Management Commentary

Inspiring our customers with the best experiences.

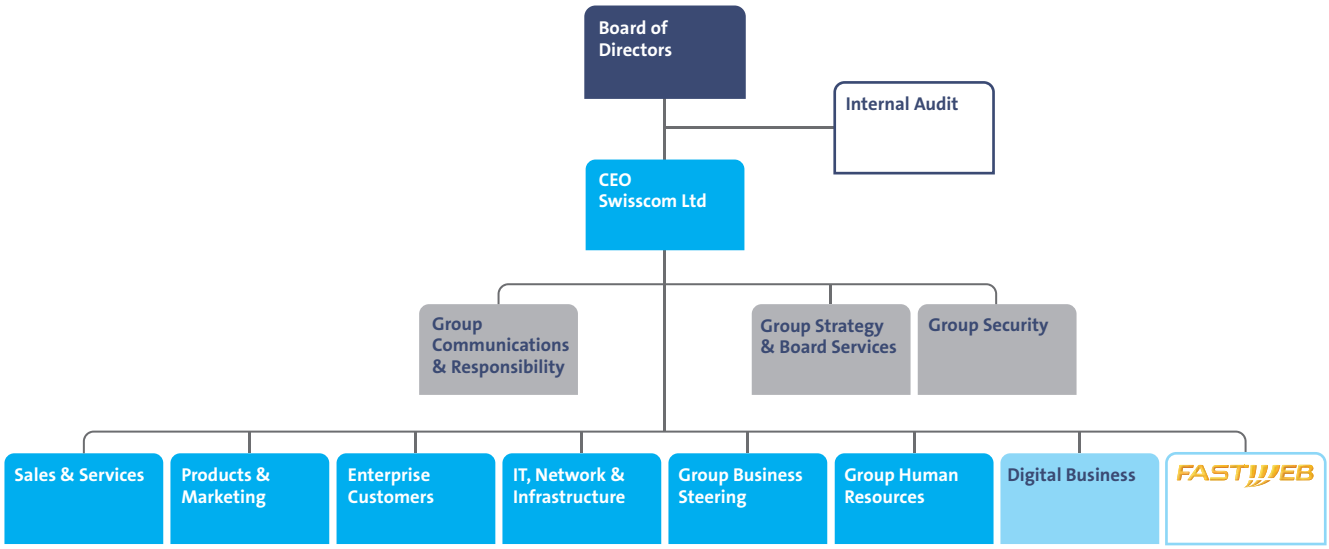
Strategy, organisation and environment

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

Group structure and organisation

Management structure

From 1 January 2016 onwards, Swisscom further increased the level of digitisation within its organisational structure in order to strengthen areas with close customer proximity and boost the company's effectiveness in the highly competitive ICT market. In doing so, the company has combined distribution and service for Residential Customers and Small and Medium-Sized Enterprises of Swisscom Switzerland in the Sales & Services unit as well as the digital business in the Digital Business unit. To exploit synergies and accommodate the increasing level of convergence, Swisscom is also combining product development and product provision for Residential Customers and SME into one. The focus placed on corporate business will remain of central importance, and the organisational structure of Enterprise Customers will be further simplified. Through these adjustments Swisscom wants to improve the customer experience from a single source, simplify processes and increase efficiency in order to create greater scope for innovation. The restructuring has resulted in changes in the Group Executive Board.
The Group organisation is based on the following management structure: The Board of Directors of Swisscom Ltd is responsible for overall management and for determining the Group's strategic, organisational and financial principles. It delegates day-to-day business management to the CEO of Swisscom Ltd. Together with the CEO, the heads of the Group divisions Group Business Steering (CFO) and Group Human Resources (CPO) as well as the heads of the Sales & Services, Products & Marketing, Enterprise Customers and IT, Network & Infrastructure of Swisscom Switzerland form the Group Executive Board. The Board of Directors of Italian subsidiary Fastweb is presided over by the CEO of Swisscom Ltd. The management of Fastweb has been transferred to the Delegate of the Board of Directors of Fastweb.



