subsidiaries	(4)	–	–	–	–	(4)
Foreign currency translation adjustments	115	12	–	27	14	168
Balance at 31 December 2017	**2,428**	**1,427**	**413**	**560**	**636**	**5,464**
Accumulated amortisation and impairment losses						
Balance at 31 December 2015	**(1,586)**	**(970)**	**(143)**	**(1,120)**	**(224)**	**(4,043)**
Amortisation	(234)	(246)	(29)	(94)	(86)	(689)
Impairment losses	(2)	–	–	–	(6)	(8)
Disposals	75	200	3	12	45	335
Reclassifications	(1)	2	–	–	(3)	(2)
Foreign currency translation adjustments	10	1	–	10	2	23
Balance at 31 December 2016	**(1,738)**	**(1,013)**	**(169)**	**(1,192)**	**(272)**	**(4,384)**
Amortisation	(234)	(277)	(26)	(55)	(78)	(670)
Impairment losses	(2)	(5)	–	–	–	(7)
Disposals	105	442	52	852	46	1,497
Sales of subsidiaries	4	–	–	–	–	4
Reclassifications	9	(33)	(7)	–	22	(9)
Foreign currency translation adjustments	(93)	(9)	–	(26)	(9)	(137)
Balance at 31 December 2017	**(1,949)**	**(895)**	**(150)**	**(421)**	**(291)**	**(3,706)**
Net carrying amount						
Net carrying amount at 31 December 2017	**479**	**532**	**263**	**139**	**345**	**1,758**
Net carrying amount at 31 December 2016	**428**	**464**	**282**	**140**	**442**	**1,756**
Net carrying amount at 31 December 2015	**449**	**501**	**311**	**212**	**388**	**1,861**

As of 31 December 2017, other intangible assets included advance payments made and uncompleted development projects of CHF 171 million (prior year: CHF 215 million).

Commitments for future capital expenditures

As of 31 December 2017, firm contractual commitments for future investments in intangible assets aggregated CHF 84 million (prior year: CHF 104 million).

Material accounting judgements or estimation uncertainties

Management estimates the useful economic lives and residual values of intangible assets on the basis of the anticipated period over which economic benefits will accrue to the company from the use of the assets. Useful economic lives are reviewed annually on the basis of historical and forecast expectations concerning future technological developments, economic and legal changes as well as further external factors.

Accounting policies

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 market value as of the date of acquisition, less accumulated amortisation and impairment losses. Systematic amortisation of mobile phone licenses is based on the term of the contract. It begins as soon as the related network is operational, unless other information is at hand which would suggest the need to modify the useful lives. The impact from changing useful economic lives and residual values are recorded on a prospective basis. Systematic amortisation is computed on a straight-line basis over the following estimated useful economic lives:

Category	Years
Software internally generated and purchased	3 to 7
Brands and customer relationships	5 to 10
Licenses	2 to 16
Other intangible assets	3 to 10

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

3.5 Provisions, contingent liabilities and contingent assets

Provisions

In CHF million	Dismantlement and restoration costs	Regulatory and competition law proceedings	Termination benefits [1]	Other	Total
Balance at 31 December 2016	**542**	**150**	**79**	**191**	**962**
Additions to provisions	61	6	95	85	247
Present-value adjustments	8	–	–	(1)	7
Release of unused provisions	(8)	–	(34)	(36)	(78)
Use of provisions	(3)	–	(28)	(32)	(63)
Foreign currency translation adjustments	–	–	–	2	2
Balance at 31 December 2017	**600**	**156**	**112**	**209**	**1,077**
Thereof current provisions	–	–	98	79	177
Thereof non-current provisions	600	156	14	130	900

[1] See Note 4.1.

Provisions for dismantling and restoration costs

The provisions are computed by reference to estimates of future anticipated dismantling costs and are discounted using an average interest rate of 1.19% (prior year: 1.18%). The effect of using different interest rates amounted to CHF 1 million (prior year: CHF 47 million). The cost index used for computing the dismantling costs was amended resulting in an impact of CHF 55 million (prior year: CHF –103 million). In 2017, as a result of reassessments, adjustments totalling CHF 53 million (prior year: CHF 49 million) were recorded under property, plant and equipment, without impacting the income statement, and CHF 1 million (prior year: CHF 4 million) which was recognised in the income statement. The non-current portion of the provisions is expected to be settled after 2020. An increase of estimated costs by 10% would result in an increase of CHF 57 million in the amount of the provision. A shift in the timing of dismantling by a further ten years would lead to a reduction in the provision by CHF 76 million.

Provisions for regulatory and competition-law proceedings

In accordance with the revised Telecommunications Act, Swisscom provides access services (incl. interconnection) to other telecommunication service providers in Switzerland. In previous years, several telecommunication service providers demanded from the Federal Communications Commission (ComCom) a reduction in the prices charged to them by Swisscom. The determination of the prices for access services during 2013 to 2017 is still pending.

In 2009, the Competition Commission (Weko) levied a penalty totalling CHF 220 million on Swisscom for abuse of a market-dominant position in the case of ADSL services during the period through to the end of 2007. Swisscom has appealed against the ruling to the Federal Administrative Court. In September 2015, the Federal Administrative Court in principle upheld the Weko decision and reduced the penalty imposed on Swisscom by Weko from CHF 220 million to CHF 186 million. As a result of the decision, Swisscom recognised a provision of CHF 186 million in the third quarter of 2015. Swisscom does not consider the penalty to be justified and has lodged an appeal to the Federal Court. At the beginning of 2016, it paid the penalty of CHF 186 million as no suspensive effect was granted. In the event that a legally enforceable finding as to market abuse is reached, civil-law claims might be asserted against Swisscom.

On the basis of legal opinions, Swisscom has established provisions for regulatory and competition-law proceedings. Any applicable payments will depend upon the date on which legally-binding decrees and decisions are issued and could occur within five years.

Other provisions

Other provisions include provisions for environmental, contractual and non-income-related tax risks. Any applicable payments of the non-current portion of the provisions could likely occur within three years.

Contingent liabilities arising from competition-law proceedings

The Competition Commission (Weko) is conducting several proceedings against Swisscom. In the event that a legally enforceable finding of market abuse is reached, Weko can impose a penalty on Swisscom. In addition, claims under civil law might be asserted against Swisscom. In April 2013, Weko initiated an investigation against Swisscom pursuant to the Anti-Trust Law in the area of broadcasting live-sport events on pay TV. In May 2016, Weko decreed a penalty of CHF 72 million on Swisscom in these proceedings.

In November 2015, in its investigation as to the invitation to tender for the corporate network of the Swiss Post in 2008, Weko reached the conclusion that Swisscom has a market-dominant position on the market for broadband access for business clients. Because of this conduct judged to be unlawful under Competition Law, Weko ruled a penalty of CHF 8 million.

Swisscom has challenged the rulings of Weko concerning live sports broadcasts on pay TV as well as of the invitation to tender for the corporate network of the Swiss Post in the Federal Administrative Court as it considers that it has conducted itself in a lawful manner. Swisscom considers the levying of sanctions in the court of last appeal as improbable for which reason no provisions have been recognised in the consolidated financial statements as of and for the year ended 31 December 2017, as in the prior year. In view of the past proceedings conducted by Weko, further proceedings against Swisscom might be initiated.

Contingent assets from litigation

In 2015, the Italian competition authorities (AGCM) found TIM (formerly Telecom Italia) guilty of unlawful conduct as a market-dominant company and imposed a penalty of EUR 104 million. Related to the same matter, Fastweb has claimed damages from TIM and initiated legal action in connection therewith. In the fourth quarter of 2015, Fastweb and TIM reached an out-of-court settlement which encompassed the contested receivables of both parties due from each other. In the second quarter of 2017, TIM made a payment of EUR 95 million (CHF 102 million). For Fastweb, there exists no further uncertain receivable arising from the settlement to which conditions are attached. See Note 1.2.

Material accounting judgements or estimation uncertainties

The provisions for dismantling and restoration costs relate to the dismantling of telecommunication installations and transmitter stations as well as the restoration to its original state of land held by third party owners. The level of the provisions is determined to a significant degree by the estimation of future dismantling and restoration costs as well as the timing of the dismantling.
Provisions for pending litigation are measured on the basis of available information and an estimate of probable expected cash outflows. Depending on the outcome of these proceedings, claims may be made against the group which are not or not fully be covered by provisions or existing insurance. The provisions so established constitute the best possible estimate of the ultimate liability.
Possible liabilities whose occurrence as of the balance-sheet date cannot be assessed, or liabilities, the level of which cannot be reliably estimated, are disclosed as contingent liabilities.

Accounting policies

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

Provisions for dismantling and restoration costs

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

Provisions for termination benefits

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

4 Employees

Swisscom has over 20,000 employees, of which 17,700 are in Switzerland. In this section is to be found information about the employee headcount and personnel expense, the compensation paid to individuals in key positions, as well as retirement-benefit obligations.

4.1 Employee headcount and personnel expense

Employee headcount

In full-time equivalent	31.12.2017	31.12.2016	Change
Residential Customers	5,638	6,065	–7.0%
Enterprise Customers	4,605	4,651	–1.0%
Wholesale	88	88	0.0%
IT, Network & Infrastructure	4,826	5,072	–4.9%
Swisscom Switzerland	**15,157**	**15,876**	**–4.5%**
Fastweb	2,504	2,468	1.5%
Other Operating Segments	2,580	2,493	3.5%
Group Headquarters	265	290	–8.6%
Total headcount	**20,506**	**21,127**	**–2.9%**
Thereof Switzerland	17,688	18,372	–3.7%
Thereof foreign countries	2,818	2,755	2.3%
Average number of employees	20,836	21,453	–2.9%

Personnel expense

In CHF million	2017	2016
Salary and wage costs	2,214	2,268
Social security expenses	257	253
Expense of defined benefit plans [1]	375	338
Expense of defined contribution plans	10	9
Expense for share-based payments	2	3
Termination benefits	61	20
Other personnel expense	83	56
Total personnel expense	**3,002**	**2,947**
Thereof Switzerland	2,759	2,718
Thereof foreign countries	243	229

[1] See Note 4.3.

Termination benefits
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.
The net expense for personnel reduction plans amounts to CHF 61 million. This amount consists of newly established provisions of CHF 95 million, less the release of provisions no longer required of CHF 34 million. During 2016, Swisscom announced that the cost basis in Switzerland is to be reduced by CHF 60 million per annum until 2020. In view of the sustained market pressure in its core business, higher efficiency potential through digitalisation and the necessary time and means for developing new business in growth areas, such as the Cloud and security, Swisscom has raised this target for 2018 to 2020 to CHF 100 million per annum. Swisscom continues to achieve cost savings principally through a streamlining of work processes and an on-going reduction of job vacancies in declining business areas. The measures planned will result in the elimination of positions in Switzerland and in employees participating in the social plan.