Group Executive Board

Group structure

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

Key changes to the Group structure in the year under review

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

Segment reporting

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

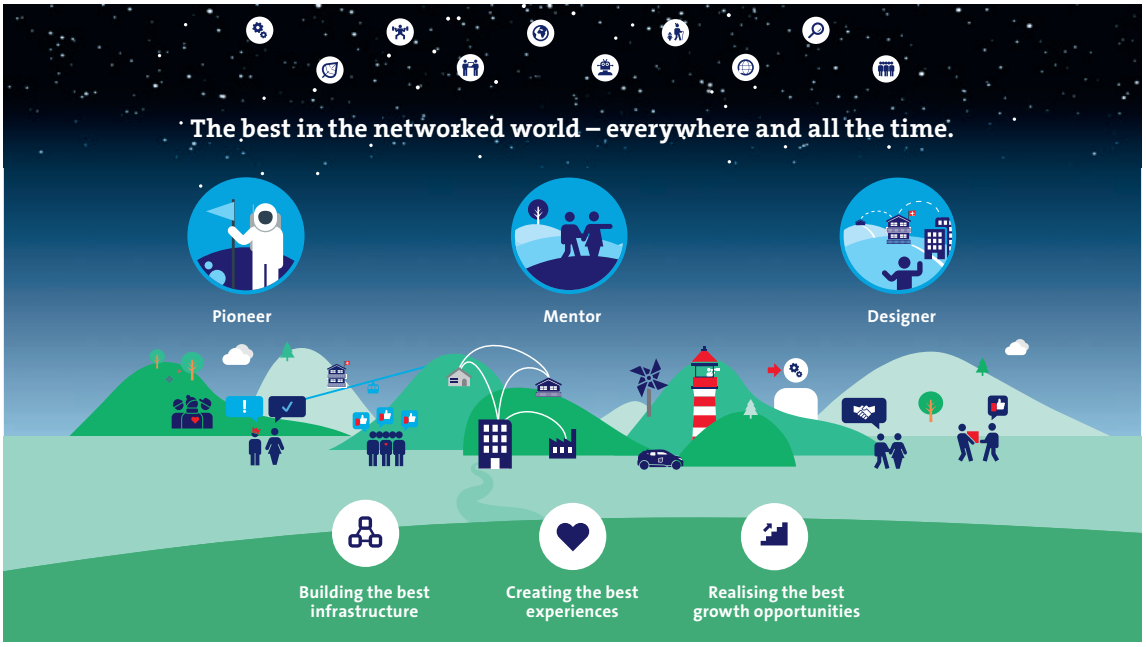
	Swisscom Switzerland[1]	Fastweb	Other Operating Segments[2]	Group Headquarters
Subsidiaries	> Swisscom (Switzerland) Ltd[3] > BFM Business Fleet Management Ltd > CT Cinetrade AG[4] > Datasport Ltd > Mila AG > Swisscom Digital Technology SA > Swisscom Health AG > Swisscom ITS Finance Custom Solutions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

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

Corporate strategy and objectives

Corporate strategy

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



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

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

Building the best infrastructure

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

Offering the best experiences

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

Realising the best growth opportunities

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

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

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

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

Forerunner in corporate responsibility

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

Energy efficiency and climate protection

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

Work and life

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

Media skills and security

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

Attractive employer

Swisscom wants to be one of the most attractive employers in Switzerland by 2020. It offers employees opportunities for personal development and promotes work-life balance. Fair terms and conditions of employment are as important to Swisscom as an active social partnership and an above-average commitment to vocational training. Swisscom employees also have the chance to get involved in social and community projects, for example, by participating in the Corporate Volunteering Programme.

Fair supply chain

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

Networked Switzerland

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

Swisscom's targets

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

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

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

Value-oriented business management

Key performance indicators for planning and managing the operating cash flows are operating income before depreciation and amortisation (EBITDA) and capital expenditure on property, plant and equipment and intangible assets. The enterprise value/EBITDA ratio is also used to compare Swisscom's enterprise value derived from the share price with that of comparable telecoms companies. The ratio is primarily driven by revenue and margins as well as the growth expectations of equity investors.
The remuneration system for Group Executive Board members contains a variable performance-related component, of which 25% is paid out in Swisscom shares subject to a three-year blocking period. Group Executive Board members may opt to receive up to 50% of the performance-related component in the form of shares. The variable performance-related component is based on factors including financial targets such as net revenue, EBITDA margin and operating free cash flow. The financial targets that determine the variable performance-related salary component and the Management Incentive Plan ensure that the interests of management are kept aligned with those of the shareholders.

Enterprise value

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

The sum of market capitalisation, net debt and non-controlling interests in subsidiaries is the enterprise value (EV). Non-controlling interests are stated at carrying amount. For the sake of simplicity, other non-operating assets and liabilities are not included. Swisscom's enterprise value decreased year-on-year by CHF 2.6 billion or 7.7% to CHF 31.5 billion, mainly as a result of lower market capitalisation. The ratio of enterprise value to EBITDA dropped to 7.3 (prior year: 8.3). The decline reflects the fact that EBITDA rose more sharply than the enterprise value compared with the previous year. EBITDA for 2015 was very adversely affected by provisions of CHF 186 million for legal proceedings. Excluding this one-off item in EBITDA, the ratio for the previous year was 8.0.
With a ratio of 7.3, Swisscom's relative market valuation is well above the average for comparable companies in Europe's telecoms sector. The higher ratio is supported by the solid market position Swisscom has achieved thanks to a high level of investment and an attractive dividend policy, as well as the general business conditions in Switzerland such as lower interest rates and lower corporate income tax rates as compared to other European countries.