4.2 Key management compensation

In CHF million	2017	2016
Current compensation	1.4	1.4
Share-based payments	0.7	0.7
Social security contributions	0.1	0.1
Total compensation to members of the Board of Directors	**2.2**	**2.2**
Current compensation	5.8	5.5
Share-based payments	0.9	1.0
Benefits paid following retirement from Group Executive Board	0.6	–
Pension contributions	0.9	1.1
Social security contributions	0.6	0.5
Total compensation to members of the Group Executive Board	**8.8**	**8.1**
Total compensation to members of the Board of Directors and of the Group Executive Board	**11.0**	**10.3**

Individuals in key positions of Swisscom are the members of the Group Executive Board and the Board of Directors of Swisscom Ltd. Compensation paid to members of the Board of Directors consists of basic emoluments plus functional allowances and meeting attendance fees. One third of the entire compensation of the Board of Directors (excluding meeting allowances) is paid in the form of equity shares. Compensation paid to the members of the Group Executive Board consists of a fixed basic salary component settled in cash, a variable performance-related portion settled in cash and shares, payments in kind and non-cash benefits as well as pension and social insurance benefits. 25% of the variable performance-related share of the members of the Group Executive Board is paid out in shares. The Group Executive Board members may elect to increase this share to 50%.
The disclosures required by the Swiss Ordinance against Excessive Compensation in Listed Companies (OaEC) are set out in the chapter containing the Remuneration Report. Shares in Swisscom Ltd held by the members of the Board of Directors and Group Executive Board are set out in the notes to the consolidated financial statements of Swisscom Ltd.

4.3 Post-employment benefits

Defined benefit plans

comPlan

The majority of employees in Switzerland is insured for the risks of old age, death and disability by the Swisscom retirement-benefit scheme. The retirement-benefit scheme is implemented through the medium of the comPlan pension plan which has the legal form of a foundation. The supreme governing body of the pension plan is the Foundation Council which is made up of an equal number of representatives of the employees and the employer. The pension-fund rules, together with the legal provisions concerning occupational pension plans, constitute the formal regulatory framework of the pension plan. Individual retirement-savings accounts are maintained for each beneficiary, to which are credited savings contributions varying with age as well as interest accruing. The rate of interest to be applied to the retirement-savings accounts is set each year by the Foundation Council, having regard to the financial situation of the pension fund. The amounts credited to the individual savings accounts are funded by savings contributions of the employer and employees. In addition, the employer pays risk contributions to fund death and disability benefits. The standard retirement age is 65. Employees are entitled to early retirement with a reduced old-age pension. The amount of the old-age pension results from multiplying the individual retirement-savings account by a conversion rate set out in the pension-fund rules. The retirement benefits can also be paid out, in full or in part, in the form of a capital payment. In case of early retirement, the employer finances additionally a OASI bridging pension until the standard retirement age. The amount of disability pensions is determined as a percentage of the insured salary and is independent of the number of service years.
The formal regulatory framework contains various provisions concerning risk sharing between the beneficiaries and the employer. In the event of a funding shortfall, computed in accordance with Swiss financial statement accounting principles (Swiss GAAP ARR), the Foundation Council lays down measures which lead to an elimination of the funding deficit and a restoration of a financial equilibrium within a timeframe of 5 to 7 years. The measures may consist of the levying of restructuring contributions, a lower level of interest or zero interest accruing on the accumulated employee savings, the lowering of benefits or in a combination of such measures. Should a structural funding shortfall exist as a result of insufficient current interest-induced funding, the top priority is to remedy this situation by adapting future benefits. The employer's restructuring contributions must, at a minimum, be equal to the sum of employee restructuring contributions. Under the formal regulatory framework, the employer has no

legal obligation to pay additional contributions to eliminate more than 50% of a funding shortfall. In the case of Swisscom, a de-facto obligation over and above the legal minimum obligation to pay additional or restructuring contributions derives from customary company-specific practice in the past. The upper limit of the employer's share of future benefit costs within the meaning of IAS 19.87(c) is assumed to be at the level of the de-facto obligation.
As a result of the low interest-rate level and increasing life expectancy, the Foundation Council decided in 2016 upon various measures to ensure a financial equilibrium. The core elements of the measures comprise a lowering of the conversion rate and an increase in recurring savings contributions of the employees and employer. In addition to this, special contributions are to be credited to the savings accounts of older beneficiaries over a maximum period of 5 years in order to cushion the impact of future pension reductions. Swisscom bears a share of the costs of the special contributions through an extraordinary payment of CHF 50 million in 2017. The remaining costs of an anticipated amount of approx. CHF 250 million will be financed by using freely available funds of comPlan. The various measures gave rise in 2016 to a past-service cost of CHF 3 million. This is based on a revaluation of the net pension-fund obligations using the market values of the plan assets valid as of the date of the pension-fund amendment and the current actuarial assumptions which take into account the risk-sharing features. Ignoring the risk-sharing features, a negative past-service cost of CHF 546 million would have resulted in 2016 from the plan amendment.
In accordance with the Swiss accounting standards relevant for the pension fund (Swiss GAAP ARR), the funding surplus at 31 December 2017 amounts to CHF 0.8 billion with a coverage ratio of around 108% (prior year: 101%). The main reasons for the difference compared with IFRS are the use of a higher discount rate as well as a different actuarial measurement method with a deferred recognition of the costs of future retirement-benefit benefits.

Other pension plans

Other pension plans exist for individual Swiss subsidiary companies which are not affiliated to comPlan and for Fastweb. Employees of the Italian subsidiary Fastweb have acquired entitlements to future pension benefits up to the end of 2006 which are recorded in the balance sheet as defined-benefit obligations.

Pension cost from defined-benefit pension plans

In CHF million	comPlan	Other plans	2017	comPlan	Other plans	2016
Current service cost	368	2	370	322	8	330
Plan amendments	–	–	–	3	–	3
Administration expense	4	1	5	4	1	5
Total recognised in personnel expense	**372**	**3**	**375**	**329**	**9**	**338**
Interest expense on net defined benefit obligations	11	–	11	25	–	25
Total recognised in financial expense	**11**	**–**	**11**	**25**	**–**	**25**
Total expense of defined benefit plans recognised in income statement	**383**	**3**	**386**	**354**	**9**	**363**

In CHF million	comPlan	Other plans	2017	comPlan	Other plans	2016
Actuarial gains and losses from						
Change of the demographical assumptions	(131)	–	(131)	102	–	102
Change of the financial assumptions	(72)	–	(72)	(280)	2	(278)
Experience adjustments to defined benefit obligations	(17)	–	(17)	36	(3)	33
Change in share of employee contribution (risk sharing) [1]	246	–	246	(711)	–	(711)
Return on plan assets excluding the part recognised in financial result	(879)	3	(876)	(308)	–	(308)
Expense (income) of defined benefit plans recognised in other comprehensive income	**(853)**	**3**	**(850)**	**(1,161)**	**(1)**	**(1,162)**

[1] The reason behind the decrease in the share of employee contribution of CHF 246 million is the reduction in the structural funding shortfall, which is mainly attributable to the positive result on plan assets.

In 2016, the impact of the initial application of risk-sharing features in the financial assumptions totalled CHF 856 million, of which CHF 711 million is attributable to the limit on the employer share and CHF 145 million to required amendments of future benefits.

Status of pension plans

In CHF million	comPlan	Other plans	2017	comPlan	Other plans	2016
Defined benefit obligations						
Balance at 1 January	**11,635**	**105**	**11,740**	**12,183**	**117**	**12,300**
Current service cost	368	2	370	322	8	330
Interest cost on defined benefit obligations	78	–	78	113	1	114
Employee contributions	186	–	186	178	2	180
Benefits paid	(471)	(1)	(472)	(325)	(9)	(334)
Actuarial losses (gains)	26	–	26	(853)	(1)	(854)
Business combinations	–	1	1	–	1	1
Plan amendments	–	–	–	3	–	3
Transfer of pension plans to comPlan	72	(72)	–	14	(14)	–
Balance at 31 December	**11,894**	**35**	**11,929**	**11,635**	**105**	**11,740**
Plan assets						
Balance at 1 January	**9,826**	**64**	**9,890**	**9,307**	**74**	**9,381**
Interest income on plan assets	67	–	67	88	1	89
Employer contributions	335	3	338	268	3	271
Employee contributions	186	–	186	178	2	180
Benefits paid	(471)	–	(471)	(325)	(9)	(334)
Return (expense) on plan assets excluding the part recognised in financial result	879	(3)	876	308	–	308
Administration expense	(4)	(1)	(5)	(4)	(1)	(5)
Transfer of pension plans to comPlan	46	(46)	–	6	(6)	–
Balance at 31 December	**10,864**	**17**	**10,881**	**9,826**	**64**	**9,890**
Net defined benefit obligations						
Net defined benefit obligations recognised at 31 December	**1,030**	**18**	**1,048**	**1,809**	**41**	**1,850**

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

In CHF million	comPlan	Other plans	2017	comPlan	Other plans	2016
Balance at 1 January	**1,809**	**41**	**1,850**	**2,876**	**43**	**2,919**
Pension cost, net	383	3	386	354	9	363
Employer contributions and benefits paid	(335)	(4)	(339)	(268)	(3)	(271)
Business combinations	–	1	1	–	1	1
Expense (income) of defined benefit plans recognised in other comprehensive income	(853)	3	(850)	(1,161)	(1)	(1,162)
Transfer of pension plans to comPlan	26	(26)	–	8	(8)	–
Balance at 31 December	**1,030**	**18**	**1,048**	**1,809**	**41**	**1,850**

The weighted average duration of the net present value of the recorded defined-benefit obligations is 17 years (prior year: 18 years).