General conditions

Macroeconomic environment

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

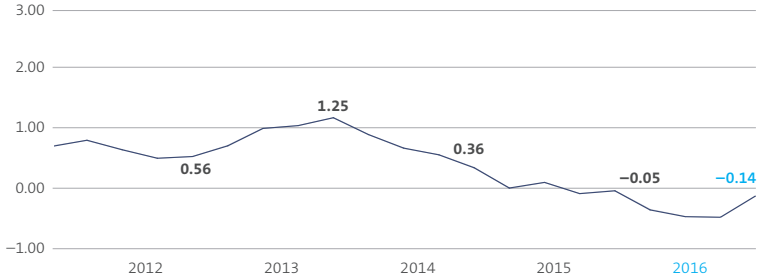
Economy

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

Interest rates

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

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

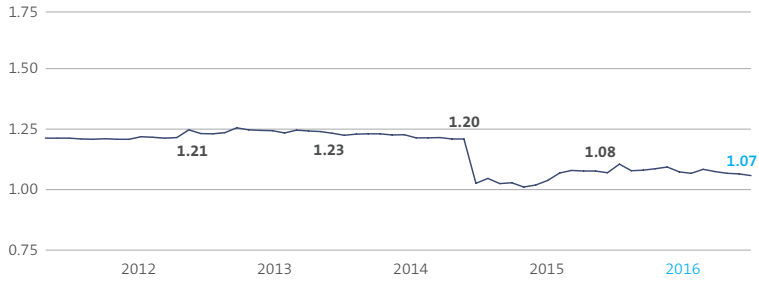


The level of interest rates has a direct impact on funding costs and also affects in the consolidated financial statement the valuation of various items in the balance sheet such as assets, long-term provisions and pension liabilities. Swisscom again took advantage of the ongoing period of negative interest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

Exchange rates

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

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



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

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

Capital market

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

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Legal and regulatory environment

Swisscom's legal framework

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

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

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

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

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

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Telecommunications Act (TCA)

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

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Competition law / Federal Cartel Act

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

Regulatory developments in Switzerland in 2016

Ongoing proceedings relating to telecommunications and competition legislation

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

Basic service provision from 2018 to 2023

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

Revision of the Telecommunications Act (TCA)

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

Regulatory differences between Switzerland and the European Union

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

Legal and regulatory environment in Italy

Fastweb's legal framework

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

Regulatory developments in Italy in 2016

AGCOM carried out public consultations in 2016 related to the approval of the reference offerings provided by Telecom Italia (TIM) for unbundling, bitstream, NGA (next-generation access) and WLR (wholesale line rental) services for the period from 2015 to 2016; the definitive resolutions are expected until the first half of 2017.

In 2016, AGCOM concluded its market analysis on fixed network and mobile network termination fees and set the maximum fee for termination of mobile services for the period from 2015 to 2017 and the fee for fixed network services for 2017 to 2019. The obligation regarding cost orientation and equal treatment was retained in both cases; however, the operators were given the opportunity to assert varying termination fees for calls made from outside EU member states based on the principle of reciprocity. Full-service MVNOs will in future also be subject to regulated termination fees.

Swisscom stakeholder groups

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

Customers

Swisscom systematically consults residential customers on their needs and their level of satisfaction. Customer relationship managers, for example, gather information on customer needs in the course of direct contact with customers. Representative customer satisfaction surveys are also regularly conducted, among other things to determine the extent to which customers perceive Swisscom as an environmentally responsible, socially aware company.

Quarterly surveys are conducted among business customers, which include questions on sustainability. Swisscom also maintains regular contact with consumer organisations in all language regions of Switzerland and runs blogs as well as online discussion platforms. The overall findings show that customers expect good service, attractive pricing, market transparency, responsible marketing, comprehensive network coverage, network stability, low-radiation communication technologies and sustainable products and services.

Shareholders and external investors

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

Authorities / residents

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

Network expansion gives rise to tension because of the different interests at stake. Swisscom has been engaged in dialogue with municipal authorities and residents on network planning for many years. In the case of construction projects, it gives the parties affected an opportunity to suggest suitable alternative locations. Swisscom also liaises regularly with public authorities in other areas and on other occasions: for example, it invites the ICT heads of the cantonal education authorities to an annual two-day seminar on the subject of "Internet for Schools". As a stakeholder group, public authorities expect Swisscom to act decisively in the way it recognises its responsibility towards the public at large and towards young people in particular.

Legislators

Swisscom is required to deal with political and regulatory issues, maintaining a regular dialogue with authorities, parties and associations. Swisscom makes constructive contributions to relevant legislative processes.