Breakdown of pension plan assets
comPlan

Category	Investment strategy	31.12.2017 Quoted	31.12.2017 Not quoted	31.12.2017 Total	31.12.2016 Quoted	31.12.2016 Not quoted	31.12.2016 Total
Government bonds Switzerland	8.0%	1.8%	3.5%	5.3%	2.3%	4.5%	6.8%
Corporate bonds Switzerland	6.0%	5.7%	0.0%	5.7%	6.0%	0.0%	6.0%
Government bonds developed markets, World	10.0%	7.4%	0.0%	7.4%	8.4%	0.0%	8.4%
Corporate bonds developed markets, World	9.0%	10.0%	0.0%	10.0%	9.2%	0.0%	9.2%
Government bonds emerging markets, World	7.0%	7.4%	0.0%	7.4%	7.2%	0.0%	7.2%
Private debt	6.0%	0.0%	6.2%	6.2%	0.0%	6.2%	6.2%
Third-party debt instruments	**46.0%**	**32.3%**	**9.7%**	**42.0%**	**33.1%**	**10.7%**	**43.8%**
Equity shares Switzerland	5.0%	5.5%	0.0%	5.5%	5.2%	0.0%	5.2%
Equity shares developed markets, World	12.0%	13.2%	0.0%	13.2%	13.3%	0.0%	13.3%
Equity shares emerging markets, World	8.0%	8.4%	0.0%	8.4%	8.4%	0.0%	8.4%
Equity instruments	**25.0%**	**27.1%**	**0.0%**	**27.1%**	**26.9%**	**0.0%**	**26.9%**
Real estate Switzerland	11.0%	7.1%	4.7%	11.8%	7.5%	4.6%	12.1%
Real estate World	6.0%	3.6%	2.5%	6.1%	3.7%	1.2%	4.9%
Real estate	**17.0%**	**10.7%**	**7.2%**	**17.9%**	**11.2%**	**5.8%**	**17.0%**
Commodities	4.0%	2.1%	2.0%	4.1%	1.9%	2.0%	3.9%
Private markets	7.0%	0.0%	8.3%	8.3%	0.0%	7.0%	7.0%
Cash and cash equivalents and other investments	1.0%	0.0%	0.6%	0.6%	0.0%	1.4%	1.4%
Cash and cash equivalents and alternative investments	**12.0%**	**2.1%**	**10.9%**	**13.0%**	**1.9%**	**10.4%**	**12.3%**
Total plan assets	**100.0%**	**72.2%**	**27.8%**	**100.0%**	**73.1%**	**26.9%**	**100.0%**

The Foundation Council determines the investment strategy and tactical bandwidths within the framework of the legal provisions. Within its terms of reference, the Investment Commission undertakes the asset allocation and is the central steering, coordination and monitoring body for the management of the pension-plan assets. The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance and thus of generating income on a long-term basis to meet all financial obligations. This is achieved through a broad diversification of risks over various investment categories, markets, currencies and industry segments in both developed and emerging markets. The interest rate duration of interest-bearing assets is 6.56 years (prior year: 5.52 years) and the average rating of these assets is A–. Within the overall portfolio, all foreign currency positions are hedged against the Swiss franc following a currency strategy to the extent necessary to meet a pre-determined ratio of 88% (CHF or CHF-hedged). The unquoted and therefore lesser liquid investments make up 27.8% of total plan assets. Following this investment strategy, comPlan anticipates a target value for the value fluctuation reserve of 17.8% (basis: 2018 financial year).

Additional information on plan assets
As of 31 December 2017, plan assets include Swisscom Ltd shares and bonds with a fair value of CHF 6 million (prior year: CHF 5 million). The effective return on plan assets in 2017 amounted to CHF 943 million (prior year: CHF 397 million).
In 2018, Swisscom expects to make payments to the pension funds for regulatory employee contributions totalling CHF 270 million.

Assumptions underlying actuarial computations

Assumptions	2017 comPlan	2017 Other plans	2016 comPlan	2016 Other plans
Discount rate at 31 December	0.69%	1.30%	0.64%	0.91%
Expected rate of salary increases	1.08%	–	1.08%	0.74%
Expected rate of pension increases	–	–	–	–
Interest on old age savings accounts	0.69%	–	0.64%	1.03%
Share of employee contribution to funding shortfall	40%	–	40%	–
Life expectancy at age of 65 – men (number of years)	22.10	22.10	22.26	22.26
Life expectancy at age of 65 – women (number of years)	23.90	23.90	24.32	24.32

The discount rate is based upon CHF-denominated corporate bonds with an AA rating of domestic and foreign issuers and listed on the Swiss Exchange SIX. The development of salaries corresponds to the historical average of recent years. No future growth in pensions is anticipated as comPlan has insufficient fluctuation reserves available. The interest rate used to compute interest accruing on the individual retirement savings is the discount rate. In 2017, life-expectancy assumptions are arrived at for the first time through a projection of future mortality improvements in accordance with the continuous mortality investigation model (CMI), based on the mortality improvements actually observed in Switzerland in the past. The computations are made with a future long-term mortality improvement rate of 1.75%. The first-time application of the CMI model gave rise to a reduction in net retirement-benefit obligations by CHF 100 million, which was recognised in other comprehensive income as a change in accounting estimate. In the previous year, BVG 2015 generation tables were used for the life-expectancy assumption.

The risk-sharing attributes contained in the formal regulatory framework relating to the handling of funding shortfalls were taken into account in the financial assumptions in two steps. As a first step, it is assumed that the Foundation Council will decide on a gradual lowering of future pensions by 5.4% (prior year: 5.6%) over a period of 10 years in order to close the interest-induced structural funding gap. This is based upon a forecast for the future conversion rate using a mixed rate for the mandatory and extra-mandatory portions. The conversion rate in the mandatory portion applies the current legal conversion rate. In the extra-mandatory portion, the conversion rate is computed with the discount rate of 0.69%. As a second step, the present value of the remaining funding gap between the regulatory contributions and the benefits amended in the first step are spread over the employer and the employees. The legal and de-facto obligation of the employer to pay additional contributions is unchanged and assumed to be limited to 60% of the funding gap. This is based on the legal and regulatory provisions concerning the elimination of funding shortfalls as well as the measures actually decided upon by the Foundation Council and the employer in the past. Assuming the limitation of the employer's share of the funding shortfall, this results in a reduction in defined-benefit obligations of CHF 465 million (prior year: CHF 711 million), which corresponds to the expected employee contribution. The effect of taking this into consideration for the first time was dealt with as a change in accounting estimate in 2016 and recognised in other comprehensive income. In 2017, the reduction of the employee contribution was recognised in other comprehensive income.

Sensitivity analysis comPlan

Sensitivity analysis 2017

In CHF million	Defined benefit obligations Increase Assumption	Defined benefit obligations Decrease Assumption	Current service cost [1] Increase Assumption	Current service cost [1] Decrease Assumption
Discount rate (change +/–0.5%)	(556)	650	(39)	47
Expected rate of salary increases (change +/–0.5%)	44	(41)	7	(7)
Expected rate of pension increases (change +0.5%; –0.0%)	536	–	29	–
Interest on old age savings accounts (change +/–0.5%)	21	(19)	8	(7)
Share of employee contribution to funding shortfall (change +/–10%)	(116)	116	–	–
Life expectancy at age of 65 (change +/–0.5 year)	126	(127)	5	(5)

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

Sensitivity analysis 2016

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

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

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

Material accounting judgements or estimation uncertainties

The determination of post-employment retirement benefit obligations requires an estimation of the future service periods, the development of future salaries and pensions as well as interest accruing on the accumulated employee savings accounts, the timing of contractual pension benefit payments and the employees' share of the funding shortfall. This evaluation is made on the basis of prior experience and anticipated future trends. Anticipated future payments are discounted with the yields of Swiss-franc-denominated corporate bonds of domestic and foreign issuers and quoted on the Swiss Exchange with a AA rating. The discount rates match the anticipated payment maturities of the liabilities.

Accounting policies

Actuarial computations of the pension expense and related defined-benefit obligations are undertaken using the projected unit credit method. Current service costs, past service costs arising from pension-plan amendments and plan settlements as well as administrative costs are reported in the income statement under personnel expense and interest accruing on net obligations as finance expense. Actuarial gains and losses and the return on plan assets, except for amounts reflected in net interest income, are reported under other comprehensive income. The assumptions regarding net future benefits are set out in the formal set of regulations governing the pension plan in compliance with legal provisions. As regards the Swiss pension plans, the relevant formal regulations comprise the rules of the pension fund as well as the relevant laws, ordinances and directives concerning occupational benefit plans, in particular the provisions contained therein concerning funding and measures to be taken to eliminate funding shortfalls. From 2016 onwards, risk-sharing features are taken into account in defining financial assumptions in the formal regulatory framework which limits the employer's share of the costs of future benefits as well as imposing obligations on employees, where applicable, to make additional contributions to eliminate funding deficits.
Should the level of committed long-term disability benefits (disability pensions), irrespective of the number of service years, be the same for all insured employees, the costs for these benefits are recognised on the date on which the event causing the disability occurs.

5 Scope of consolidation

The following section sets out details of the Group structure of Swisscom as well as note disclosures concerning subsidiary companies, joint ventures and associated companies. In addition, material changes in Group structure are discussed, together with their impact on the consolidated financial statements.

5.1 Group structure

Swisscom Ltd is the parent company of the Group and holds principally direct majority shareholdings in Swisscom (Switzerland) Ltd, Swisscom Broadcast Ltd and Swisscom Directories Ltd. Fastweb S.p.A. (Fastweb) is held indirectly via Swisscom (Switzerland) Ltd as well as an intermediate company in Italy. Swisscom Re Ltd in Liechtenstein is the Group's in-house reinsurance company.
Swisscom holds a 69% shareholding in Swisscom Directories Ltd, the remaining shares being held by Tamedia. Swisscom has granted Tamedia a put option, and Tamedia has granted Swisscom a call option for Tamedia's 31% shareholding. The put and call options may be exercised as from mid-2018, respectively. As of 31 December 2017, the fair value of the put option amounts to CHF 231 million (prior year: CHF 233 million), which has been recognised in the consolidated financial statements of Swisscom Ltd under other financial liabilities. See Note 2.2.

5.2 Material changes in scope of consolidation

Net cash flows from the acquisition and disposal of participations may be analysed as follows:

In CHF million	2017	2016
Expenses for business combinations net of cash and cash equivalents acquired	(44)	(6)
Expenses for deferred consideration arising on business combinations	(19)	(32)
Expenses for shareholdings accounted for using the equity method	(20)	(3)
Proceeds from sale of equity-accounted investees	76	88
Acquisition of non-controlling interests	(99)	(4)
Total cash flow from the purchase and sale of shareholdings, net	**(106)**	**43**

In order to accelerate the development of blockchain applications, Swisscom Ltd has established Swisscom Blockchain Ltd, of which Swisscom holds 70% of the capital as majority shareholder, the remaining 30% shares being owned by management.
In 2017, the Italian subsidiary Fastweb acquired the large corporate-client business of Tiscali for a purchase price of EUR 45 million (CHF 50 million). In November 2017, Swisscom acquired the remaining minority shares in Mila Ltd, of Sellbranch AB as well as of CT Cinetrade Ltd with its subsidiary companies Teleclub AG, Kitag Kino-Theater AG and of PlazaVista Entertainment AG. Furthermore, in 2017 Swisscom increased its shareholding in Swisscom Digital Technology SA from 51% to 75%.
In September 2017, Swisscom sold its shareholding in AWIN AG for a sales price of EUR 62 million (CHF 71 million). This sale resulted in a gain on disposal of CHF 1 million which was recognised in other financial income in the third quarter of 2017. In December 2016, Swisscom sold its shareholding in Metroweb S.p.A. for a sales price of EUR 80 million (CHF 86 million) resulting in a gain on disposal of CHF 41 million which was recognised in other financial income.

Accounting policies

Consolidation

Subsidiaries are all companies over which Swisscom Ltd has the effective ability of controlling their financial and business policies. Control is generally assumed where Swisscom Ltd directly or indirectly holds the majority of the voting rights or potential voting rights of the company. Companies acquired and sold are included in consolidation from the date on which they are acquired and deconsolidated from the date they are disposed of, respectively. Intercompany balances and transactions, income and expenses, shareholdings and dividends as well as unrealised gains and losses are fully eliminated. Non-controlling interests in subsidiary companies are reported in the consolidated balance sheet 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. Put options granted 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.
Shareholdings 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.

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

5.3 Equity-accounted investees

In CHF million	2017	2016
Balance at 1 January	**193**	**223**
Additions	26	11
Disposals	(76)	(41)
Dividends	(20)	(17)
Share of net results	17	26
Share of other comprehensive income	2	(7)
Foreign currency translation adjustments	10	(2)
Balance at 31 December	**152**	**193**

In 2017, an aggregate negative amount of CHF 11 million (prior year: CHF 3 million) was recognised as the attributable share of net results in equity-accounted investees. Included therein are impairment losses of CHF 28 million (prior year: CHF 29 million) on loans which are considered as net investments in equity-accounted investees.

Selected key performance indicators for equity-accounted investees

In CHF million	2017	2016
Income statement		
Net revenue	2,120	2,453
Operating expense	(2,065)	(2,371)
Operating income	55	82
Net income	**17**	**34**
Balance sheet at 31 December		
Current assets	942	1,178
Non-current assets	860	202
Current liabilities	(926)	(899)
Non-current liabilities	(485)	(113)
Equity	**391**	**368**

5.4 Group companies

Group companies in Switzerland

Registered name	Registered office	Share of capital and voting right in %	Currency	Share capital in million	Segment [4]
Switzerland					
Admeira Ltd [1,3]	Berne	33	CHF	0.3	OTH
Ad Unit Ltd. [2]	Zurich	69	CHF	0.1	OTH
BFM Business Fleet Management Ltd [1]	Ittigen	100	CHF	1.0	SCS
Billag Ltd [1]	Fribourg	100	CHF	0.1	OTH
cablex Ltd [2]	Berne	100	CHF	5.0	OTH
CT Cinetrade AG [1]	Zurich	100	CHF	0.5	SCS
Datasport Ltd [2]	Gerlafingen	100	CHF	0.2	SCS
finnova ltd bankware [2,3]	Lenzburg	9	CHF	0.5	SCS
Global IP Action Ltd [2]	Pfäffikon	75	CHF	0.2	OTH
kitag kino-theater Ltd [2]	Zurich	100	CHF	1.0	SCS
Medgate Ltd [2,3]	Basel	40	CHF	0.7	SCS
Medgate Technologies Ltd [2,3]	Zug	40	CHF	0.1	SCS
Mila AG [2]	Zurich	100	CHF	0.4	SCS
Mona Lisa Capital AG [2]	Ittigen	100	CHF	5.0	OTH
MyStrom Ltd [2]	Ittigen	52	CHF	0.1	OTH
PlazaVista Entertainment AG [2]	Zurich	100	CHF	0.1	SCS
SEC consult (Switzerland) Ltd [2,3]	Zurich	47	CHF	0.1	OTH
siroop Ltd [2,3]	Zurich	50	CHF	0.1	OTH
SmartLife Care Ltd [2]	Wangen	48	CHF	0.2	OTH
Swisscom Blockchain Ltd [2]	Zurich	70	CHF	0.1	SCS
Swisscom Broadcast Ltd [1]	Berne	100	CHF	25.0	OTH
Swisscom Digital Technology SA [1]	Geneva	75	CHF	0.1	SCS
Swisscom Directories Ltd [1]	Zurich	69	CHF	2.2	OTH
Swisscom eHealth Invest GmbH [2]	Ittigen	100	CHF	1.4	GHQ
Swisscom Energy Solutions Ltd [2]	Ittigen	52	CHF	13.3	OTH
Swisscom Event & Media Solutions Ltd [2]	Ittigen	100	CHF	0.1	OTH
Swisscom Health AG [2]	Ittigen	100	CHF	0.1	SCS
Swisscom Real Estate Ltd [1]	Ittigen	100	CHF	100.0	SCS
Swisscom IT Services Finance Custom Solutions Ltd [2]	Olten	100	CHF	0.1	SCS
Swisscom (Switzerland) Ltd [1]	Ittigen	100	CHF	1,000.0	SCS
Swisscom Services Ltd [2]	Ittigen	100	CHF	0.1	SCS
Swisscom Ventures Ltd [2]	Ittigen	100	CHF	2.0	GHQ
Teleclub AG [2]	Zurich	100	CHF	1.2	SCS
Teleclub Programm AG [2,3]	Zurich	33	CHF	0.6	SCS
VirtualAds AG [2]	Basel	83	CHF	1.1	OTH
Worklink AG [1]	Berne	100	CHF	0.5	GHQ

[1] Participation directly held by Swisscom Ltd.
[2] Participation indirectly held by Swisscom Ltd.
[3] Investment is accounted for using the equity method. Through its representation on the Board of Directors of the company, Swisscom can exercise a significant influence.
[4] SCS = Swisscom Switzerland, FWB = Fastweb, OTH = Other, GHQ = Group Headquarters (unallocated costs).

Group companies in other countries

Registered name	Registered office	Share of capital and voting right in %	Currency	Share capital in million	Segment [4]
Belgium					
Belgacom International Carrier Services Ltd [2,3]	Brussels	22	EUR	1.5	SCS
Germany					
Abavent GmbH [2]	Kempten	100	EUR	0.3	SCS
Mila Europe GmbH [2]	Berlin	100	EUR	–	SCS
Swisscom Telco GmbH [2]	Leipzig	100	EUR	–	GHQ
VirtualAds Services GmbH [2]	Leipzig	83	EUR	–	OTH
France					
local.fr SA [2]	Bourg-en-Bresse	100	EUR	0.9	OTH
SoftAtHome SA [2,3]	Colombes	10	EUR	6.5	SCS
Italy					
Fastweb S.p.A. [2]	Milan	100	EUR	41.3	FWB
Flash Fiber S.r.l. [2,3]	Milan	20	EUR	–	FWB
Swisscom Italia S.r.l. [2]	Milan	100	EUR	505.8	GHQ
Liechtenstein					
Swisscom Re Ltd [1]	Vaduz	100	CHF	5.0	GHQ
Luxembourg					
DTF GP S.A.R.L [2]	Luxembourg	100	EUR	–	OTH
Digital Transformation Fund Initial Limited Partner SCSp [2]	Luxembourg	100	CHF	–	OTH
Netherlands					
Improve Digital B.V. [2]	Amsterdam	100	EUR	–	OTH
NGT International B.V. [2]	Capelle a/d IJssel	100	EUR	–	OTH
Austria					
Swisscom IT Servics Finance SE [2]	Vienna	100	EUR	3.3	SCS
Sweden					
Sellbranch AB [2]	Stockholm	100	SEK	0.1	OTH
Singapore					
Swisscom IT Services Finance Pte Ltd [2]	Singapore	100	SGD	0.1	SCS
USA					
Swisscom Cloud Lab Ltd [2]	Delaware	100	USD	–	SCS

[1] Participation directly held by Swisscom Ltd.
[2] Participation indirectly held by Swisscom Ltd.
[3] Investment is accounted for using the equity method. Through its representation on the Board of Directors of the company, Swisscom can exercise a significant influence.
[4] SCS = Swisscom Switzerland, FWB = Fastweb, OTH = Other, GHQ = Group Headquarters (unallocated costs).

6 Other disclosures

This section sets out information which is not already disclosed in the other parts of the report. It includes, for instance, disclosures regarding income taxes and related parties.

6.1 Income taxes

Income tax expense

In CHF million	2017	2016
Current income tax expense	349	305
Adjustments recognised for current tax of prior periods	20	–
Deferred tax expense	23	81
Total income tax expense recognised in income statement	**392**	**386**
Thereof Switzerland	338	339
Thereof foreign countries	54	47

In addition, other comprehensive income includes current and deferred income taxes which may be analysed as follows:

In CHF million	2017	2016
Foreign currency translation adjustments of foreign subsidiaries	19	83
Actuarial gains and losses from defined benefit pension plans	171	238
Change in the fair value of available-for-sale financial investments	(1)	1
Gains and losses from cash flow hedges transferred to income statement	(1)	–
Total income tax expense recognised in other comprehensive income	**188**	**322**

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

Analysis of income taxes

The applicable income tax rate which serves to prepare the following analysis of income tax expense is the weighted average income tax rate calculated on the basis of the Group's operating subsidiaries in Switzerland. The applicable income-tax rate is 20.4% (prior year: 20.9%). The decrease in the applicable income tax rate is a consequence of lower cantonal tax rates.

In CHF million	2017	2016
Income before income taxes in Switzerland	1,724	1,817
Income before income taxes foreign countries	236	173
Income before income taxes	**1,960**	**1,990**
Applicable income tax rate	20.4%	20.9%
Income tax expense at the applicable income tax rate	**400**	**416**
Reconciliation to reported income tax expense		
Effect from result of shareholdings accounted for using the equity method	2	1
Effect of tax rate changes on deferred taxes	(12)	(2)
Effect of use of different income tax rates in Switzerland	2	(8)
Effect of use of different income tax rates in foreign countries	20	5
Effect of non-recognition of tax loss carry-forwards	11	6
Effect of recognition and offset of tax loss carry-forwards not recognised in prior years	(14)	(12)
Effect of exclusively tax-deductible expenses and income	(37)	(26)
Effect of non-taxable income and non-deductible expenses	–	6
Effect of income tax of prior periods	20	–
Total income tax expense	**392**	**386**
Effective income tax rate	20.0%	19.4%

Current income tax assets and liabilities

In CHF million	2017	2016
Current income tax liabilities at 1 January, net	**107**	**125**
Recognised in income statement	369	305
Recognised in other comprehensive income	16	5
Income taxes paid in Switzerland	(279)	(324)
Income taxes paid in foreign countries	(10)	(4)
Current income tax liabilities at 31 December, net	**203**	**107**
Thereof current income tax assets	(10)	(18)
Thereof current income tax liabilities	213	125
Thereof Switzerland	198	105
Thereof foreign countries	5	2

Deferred income tax assets and liabilities

In CHF million	31.12.2017 Assets	31.12.2017 Liabilities	31.12.2017 Net amount	31.12.2016 Assets	31.12.2016 Liabilities	31.12.2016 Net amount
Property, plant and equipment	34	(623)	(589)	36	(568)	(532)
Intangible assets	–	(309)	(309)	–	(326)	(326)
Provisions	102	(51)	51	78	(76)	2
Defined benefit obligations	186	–	186	359	–	359
Tax loss carry-forwards	90	–	90	118	–	118
Other	153	(110)	43	138	(99)	39
Total tax assets (tax liabilities)	**565**	**(1,093)**	**(528)**	**729**	**(1,069)**	**(340)**
Thereof deferred tax assets			197			281
Thereof deferred tax liabilities			(725)			(621)
Thereof Switzerland			(588)			(435)
Thereof foreign countries			60			95

Tax loss carry-forwards for which no deferred tax assets were recognised, expire as follows:

In CHF million	31.12.2017	31.12.2016
Expiring within 1 year	–	–
Expiring within 2 to 7 years	125	86
No expiration	39	27
Total unrecognised tax loss carry-forwards	**164**	**113**
Thereof Switzerland	114	72
Thereof foreign countries	50	41

Deferred tax liabilities of CHF 6 million (prior year: none) were recognised on the undistributed earnings of subsidiaries as of 31 December 2017. Temporary differences of subsidiaries and equity-accounted investees, on which no deferred income taxes are recognised as of 31 December 2017, amounted to CHF 1,117 million (prior year: CHF 1,390 million).