Suppliers

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

Media

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

Employees and employee representation

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

Partners and NGOs

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

Public

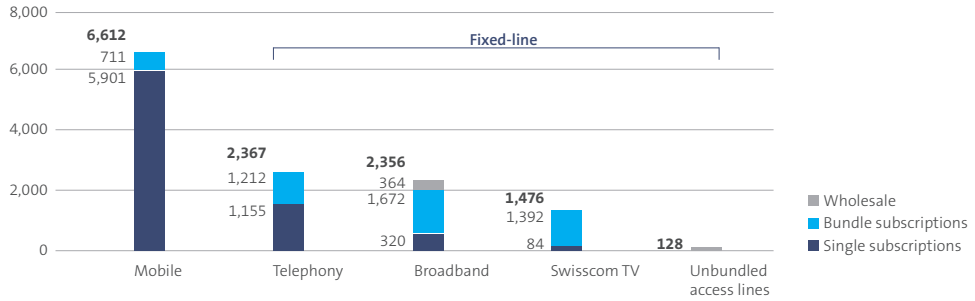
Swisscom maintains contact with the public through trade fairs and events, over social media, as well as directly via the Swisscom website, through surveys of the public and, as in 2016, through the Energy Challenge. The Energy Challenge is a campaign launched by the Swiss Federal Office of Energy in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

Market trends in telecoms and IT services

Swiss telecommunications market

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

Swisscom Switzerland access lines in thousand



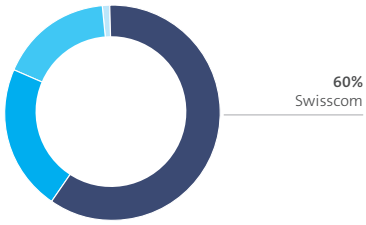
Mobile communications market

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

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

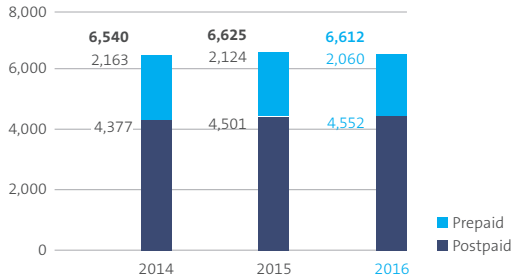
In order to provide its customers with the best communications experiences, Swisscom is constantly expanding its mobile network using the latest technology. There continues to be dynamic competition on the Swiss mobile communications market, as shown by the adjustments made to the portfolio of offerings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

Market shares mobile subscribers in Switzerland* in %



* Estimate Swisscom

Swisscom mobile access lines in thousand



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

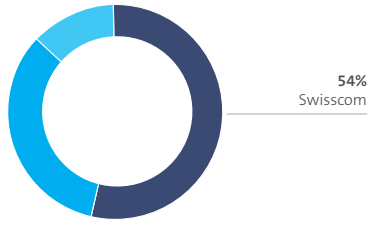
Fixed network

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

Broadband market

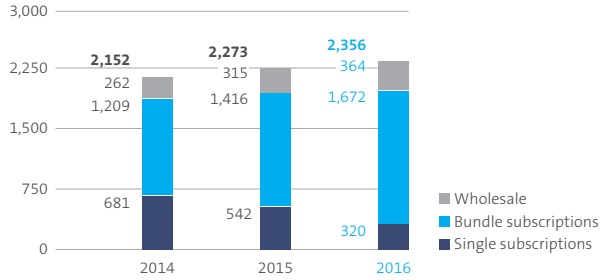
The most widespread access technologies for fixed broadband connections in Switzerland are infrastructures based on the networks of telecoms providers and cable network operators. At the end of 2016, the number of retail broadband access lines in Switzerland totalled around 3.7 million, corresponding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

Market shares broadband access lines in Switzerland* in %



* Estimate Swisscom

Swisscom Broadband access lines in thousand



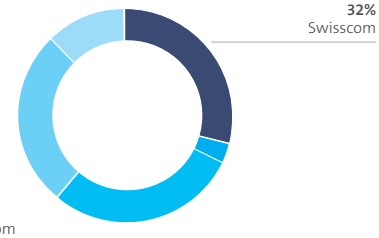
The number of broadband access lines increased by around 3% in 2016 (prior year: 4%). In contrast to the previous year, growth in broadband access lines provided by cable network operators lagged behind that of the broadband access lines of telecom service providers. Telecom service providers accounted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

TV market

In Switzerland, TV signals are transmitted via cable, broadband, satellite, antenna (terrestrial) and mobile. The Swiss TV market is almost completely digitised, as the large-scale broadcast of analogue TV signals has been discontinued and high-definition television (Full HD) has now become standard. Swisscom has also enabled Ultra-HD (UHD) TV signals to be received on its network since spring 2016. UHD is the successor technology to Full HD and provides a picture quality that is around four times better. The UHD programme offering is however still in the start-up phase.

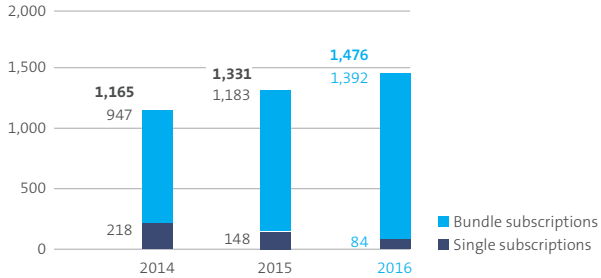
The Swiss TV market features a wide range of offerings from national market participants, and is now also playing host to offerings from other international companies. These international companies offer TV and streaming services that can be used over an existing broadband connection, regardless of the Internet provider. 2016 saw the level of competition increase, particularly in terms of TV content. This is highlighted by the reallocation of the broadcasting rights for domestic and international football and ice hockey. On the one hand, pay-TV channel Teleclub – a Swisscom subsidiary – has been awarded the broadcasting rights, as in previous years, to the Swiss football leagues from the 2017/2018 season onwards. On the other hand, national cable providers have acquired the broadcasting rights to the Swiss ice hockey leagues and will take over responsibility for these from Teleclub from the 2017/2018 season onwards.

Market shares digital TV in Switzerland* in %



* Estimate Swisscom

Swisscom TV subscribers in thousand



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

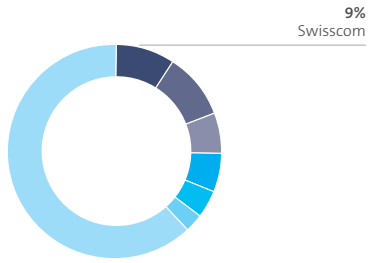
Fixed-line telephony market

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

IT services market in Switzerland

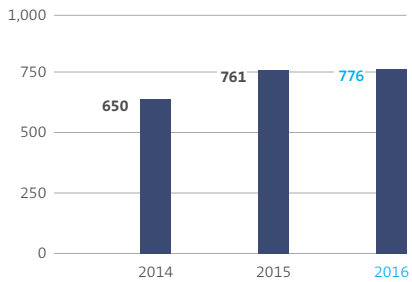
In 2016, the IT services market generated a revenue volume of CHF 8.6 billion. Market volume is expected to total CHF 9.3 billion by 2019. Swisscom expects the strongest growth in business process outsourcing (BPO) and in application-based and infrastructure project-based services, most notably in cloud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

Market shares IT services in Switzerland* in %



* Estimate Swisscom

Swisscom net revenue IT services in CHF million

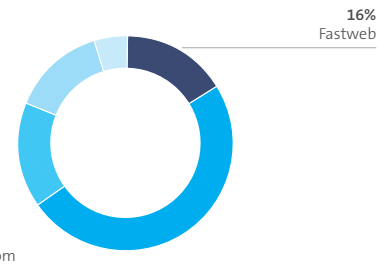


The shifts in the market and IT innovations are creating new opportunities for Swisscom. As one of the few providers of integrated digitisation solutions, Swisscom helps companies to improve customer experiences, simplify and automate processes and integrate existing solutions. Swisscom also co-creates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

Italian broadband market

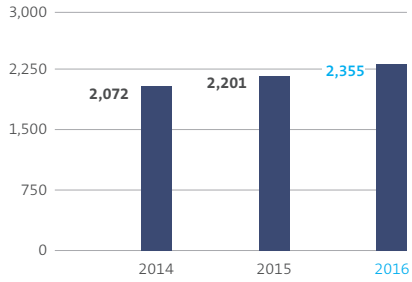
Italy's fixed broadband market is Europe's fourth largest, with a revenue volume of around EUR 13 billion. In contrast to most other European countries, in Italy there are no significant cable network operators who offer broadband services. Around 55% of households and businesses in Italy have access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

Market shares broadband access lines in Italy* in %



* Estimate Swisscom

Fastweb broadband access lines in thousand



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

Business model and customer relations

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

Business activities

Company profile

Swisscom has over 21,000 full-time equivalent employees, of whom around 18,400 are employed in Switzerland. Swisscom's international activities are concentrated mainly in Italy, through its subsidiary Fastweb. Fastweb is one of the largest broadband companies in Italy. Over 80% of net revenue and operating income before depreciation and amortisation (EBITDA) is generated from business operations in Switzerland. Swisscom offers a full portfolio of products and services for fixed-line telephony, broadband, mobile communications and digital television throughout Switzerland and is mandated by the federal government to provide basic telecoms services to all sections of the population throughout Switzerland. Swisscom offers corporate customers a comprehensive range of communications solutions as well as individually tailored solutions. Swisscom is also a leading provider specialising in the integration and operation of IT systems in the fields of outsourcing, workplaces, SAP and banking. Customers can purchase their products and services via a wide range of sales channels. They can check out products and services first hand and receive comprehensive advice in Swisscom's own shops as well as in numerous partner outlets. They can also obtain product information and order products and services at any time online via the Swisscom website.
In the digital customer centre, which is also accessible via the Internet, customers can manage their personal details, subscriptions and bills on their own. Swisscom fosters close ties with all stakeholder groups: shareholders, investors, employees, suppliers, the general public, public authorities and, above all, its customers. It has long been committed to its Swiss roots and endeavours to ensure that all citizens benefit from leading-edge technologies. This is reflected in Swisscom's solution-oriented approach, which is geared to serving the common good as well as the interests of the company.