Accounting policies

Income taxes encompass all current and deferred taxes which are based on income. Taxes which are not based on income, such as taxes on real estate and on capital are recorded as other operating expenses. Deferred taxes are computed using the balance sheet liability method whereby deferred taxes are recognised in principle on all temporary differences. Temporary differences arise from differences between the carrying amount of a balance sheet position in the consolidated financial statements and its value as reported for tax purposes and which will reverse in future periods. Deferred tax assets are only recognised as assets to the extent that it is probable that they can be offset against future taxable income. Income tax liabilities on undistributed profits of Group companies are only recognised if the distribution of profits is to be made in the foreseeable future. Current and deferred tax assets and liabilities are netted whenever they relate to the same taxing authority and taxable entity.

6.2 Related parties

Majority shareholder and equity-accounted investees

Majority shareholder

Pursuant to the Swiss Federal Telecommunication Enterprises Act (TEA), the Swiss Confederation ("the Confederation") is obligated to hold a majority of the share capital and voting rights of Swisscom. On 31 December 2017, the Confederation, as majority shareholder, continued to hold 51% of the issued shares of Swisscom Ltd. Any reduction of the Confederation's holding below a majority shareholding would require a change in law which would need to be voted upon by the Swiss Parliament and would also be subject to a facultative referendum by Swiss voters. As the majority shareholder, the Swiss Confederation has the power to control the decisions of the annual general meetings of shareholders which are taken by the absolute majority of validly cast votes. This relates primarily to resolutions concerning dividend distributions and the election of the members of the Board of Directors. Swisscom supplies telecommunication services to and in addition, procures services from the Confederation. The Confederation comprises the various ministries and administrative bodies of the Confederation and the other companies controlled by the Confederation (primarily the Swiss Post, Swiss Federal Railways, RUAG as well as Skyguide). All transactions are conducted on the basis of normal customer/supplier relationships and on conditions applicable to unrelated third parties. In addition, financing transactions are entered into with the Swiss Post on normal commercial terms.

Equity-accounted investees

Services provided to/by equity-accounted investees are based upon market prices. Such participations are listed in Note 5.3.

Transactions and balances

In CHF million	Income	Expense	Receivables	Liabilities
Financial year 2017				
Confederation	247	127	269	163
Equity-accounted investees	77	88	20	3
Total 2017/Balance at 31 December 2017	**324**	**215**	**289**	**166**

In CHF million	Income	Expense	Receivables	Liabilities
Financial year 2016				
Confederation	233	131	164	233
Equity-accounted investees	36	146	11	6
Total 2016/Balance at 31 December 2016	**269**	**277**	**175**	**239**

Occupational pension schemes and compensation payable to individuals in key positions

Transactions between Swisscom and the various pension funds are detailed in Note 4.3. Compensation paid to individuals in key positions are disclosed in Note 4.2.

6.3 Other accounting policies

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. Assets and liabilities of subsidiaries and associates reporting in a different functional currency are translated at the exchange rates prevailing on the balance sheet date whereas the income statement and the cash flow statement are translated at average exchange rates. Translation differences arising from the translation of net assets and income statements are recorded in other comprehensive income.

Significant foreign-currency translation rates

	Closing rate			Average rate	
Currency	31.12.2017	31.12.2016	31.12.2015	2017	2016
1 EUR	1.170	1.074	1.084	1.113	1.090
1 USD	0.976	1.019	0.995	0.985	0.990

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

The following Standards and Interpretations published up to the end of 2017 are mandatory for accounting periods beginning on or after 1 January 2018:

Standard	Name	Effective from
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendements to IAS 28	Long-term investments in associates and joint ventures	1 January 2019
Amendements to IFRS 2	Classification and measurement of share-based payment transactions	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers and related clarifications to IFRS 15	1 January 2018
IFRS 16	Leases	1 January 2019
Various	Amendements to IFRS 2014–2016	1 January 2018
Various	Amendements to IFRS 2015–2017	1 January 2019

Swisscom will review its financial reporting for the impact of those new and amended standards which take effect on or after 1 January 2018 and for which Swisscom did not make voluntary early application. At present, Swisscom anticipates no material impact on consolidated financial reporting except for the amendments described in the following paragraphs.

IFRS 9 Financial Instruments

The Standard includes new rules to classify and measure financial assets and liabilities, the recognition of value impairments and the recording of hedging relationships. In certain cases, changes in classification will result from the new provisions and also in certain cases, the new provisions regarding value impairment will lead to the earlier recording of losses impacting income. Swisscom expects a pre-tax decrease in equity of some CHF 20 million from the conversion as of 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

In contrast to the provisions currently in force, the new standard provides for a single, principles-based, five-step model which is to be applied to all contracts with customers. In accordance with IFRS 15, the amount which is expected to be received from customers as consideration for the transfer of goods and services to the customer is to be recognised as revenue. As regards determining the date or period, it is no longer a question of the transfer of risks and opportunities but of the transfer of control over the goods and services to the customers. With regards to multi-component contracts, IFRS 15 explicitly rules that the transaction price is to be allocated to each distinct performance obligation in relation to the relative stand-alone selling prices. Furthermore, the new standard contains new rules regarding the costs of fulfilment and acquiring a contract as well as guidelines as to the question when such costs are to be capitalised. In addition, the new standard requires new, more detailed note disclosure information.

IFRS 15 will have the following material impact on the consolidated financial statements of Swisscom:

- **Revenues:** In the case of multi-component contracts (mobile-phone contract with a subsidised mobile handset), the revenue will be reallocated over the pre-delivered components (mobile handset) with the result that the revenue will be recognised earlier. The total revenue remains unchanged over the duration of the contract.
- **Contract costs:** Handset subsidies and commissions paid to dealers (contract acquisition costs) as well as costs of routers and set-top boxes (contract performance costs) are capitalised and expensed over the term of the contract.

Swisscom has elected to apply the modified retroactive approach for the initial adoption of IFRS 15. In accordance with this transitional method, Swisscom must apply IFRS 15 retroactively only for those contracts which have not been fulfilled as of 1 January 2018. The resultant impact of conversion will be recognised in equity as of 1 January 2018, thus having no effect on the income statement. The prior year's amounts will not be restated.
Swisscom anticipates a pre-tax increase in equity of some CHF 400 million as of 1 January 2018 resulting from conversion. This impact flows from the initial recognition of contractual assets and liabilities as well as accrued contract acquisition and contract performance costs. For financial year 2018, Swisscom estimates that from applying IFRS 15 net revenue will decrease by around CHF 10 million and direct costs will increase by around CHF 40 million. How IFRS 15 will impact future results will depend on future business models and products, the mix of distribution channels as well as future movements in volumes, prices and costs.

IFRS 16 Leases
For the lessee, IFRS 16 (effective from 1 January 2019) provides for a comprehensive model for dealing with lease arrangements in financial statements. The differentiation between finance and operating lease arrangements required until now under IAS 17 is thus dropped in future for the lessee. The lessee shall recognise leasing obligations in its balance sheet for all future lease payments to be made as well as recognising a right to use the underlying asset. For financial reporting purposes, the lessor shall continue to differentiate between finance and operating lease arrangements. In this regard, the accounting model foreseen under IFRS 16 does not materially differ from the previous provisions under IAS 17. Swisscom expects that the comprehensive modifications will have a material impact on the consolidated financial statements. However, a reliable estimate of the impact of applying IFRS 16 can only be made once a detailed analysis is completed.

Statutory Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Swisscom Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 94 to 144) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Revenue recognition

Capitalization of technical facilities and software

Fastweb goodwill

Provisions and contingent liabilities for regulatory and competition-law proceedings

Pension fund obligations comPlan

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Key Audit Matter

Swisscom's telecommunication business is characterized by a high volume of IT-based transactions. The contracts underlying these transactions often contain various elements that are recorded separately. The correct recognition of the identified contractual elements in the appropriate period and the accuracy of invoicing are highly dependent on IT systems.

Our response

We analyzed the process from the conclusion of a contract to the receipt of payment and assessed whether transactions are completely and accurately recorded in the general ledger. We identified key controls relating to revenue recognition and tested, on a sample basis, their operating effectiveness. We tested the operating effectiveness of IT controls of accounting-relevant systems, with the assistance of our IT specialists, to reflect the high degree of integration of service performance and recording by various IT systems.

In addition, we performed analytical procedures. Based on internal reports, we analyzed trends related to the most important key performance indicators per revenue segment and product category, and we critically assessed deviations from our expectations.

With respect to significant newly introduced products, we assessed whether the Group appropriately determined the point in time and amount of revenue to be recognized for the individual components.

For further information on revenue recognition refer to the following:

— Notes to the consolidated financial statements, No. 1.1 – Segment information

Capitalization of technical facilities and software

Key Audit Matter

Given the technological change in the telecommunication sector, investment in new technical facilities and software plays a strategic role in the development of Swisscom's business. In this regard, it is important that the costs capitalized in relation to acquired and self-developed technical facilities and software fulfil the IFRS criteria.

Our response

We tested whether Swisscom's capitalization guidelines comply with IFRS and whether the key controls over the compliance with these guidelines operated effectively.

Among others, using a statistical sampling procedure we assessed whether the capitalization of costs relating to a sample of technical facilities and software met the criteria and took place at the appropriate point in time.

Furthermore, in relation to the development of material new projects, we analyzed the amount and proper identification of hours of work rendered by Swisscom employees. We recalculated, on a sample basis, the hourly rates used by Swisscom based on actual personnel expenses and analyzed any variances.

On the basis of monthly budgets we also compared for significant projects the expected costs to be capitalized and those to be expensed with the actual amounts and critically assessed any deviations.