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Net revenue
Switzerland accounts for

83 % of Swisscom's revenue

Full-time equivalent employees (FTEs)
Switzerland accounts for

87 % of Swisscom's FTEs

Swisscom brand

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

Extract of the brand portfolio

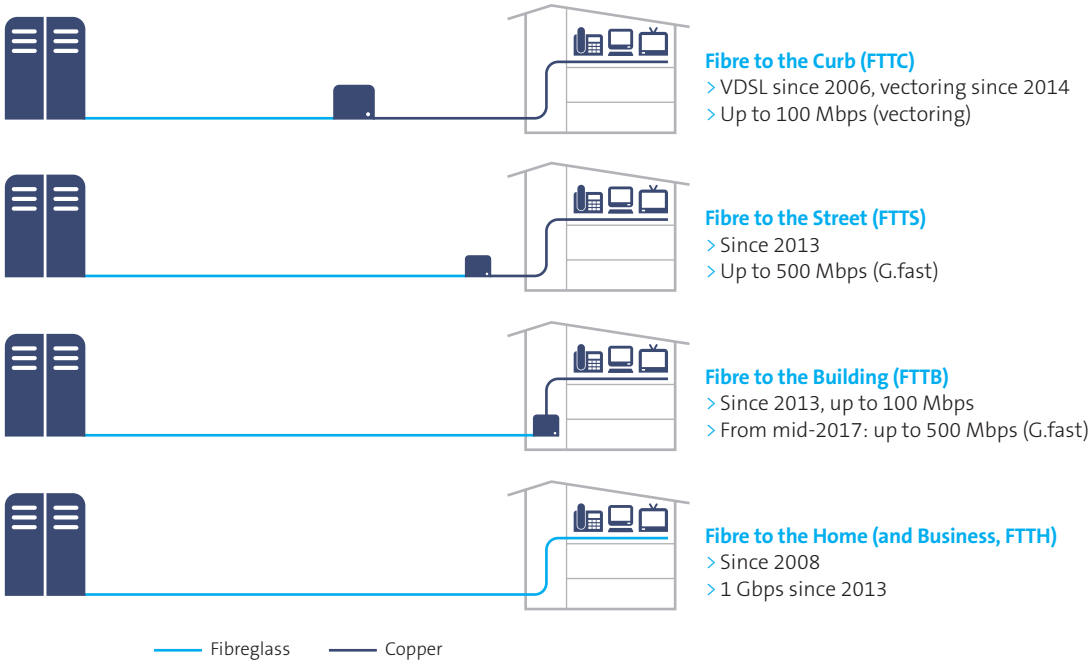
Swisscom wants to be perceived as being trustworthy, simple and inspiring, and aims to be the best companion for its customers in today's networked world. This is embodied by the successful mobile telephony and bundled offerings, as well as the ongoing success of the Swisscom TV business. The Teleclub,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

Swisscom's network and IT infrastructure

Network infrastructure in Switzerland

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

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



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

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

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

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networkcoverage

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

Network infrastructure in Italy

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

Swiss IT infrastructure

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

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

Fastweb's IT infrastructure

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

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

78 %

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

1.8 billion Swiss francs

Data protection

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

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

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

See
www.swisscom.ch/dataprotection

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

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

Products, services, sales channels

Swisscom in Switzerland

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

Residential Customers

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

Small and Medium-Sized Enterprises

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

Enterprise Customers

Digitisation is substantially changing business processes, business models, the customer experience and the working world in companies, and relies on the presence of solid communication networks. As a telecommunications and IT company, Swisscom has many years' experience in digitisation and innovative solutions. It is driving the digitisation of Switzerland and supporting companies in their digital transformation. In this context, it has one of the largest ICT portfolios, comprising cloud, outsourcing and workplace solutions, UCC solutions, mobile phone solutions, networking solutions, location networking, business process optimisation, SAP solutions, security and authenti-

cation solutions (mobile ID) and a full range of services tailored to the banking industry, ranging from IT and business outsourcing to trend research. Swisscom also offers new solutions such as the Low Power Network for the Internet of Things and machine-to-machine networks, digital consulting, software development and solutions for digitised business processes.