For further information on capitalization of technical facilities and software refer to the following:

- Notes to the consolidated financial statements, No. 3.2 – Property, plant and equipment
- Notes to the consolidated financial statements, No. 3.4 – Intangible assets

Fastweb goodwill

Key Audit Matter	Our response
At 31 December 2017 the goodwill related to the operating segment Fastweb amounted to CHF 578 million (2016: CHF 529 million). The annual impairment test on the Fastweb goodwill is significantly affected by management's judgements regarding the expected future cash flows, the discount rate (WACC) used and the expected growth.	In the course of our audit, we assessed whether an appropriate valuation method was used for the Fastweb goodwill impairment test, the calculation was coherent and management's assumptions were appropriate. In particular, we challenged the input data and assumptions related to the underlying cash flows and the expected growth rates, as based on written statements from local as well as Group management. In addition, we retrospectively assessed the accuracy of past business plans by a multi-year comparison of forecasted and actual amounts. We analyzed the individual parameters underlying the discount rate, with assistance from our valuation specialists, and compared them with the peer group. We evaluated the model used for the impairment test with respect to mathematical accuracy and methodological adequacy. We also considered the appropriateness of disclosures in relation to the impairment test and assessed whether the disclosed sensitivity analyses adequately reflect the risks embedded in the impairment test.

For further information on the Fastweb goodwill refer to the following:

- Notes to the consolidated financial statements, No. 3.3 – Goodwill

Provisions and contingent liabilities for regulatory and competition-law proceedings

Key Audit Matter

Swisscom provides regulated access services to other telecommunication service providers. The pricing of such services is the outcome of regulatory proceedings.

In addition, the Federal Competition Commission (WEKO) is conducting various proceedings against Swisscom.

In case of a final verdict establishing market abuse, civil law claims may also be brought against Swisscom.

The recognition of provisions or disclosure of contingent liabilities related to such proceedings requires management to apply significant judgment.

Our response

We tested the operating effectiveness of the controls implemented to identify, assess and recognize legal proceedings related to the regulatory and competition-law environment.

Specifically, we participated in the quarterly meetings where legal proceedings were addressed with the relevant departments, and we discussed and challenged the summaries of the legal proceedings prepared by Swisscom Group.

With the assistance of our legal specialists, we assessed the probability of cash outflows resulting from legal proceedings, the point in time for recognizing related provisions and the corresponding amount of such provisions or the disclosure of contingent liabilities. We additionally obtained and critically assessed written statements of Swisscom's external legal counsel for significant proceedings.

We furthermore tested the amount of the provisions and contingent liabilities by assessing whether the internal and external data was correctly fed into the calculations and whether the underlying assumptions were adequate.

We assessed whether the disclosures on contingent liabilities in the notes to the consolidated financial statements appropriately reflect the risks involved.

For further information on provisions and contingent liabilities for regulatory and competition-law proceedings refer to the following:

— Notes to the consolidated financial statements, No. 3.5 – Provisions, contingent liabilities and contingent assets

KPMG

Pension fund obligations comPlan

Key Audit Matter

Swisscom maintains several pension plans for its employees in Switzerland and Italy. The majority of Swisscom's employees in Switzerland are insured against the risks of old age, death and disability by the independent pension plan 'comPlan'. The defined benefit obligation resulting from this plan is calculated based on a number of financial and demographic assumptions. The most significant assumptions are the discount rate, expected rates of salary and pension increases, the interest rates on old age savings accounts, longevity and the expected development of the conversion rate. In accordance with Swiss regulations, Swisscom's assumptions also include the principle of risk sharing of the remaining IAS 19 deficit between employer and employee. The calculation of the employer's share of the deficit is based on, among other things, experience relating to measures implemented in the past to improve the pension plan's financial situation.

Management determines these assumptions, which involve judgement that has a significant impact on the amount of the pension obligation and cost recognised related to comPlan.

Our response

We assessed the completeness and accuracy of personnel data underlying the actuary's expert report by testing the operating effectiveness of internal controls and reconciled the data on a sample basis. We used our own specialists to challenge the actuarial calculation. We particularly audited the consistent application of the risk sharing methodology and the accounting impacts resulting from the underlying assumptions in the second year of the consideration of risk sharing features. In addition, we assessed the competence and independence of the actuary engaged by Swisscom.

Supported by our specialists, we analysed in detail the conformity with IAS 19 of the expected development of the conversion rate and the allocation of the remaining deficit between employer and employee. We critically assessed the expected development of the conversion rate and the determination of the employer's share of the remaining deficit based on Swisscom specific empirical information and assessments.

Furthermore, we challenged Management's other assumptions used in the calculation of the actuary mandated by Swisscom. In doing so, we examined the methodology used to define the parameters and the consistency with prior year and compared these parameters with the range of observable market information.

For further information on the pension obligation related to comPlan refer to the following:

— Notes to the consolidated financial statements, No. 4.3 – Post-employment benefits

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

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

Gümligen-Berne, 6 February 2018

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

Financial statements of Swisscom Ltd Income statement

In CHF million	2017	2016
Net revenue from the sale of goods and services	231	229
Other income	29	66
Total operating income	**260**	**295**
Personnel expense	(79)	(78)
Other operating expense	(92)	(92)
Total operating expenses	**(171)**	**(170)**
Operating income	**89**	**125**
Financial expense	(129)	(135)
Financial income	140	140
Income from participations	105	2,567
Income before taxes	**205**	**2,697**
Income tax expense	(8)	(15)
Net income	**197**	**2,682**

Balance sheet

In CHF million	Note	31.12.2017	31.12.2016
Assets			
Cash and cash equivalents		290	180
Current financial assets		–	86
Derivative financial instruments		4	9
Trade receivables	3.1	7	17
Other current receivables	3.1	2	7
Accrued dividends receivable from subsidiaries		–	2,500
Accrued income and deferred expense		110	100
Total current assets		**413**	**2,899**
Financial assets	3.1	6,045	4,967
Derivative financial instruments		73	29
Participations	2.2	7,973	7,884
Total non-current assets		**14,091**	**12,880**
Total assets		**14,504**	**15,779**
Liabilities and equity			
Current interest-bearing liabilities	3.2	2,211	1,868
Derivative financial instruments		5	6
Trade payables	3.2	8	5
Other current liabilities	3.2	39	48
Accrued expense and deferred income		70	84
Provisions		11	10
Total current liabilities		**2,344**	**2,021**
Non-current interest-bearing liabilities	3.2	6,782	7,403
Derivative financial instruments		52	84
Other non-current liabilities	3.2	2	4
Provisions		11	12
Total non-current liabilities		**6,847**	**7,503**
Total liabilities		**9,191**	**9,524**
Share capital		52	52
Legal capital reserves/capital surplus reserves		21	21
Voluntary retained earnings		5,240	6,183
Treasury shares	3.3	–	(1)
Total equity		**5,313**	**6,255**
Total liabilities and equity		**14,504**	**15,779**

Notes to the financial statements

1 General information

1.1 Name, legal form and domicile

- Swisscom Ltd, Ittigen (canton of Berne)
- Parent company of the Swisscom Group
- Swisscom Ltd is a limited-liability company established under a special statute pursuant to the Telecommunication Enterprises Act (TEA) (*German*: "Telekommunikationsunternehmungsgesetz") of 30 April 1997.
- Company identification number (UID) CHF-102.753.938

1.2 Share capital

As of 31 December 2017, the share capital comprised 51,801,943 registered shares of a par value of CHF 1 per share, as in the previous year.

1.3 Significant shareholders

As at 31 December 2017, the Swiss Confederation (Confederation), as majority shareholder, held 51% of the issued shares of Swisscom Ltd which is unchanged from the prior year. The Telecommunications Enterprises Act (TEA) provides that the Confederation shall hold the majority of the share capital and voting rights of Swisscom Ltd.

1.4 Number of full-time employees

The average number of employees of Swisscom Ltd during the financial year, expressed as full-time equivalents, exceeded 250, as in the prior year.

1.5 Approval and release of Annual Financial Statements

The Board of Directors of Swisscom Ltd approved the present Annual Financial Statements on 6 February 2018 for release. No material post-balance-sheet events occurred up to this date. The Annual Financial Statements are subject to approval by the shareholders of Swisscom Ltd in its Annual General Meeting to be held on 4 April 2018.

2 Summary of significant accounting policies

2.1 General

Significant financial statement reporting policies which are not prescribed by law are described below. The possibility to create and release hidden reserves for the purpose of ensuring the sustainable development of the company should be taken into account in this respect.

2.2 Participations and recording of dividend distributions by subsidiary companies

Participations are accounted for at acquisition cost less valuation allowances, as required. Dividend distributions from subsidiary companies are accrued in the financial statements of Swisscom Ltd provided that the annual general meetings of the subsidiary companies approve the payment of the dividend prior to the approval of the Annual Financial Statements of Swisscom Ltd by its Board of Directors.
A list of participations held directly or indirectly by Swisscom Ltd is included in Note 5.4 to the Consolidated Financial Statements.

2.3 Derivative financial instruments and hedging transactions (hedge accounting)

Derivative financial instruments which are deployed to hedge foreign currencies and interest rates, are measured at market price. Movements in market values are recorded in the income statement. Derivatives which meet the conditions for recognition as a hedging transaction, are measured using the same valuation principles as those which apply to the underlying transaction. Gains and losses arising from the underlying and hedging transactions are dealt with on a joint basis (collective valuation approach with regard to valuation units).

2.4 Treasury shares

At the time of acquisition, treasury shares are recorded at purchase cost as a deduction from shareholders' equity. In the event of a subsequent disposal, the resultant gain or loss is taken to income as financial income or financial loss, respectively.

3 Disclosures on balance sheet and income statement positions

3.1 Receivables and financial assets

In CHF million	31.12.2017	Thereof from participations	31.12.2016	Thereof from participations
Trade receivables	7	7	17	17
Other current receivables	2	1	7	5
Financial assets	6,045	5,934	4,967	4,855

3.2 Liabilities

Trade payables and other liabilities

In CHF million	31.12.2017	Thereof to participations	31.12.2016	Thereof to participations
Trade payables	8	4	5	1
Other current liabilities	39	11	48	10
Other non-current liabilities	2	–	4	–

Interest-bearing liabilities

In CHF million	31.12.2017	31.12.2016
Bank loans	736	721
Debenture bonds	6,106	6,101
Private placements	500	750
Interest-bearing liabilities to participations	1,556	1,676
Other interest-bearing liabilities to third parties	95	23
Total interest-bearing liabilities	**8,993**	**9,271**
Of which current interest-bearing liabilities	2,211	1,868
Of which non-current interest-bearing liabilities	6,782	7,403

Debenture bonds

		31.12.2017		31.12.2016
In CHF million or EUR million	Par value in currency	Nominal interest rate	Par value in currency	Nominal interest rate
Debenture bond in CHF 2007–2017	–	–	600	3.75
Debenture bond in CHF 2009–2018	1,385	3.25	1,425	3.25
Debenture bond in EUR 2013–2020	500	2.00	500	2.00
Debenture bond in EUR 2014–2021	500	1.88	500	1.88
Debenture bond in CHF 2010–2022	500	2.63	500	2.63
Debenture bond in CHF 2015–2023	250	0.25	250	0.25
Debenture bond in CHF 2012–2024	500	1.75	500	1.75
Debenture bond in EUR 2015–2025	500	1.75	500	1.75
Debenture bond in CHF 2014–2026	200	1.50	200	1.50
Debenture bond in CHF 2016–2027	200	0.38	200	0.38
Debenture bond in CHF 2017–2027	350	0.38	–	–
Debenture bond in CHF 2016–2028	200	0.38	200	0.38
Debenture bond in CHF 2014–2029	160	1.50	160	1.50
Debenture bond in CHF 2016–2032	300	0.13	300	0.13
Debenture bond in CHF 2017–2033	150	0.75	–	–
Debenture bond in CHF 2015–2035	150	1.00	150	1.00

3.3 Treasury shares

	Number	Average price in CHF	In CHF million
Balance at 31 December 2015	**–**	**–**	**–**
Purchases on the market	8,000	520	4
Allocated for share-based compensation	(6,486)	520	(3)
Balance at 31 December 2016	**1,514**	**520**	**1**
Purchases on the market	7,200	468	3
Allocated for share-based compensation	(8,090)	468	(4)
Balance at 31 December 2017	**624**	**468**	**–**

4 Further information

4.1 Collateral given to secure third-party liabilities

As of 31 December 2017, guarantee obligations exist for Group companies in favour of third parties totalling CHF 290 million (prior year: CHF 228 million).

4.2 Assets used to secure own commitments as well as assets subject to retention of title

As of 31 December 2017, financial assets totalling CHF 105 million (prior year: CHF 109 million) were not freely available. These assets serve to secure commitments arising from bank loans.

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

The following table discloses the number of unrestricted and restricted shares held by the members of the Board of Directors and Group Executive Board as well as parties related to them, as of 31 December 2016 and 2017:

Number	31.12.2017	31.12.2016
Hansueli Loosli	2,733	2,350
Roland Abt	205	88
Valérie Berset Bircher	213	96
Alain Carrupt	213	96
Frank Esser	478	332
Barbara Frei	784	648
Catherine Mühlemann	1,443	1,326
Theophil Schlatter	1,419	1,225
Renzo Simoni [1]	160	–
Hans Werder [2]	–	1,128
Total shares held by the members of the Board of Directors	**7,648**	**7,289**

[1] Elected to the Board of Directors as of 3 April 2017.
[2] Resigned from the Board of Directors as of 3 April 2017.

Number	31.12.2017	31.12.2016
Urs Schaeppi (CEO)	3,964	3,229
Mario Rossi	1,236	1,027
Hans C. Werner	1,068	897
Marc Werner	750	382
Urs Lehner [1]	115	–
Christian Petit [2]	–	1,337
Heinz Herren	1,586	1,333
Dirk Wierzbitzki	234	64
Total shares held by the members of the Group Executive Board	**8,953**	**8,269**

[1] Joined the Group Executive Board as of 21 June 2017.
[2] Resigned from the Group Executive Board as of 21 June 2017.

In 2017, 1,493 shares (CHF 0.7 million) were issued to the members of the Board of Directors and 2,121 shares (CHF 0.9 million) to the members of the Group Executive Board.
None of the individuals required to make notification holds voting shares exceeding 0.1% of the share capital.

Proposed appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 4 April 2018 that the available retained earnings of CHF 5,240 million as of 31 December 2017 be appropriated as follows:

In CHF million	31.12.2017
Appropriation of retained earnings	
Retained earnings from previous year	**6,182**
Ordinary dividend [1]	(1,140)
Balance carried forward from prior year	**5,042**
Net income for the year	197
Change in treasury shares	1
Retained earnings available to the Annual General Meeting	**5,240**
Ordinary dividend of CHF 22.00 per share on 51,801,319 shares [1]	(1,140)
Balance to be carried forward	**4,100**

[1] Excluding treasury shares.

In the event that the proposal is approved, a dividend per share will be paid to shareholders on 10 April 2018 as follows:

Per registered share	CHF
Ordinary dividend, gross	22.00
Less 35% withholding tax	(7.70)
Net dividend payable	**14.30**

Statutory Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Swisscom Ltd, which comprise the balance sheet as at 31 December 2017, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 152 to 157) for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Basis for Opinions

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Hanspeter Stocker
Licensed Audit Expert
Auditor in Charge

Daniel Haas
Licensed Audit Expert

Gümligen-Berne, 6 February 2018

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

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Glossary

Technical terms

4G/LTE (Long Term Evolution): 4G/LTE is the fourth generation of mobile technology. At present, LTE enables mobile broadband data speeds of up to 150 Mbps.

4G+/LTE Advanced: 4G+/LTE+ enables a theoretical bandwidth of up to 300 Mbps using the mobile phone network. To do so, it bundles 4G/LTE frequencies to achieve the required capacity. In the near future, theoretical bandwidths of up to 450 Mbps will be achieved through the further bundling of 4G/LTE frequencies.

5G: 5G is the next generation of mobile network technology. While no international definition of a 5G standard exists to date, tests are constantly being carried out around the world.

ADSL (Asymmetric Digital Subscriber Line): A broadband data transmission technology that uses the existing copper telephone cable for broadband access to the data network.

All IP: All IP means that all services such as television, the Internet or fixed-line telephony use the same IT network. Swisscom is switching all existing communications network to IP. This means that all IP services within Switzerland are provided via Swisscom's own network, ensuring a higher level of security and better availability than other online voice service providers.

Bandwidth: Bandwidth refers to the transmission capacity of a medium, also known as the data transmission rate. The higher the bandwidth, the more information units (bits) can be transmitted per unit of time (second). It is defined in bps, kbps or Mbps.

Bitstream Access: Bitstream Access denotes an upstream product for third-party providers in the telecommunication sector. It enables a telecommunications provider to make a data stream available to a specific end customer of a third-party provider. This enables the third-party provider to provide its services to a customer that it has not connected with its own physical network.

BPO (Business Process Outsourcing): BPO is a special form of outsourcing, of entire business processes.

Cloud: Cloud computing is an approach in which IT infrastructure such as computing capacity, data storage, and even finished software and platforms can be accessed dynamically and according to need via the Internet. The data centres, along with the resources and databases, are distributed via the cloud. The cloud is also synonymous for hardware that does not have a precise location.

Connectivity: Connectivity is the generic term used to denote IP services or the connection to the Internet and the ability to exchange data with any partner on the network.

Convergence: The term "convergence" is generally understood in the telecommunications sector to mean the interplay of mobile and fixed-line technologies or products that comprise both mobile and fixed-line services.

DSL (Digital Subscriber Line): DSL is the generic term for transmission technologies that use subscriber lines based entirely or partly on copper. Examples of DSL technologies: ADSL or VDSL.

EDGE (Enhanced Data Rates for GSM Evolution): EDGE is part of the second generation of mobile telephony and is a radio modulation technology used to enhance data transmission speeds in GSM mobile networks. EDGE enables data transfer rates of up to 256 kbps. EDGE is currently available to over 99% of the Swiss population.

FTTH (Fibre to the Home): FTTH refers to the end-to-end connection of homes and businesses using fibre-optic cables instead of traditional copper cables.

FTTS (Fibre to the Street)/FTTB (Fibre to the Building)/FTTC (Fibre to the Curb): FTTS, FTTB and FTTC with vectoring refer to innovative, hybrid broadband connection technologies (optical fibre and copper). Using these technologies, fibre-optic cables are laid as close as possible to the building, or up to the basement in the case of FTTB, while the existing copper cabling is used for the remaining section. VDSL2's upcoming evolution to G.fast will significantly increase bandwidths for FTTS and FTTB.

G.fast (pronounced "gee dot fast"): G.fast, the latest technology for copper lines, is capable of providing far more bandwidth than VDSL2. The use of G.fast for FTTS and FTTB is part of Swisscom's access strategy.

GPRS (General Packet Radio Service): GPRS is part of the second generation of mobile telephony and increases the transfer rates of GSM mobile networks. GPRS enables speeds of 30 to 40 kbps.

GSM (Global System for Mobile communications) network: GSM is a global digital mobile communication standard of the second mobile generation. In addition to voice and data transmission, it enables services such as SMS messages and phone calls to other countries and from abroad (international roaming).

Housing: Housing is defined as the placement and network connection of server infrastructure in a data centre.

HSPA (High Speed Packet Access): HSPA is an enhancement of the third generation of the UMTS mobile communications standard. Compared to UMTS, HSPA enables large volumes of data to be transmitted at faster speeds. HSPA enables far more customers to use the same radio cell simultaneously, and at a consistently high speed, than would be possible with UMTS. At locations where mobile Internet use is particularly concentrated, HSPA has been upgraded to HSPA+ (also referred to as HSPA Evolution). The maximum transmission speed currently delivered by this technology is 42 Mbps.

ICT (Information and Communication Technology): A term that became current in the 1980s, combining the terms "information technology" and "communication technology". It denotes the convergence of information technology (information and data processing and the related hardware) and communication technology (technically aided communications).

Inbound/Outbound (see Roaming)

IP (Internet Protocol): IP enables different types of services to be integrated on a single network. Typical applications are virtual private networks (VPN), telephony (Voice over IP) and fax (Fax over IP).

IPTV (Internet Protocol Television): IPTV refers to the digital broadcasting of broadband applications (for example, television programmes and films) over an IP network.

ISP (Internet Service Provider): An ISP is a provider of Internet-based services. Also referred to as an Internet provider. Services include Internet connection (using DSL, for example), hosting (registration and operation of Internet addresses, websites and web servers) and content provision.

LAN (Local Area Network): A LAN is a local network for interconnecting computers, usually based on Ethernet.

MVNO (Mobile Virtual Network Operator): MVNO denotes a business model for mobile communications. In this case, the corresponding business (the MVNO) has either a limited network infrastructure or no network infrastructure at all. It therefore accesses the infrastructure of other mobile communication providers.

Net Promoter Score (NPS): NPS is a key figure that gives an indication of customer satisfaction directly and willingness to recommend the service to other customers indirectly. As such, it is a tool used to determine customer satisfaction.

Network convergence: Network convergence is the dismantling and reorganisation of previously separated networks to form a large, convergent network – such as the Swisscom fixed-line and mobile network.

Optical fibre: Fibre-optic cables enable optical data transmission, unlike copper cables, which use electrical signals to transmit data.