Healthcare market

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

Networked home

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

Sustainability

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

See
www.swisscom.ch/together

Fastweb in Italy

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

Customer satisfaction

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

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

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

Employees

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

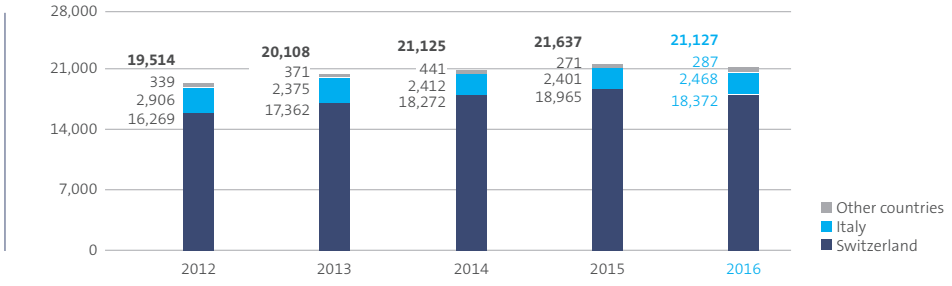
Headcount

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

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

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

Development of headcount in full-time equivalent



Employment law in Switzerland

Introduction

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

Employee representation and union relations

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

Collective employment agreement (CEA)

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

Working-hour models

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

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

Social plan

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

Employee remuneration

Salary system

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

See report
page 131

Minimum wage

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

Pay round

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

Equal pay

Swisscom takes great care to ensure equal pay for men and women. The company's salary system is structured in such a way as to award equal pay for equivalent duties, responsibilities and performance. To this end, the individual functions are assigned to job levels according to their requirements. A salary band is assigned to each job depending on the market salary. The salary band stipulates the remuneration range for equivalent duties and responsibility. Pay is determined within

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

Staff development

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

Staff recruitment

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

Employee satisfaction

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

Employment law in Italy

Employment agreement for the telecoms sector in Italy

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

Employee representation and relations with the unions

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

Industry-wide collective agreement for employees

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

Working time model

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

Employee remuneration

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

Innovation and development

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

Environment, objectives and management approach

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

Open innovation: a success factor

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

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

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

See
www.swisscom.ch/
innovation

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

Innovation platforms

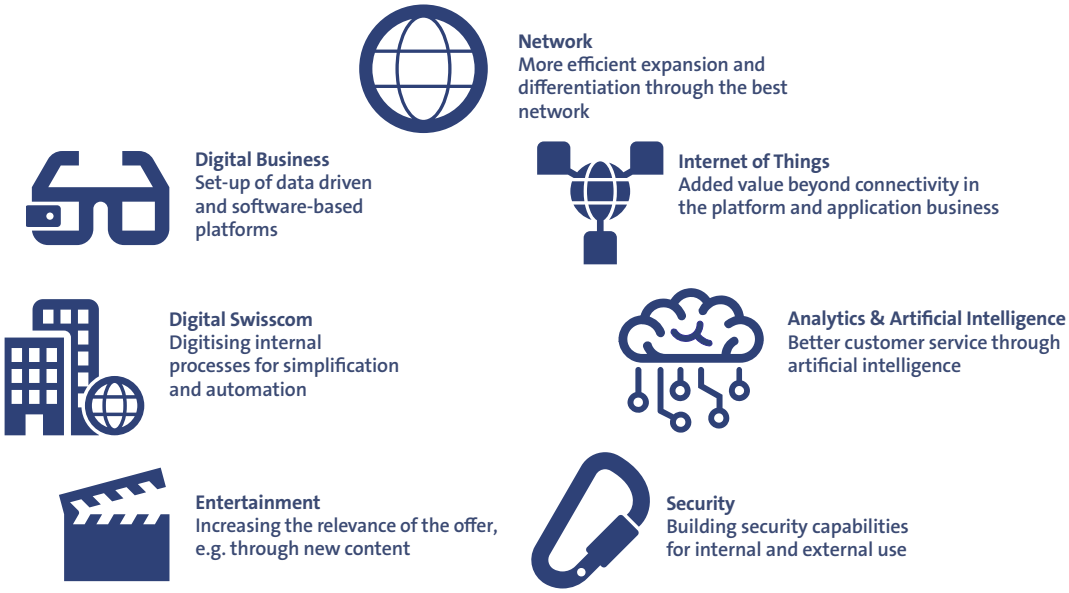
Swisscom plays an active role in shaping Switzerland's future. Its commitment to fostering an innovative and competitive Switzerland is reflected in the backing it gives to a whole variety of projects. Swisscom supports Switzerland's role as a research centre by making investments and engaging in partnerships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

Enabling services

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

Focused innovation

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



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

Network

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

Internet of Things

- **Swisscom Low Power Network:** This network is used for applications in combination with "autonomous" devices that only transmit a small amount of data. The devices in the field require less power and can therefore function without a power supply or large batteries. Manufacturing and maintenance are relatively cost-effective. Swisscom is providing Switzerland's first national LPN for the Internet of Things.
- **Smart City:** In Pully, Canton of Vaud, and other pilot cities, anonymised, aggregated mobile phone data is helping to improve traffic flows in the town and relieve the burden on the town centre by displaying exact movement patterns. The project is intended to act as a pilot: Swisscom is helping towns and cities to plan their infrastructure in a more systematic manner and find easier ways to manage it.