OTT (Over the Top): OTT refers to content distributed by service providers over an existing network infrastructure that they do not themselves operate. OTT companies offer proprietary services on the basis of the infrastructures of other companies in order to reach a broad range of users quickly and cost-efficiently.

Petabyte: Unit of measurement for data size. 1 petabyte is equivalent to approximately 1,000 terabytes, 1,000,000 gigabytes or 1,000,000,000 megabytes.

PWLAN (Public Wireless Local Area Network): PWLAN denotes a wireless, local public network based on the IEEE 802.11 WiFi standard family. A PWLAN typically offers data transmission speeds of 5-10 Mbps.

Roaming: Roaming enables mobile network subscribers to use their mobile phones when travelling abroad. The mobile telephone of a subscriber outside Switzerland automatically selects the best-quality partner network. Information indicating the country and region where the mobile phone is located at any given time is sent immediately 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 near where the mobile phone is at that moment. The base station then forwards the signal to the mobile phone, and the call can be taken. Roaming works only if all countries involved operate on the same frequency bands. In Europe, all GSM networks use the same frequency bands. Other countries such as the USA or countries in South America use a different frequency range. Most mobile telephones today are triband or quadband and support 900 MHz and 1,800 MHz networks (which are most commonly used in Europe) as well as 850 MHz and 1,900 MHz networks.

Router: A router is a device for connecting or separating several computer networks. The router analyses incoming data packets according to their destination address, and either blocks them or forwards them accordingly (routing). Routers come in different forms, from large-scale network devices to small devices for the home.

Smart data: Primarily refers to the processing and understanding of large, complex and rapidly changing data volumes with the aim of creating added value.

Streaming: Denotes the transmission of audio and video signals via a network or the Internet without the need to store the data on the local device.

TDM (Time Division Multiplexing): Multiplexing is a method that allows the simultaneous transmission of multiple signals over a single communications medium (line, cable or radio link), for example, by means of classic telephony (using an ISDN or analogue line). Multiplexing methods are often combined to achieve even higher utilisation. The signals are multiplexed once the user data have been modulated on a carrier signal. At the receiver end the information signal is first demultiplexed and then demodulated.

Terabyte: Unit of measurement of data size. 1 terabyte is equivalent to approximately 1,000 gigabytes or 1,000,000 megabytes.

TIME: Acronym for Telecommunication, Information, Multimedia and Entertainment. It refers to the way in which these areas grow together in the course of digitisation.

Ultra-fast broadband: Ultra-fast broadband denotes broadband speeds of more than 50 Mbps – on both the fixed-line and mobile networks.

UMTS (Universal Mobile Telecommunications System): UMTS is an international third-generation mobile communications standard that combines mobile multimedia and voice services. A further development of GSM, UMTS complements GSM and Public Wireless LAN in Switzerland. Today the UMTS network covers around 99% of the Swiss population.

Unified Communications: An attempt used to integrate the wide variety of modern communication technologies. Different telecommunication services such as e-mail, unified messaging, telephony, mobile telephony, PDAs, instant messaging and presence functions are coordinated to improve the reachability of communication partners working on distributed projects.

Vectoring: Vectoring is a technology used in conjunction with VDSL2. It eliminates interference between pairs of copper lines, thereby achieving up to a twofold increase in bandwidth.

VDSL (Very High Speed Digital Subscriber Line): VDSL is currently the fastest DSL technology, allowing data transmission speeds of up to 100 Mbps. The current form of VDSL is called VDSL2.

VoIP (Voice over Internet Protocol): VoIP is used to set up telephone connections via the Internet.

VoLTE (Voice over LTE): LTE is, in effect, a pure data network. VoLTE enables phone calls to be made via the LTE data network.

WiFi Calling: WiFi Calling enables users to make calls via their mobile phone and the WLAN/WiFi network and thereby significantly improves mobile phone reception from inside buildings.

WLAN (Wireless Local Area Network): A wireless local area network (WLAN) connects several computers wirelessly to a central information system, printer or scanner.

Other terms

Bitstream access (BSA): Regulated bitstream access is a high-speed link that travels the last mile from the local exchange to the customer's home connection via a metallic pair cable. 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 such as fast Internet access.

ComCo (Competition Commission): ComCo enforces the Federal Cartel Act, the aim of which is to safeguard against the harmful economic or social impact of cartels and other constraints on competition in order to foster competition. ComCo combats harmful cartels and monitors market-dominant companies for signs of anti-competitive conduct. It is responsible for monitoring mergers and also provides opinions on official decrees that affect competition.

ComCom (Federal Communications Commission): ComCom is the decision-making authority for telecommunications. Its primary responsibilities include issuing concessions for use of the radio frequency spectrum as well as basic service licences. It also provides access (unbundling, interconnection, leased lines, etc.), approves national numbering plans and regulates the conditions governing number portability and freedom of choice of service provider.

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 (such as price) are known to the parties using the regulated services. There is legal provision for the affected providers to establish that the price has been correctly determined.

Ex-post: In an ex-post regulation approach, the parties must agree all possible aspects of the contractual content (primacy of negotiation). In the event of a dispute, the authorities decide only on the points on which the parties have been unable to agree (objection principle).

Federal Office of Communications (OFCOM): OFCOM deals with issues related to telecommunications and broadcasting (radio and television), and performs official and regulatory tasks in these areas. It prepares the groundwork for decisions by the Federal Council, the Federal Department for Environment, Transport, Energy and Communications (DETEC) and the Federal Communications Commission (ComCom).

FTE (full-time equivalent): Throughout this report, FTE is used to denote the number of full-time equivalent positions.

Full access: Full access in connection with unbundling means providing alternative telecommunications service providers with access to subscriber lines for the purpose of using the entire frequency spectrum of metallic pair cables.

Hubbing: Hubbing denotes the trading of telephone traffic with other telecommunication operators.

Interconnection: Interconnection means linking up the systems and services of two telecoms providers 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 telecoms provider to communicate with the subscribers of another provider. Under the terms of the Federal Telecommunications Act, market-dominant telecoms providers are required to allow their competitors interconnection at cost-based prices (LRIC, see below).

Last mile: Also referred to as the local loop, the last mile denotes the subscriber access line between the subscriber access point and the local exchange (access network, see above). In Switzerland, as in most other countries, access to the last mile is regulated (unbundling).

Unbundling: Unbundling of the last mile (Unbundling of the Local Loop, ULL) enables fixed-line-network competitors without their own access infrastructure to access customers directly at non-discriminatory conditions based on original cost. The prerequisite for ULL is the presence of a market-dominant provider. There are two types of unbundling: unbundling at the exchange (unbundling of the local loop/ULL or LLU, referred to as TAL in Switzerland), currently available at around 600 unbundled locations, and unbundling at the neighbourhood distribution cabinet (sub-loop unbundling, referred to as T-TAL in Switzerland), in which Swisscom's competitors have so far shown no interest.

Swisscom Group five-year review

In CHF million, except where indicated		2013	2014	2015	2016	2017
Net revenue and results						
Net revenue		11,434	11,703	11,678	11,643	11,662
Operating income before depreciation and amortisation (EBITDA)		4,302	4,413	4,098	4,293	4,295
EBITDA as % of net revenue	%	37.6	37.7	35.1	36.9	36.8
Operating income (EBIT)		2,258	2,322	2,012	2,148	2,131
Net income		1,695	1,706	1,362	1,604	1,568
Earnings per share	CHF	32.53	32.70	26.27	30.97	30.31
Balance sheet and cash flows						
Equity at end of year		6,002	5,486	5,242	6,522	7,645
Equity ratio at end of year	%	29.3	26.2	24.8	30.4	34.7
Cash flow from operating activities		3,931	3,565	3,702	3,722	4,091
Capital expenditure in property, plant and equipment and intangible assets		2,396	2,436	2,409	2,416	2,378
Net debt at end of period		7,812	8,120	8,042	7,846	7,447
Employees						
Full-time equivalent employees at end of year	number	20,108	21,125	21,637	21,127	20,506
Average number of full-time equivalent employees	number	19,746	20,433	21,546	21,543	20,836
Operational data at end of period						
Fixed telephony access lines in Switzerland	in thousand	2,879	2,778	2,629	2,367	2,047
Broadband access lines retail in Switzerland	in thousand	1,811	1,890	1,958	1,992	2,014
Mobile access lines in Switzerland	in thousand	6,407	6,540	6,625	6,612	6,637
Swisscom TV access lines in Switzerland	in thousand	1,000	1,165	1,331	1,418	1,467
Revenue generating units (RGU) Switzerland	in thousand	12,097	12,373	12,543	12,389	12,165
Unbundled fixed access lines in Switzerland	in thousand	256	180	128	128	107
Broadband access lines wholesale in Switzerland	in thousand	215	262	315	364	435
Broadband access lines in Italy	in thousand	1,942	2,072	2,201	2,355	2,451
Swisscom share						
Number of issued shares at end of period	in million of shares	51.802	51.802	51.802	51.802	51.802
Market capitalisation at end of year		24,394	27,067	26,056	23,627	26,859
Closing price at end of period	CHF	470.90	522.50	503.00	456.10	518.50
Closing price highest	CHF	474.00	587.50	580.50	528.50	527.00
Closing price lowest	CHF	390.20	467.50	471.10	426.80	429.80
Ordinary dividend per share	CHF	22.00	22.00	22.00	22.00	22.00 [1]
Ratio payout/earnings per share	%	67.63	67.27	83.75	71.04	72.59
Informations Switzerland						
Net revenue		9,358	9,586	9,764	9,665	9,476
Operating income before depreciation and amortisation (EBITDA)		3,685	3,788	3,461	3,572	3,451
Capital expenditure in property, plant and equipment and intangible assets		1,686	1,751	1,822	1,774	1,678
Full-time equivalent employees at end of year	number	17,362	18,272	18,965	18,372	17,688

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

Forward-looking statements

This Annual Report contains forward-looking statements. In this Annual Report, such forward-looking statements include, without limitation, statements relating to our financial condition, results of operations and business and certain of our strategic plans and objectives.

Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors which are beyond Swisscom's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom's and Fastweb's past and future filings and reports, including those filed with the U.S. Securities and Exchange Commission and in past and future filings, press releases, reports and other information posted on Swisscom Group Companies' websites.

Readers are cautioned not to put undue reliance on forward-looking statements, which speak only of the date of this communication.

Swisscom disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Publishing details

Key dates

- **7 February 2018**
  Publication of 2017 Annual Results and Annual Report
- **4 April 2018**
  Annual General Meeting in Fribourg
- **6 April 2018**
  Ex dividend date
- **10 April 2018**
  Dividend payment
- **2 May 2018**
  2018 First-Quarter Results
- **16 August 2018**
  2018 Second-Quarter Results
- **1 November 2018**
  2018 Third-Quarter Results
- **February 2019**
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