See
www.swisscom.ch/lpn

Analytics & Artificial Intelligence

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

Security

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

Entertainment

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

Digital Swisscom

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

Digital Business

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

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

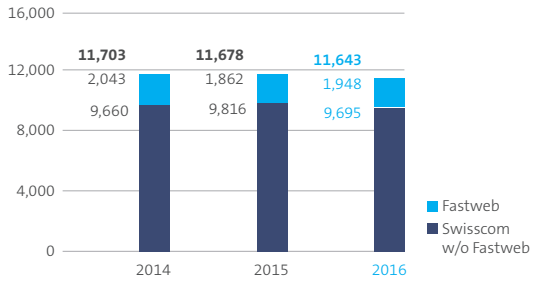
Financial review

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

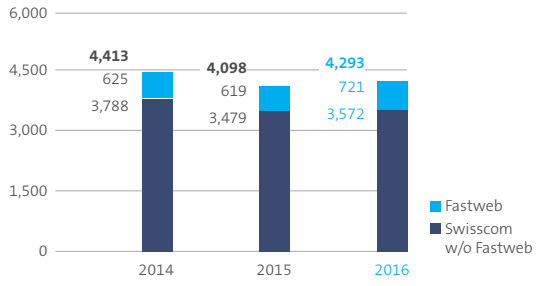
Key financial figures

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

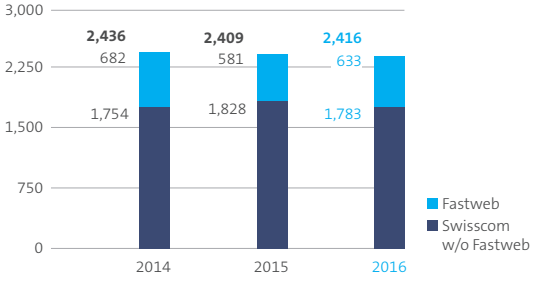
Development of net revenue in CHF million



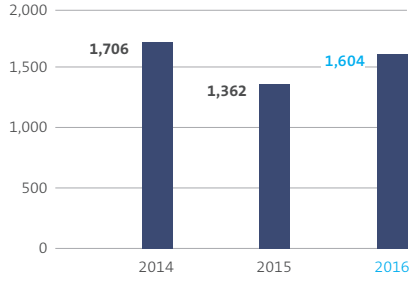
Development of EBITDA in CHF million



Development of capital expenditure in CHF million



Development of net income in CHF million



Summary

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

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

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

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

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

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

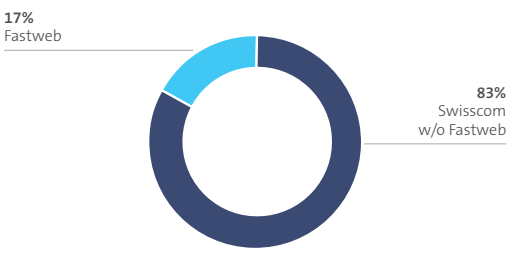
Results of operations

Income statement

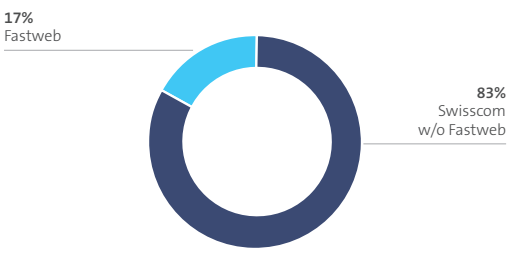
In CHF million, except where indicated	2016	2015	Change
Swisscom Switzerland	9,374	9,475	–1.1%
Fastweb	1,948	1,862	4.6%
Other Operating Segments	320	340	–5.9%
Group Headquarters	1	1	0.0%
Revenue from external customers	**11,643**	**11,678**	**–0.3%**
Swisscom Switzerland	3,686	3,601	2.4%
Fastweb	721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

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

Share in net revenue in %



Share in EBITDA in %



Operating results

Net revenue

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

Operating expense

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

Operating income before depreciation and amortisation (EBITDA)

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

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

11.6 billion Swiss francs

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

4.3 billion Swiss francs

Depreciation and amortisation, non-operating results

Depreciation, amortisation and impairment losses

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

Net interest expense and other financial result

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

Investments in associates

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

Income tax expense

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

Net income

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

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

2.15 billion Swiss francs

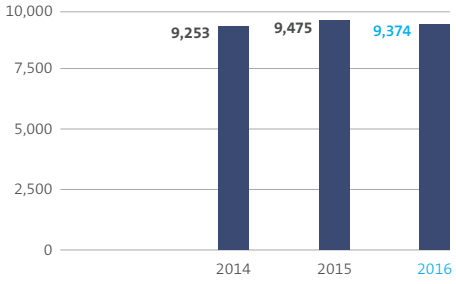
Net income
grew 17.8% year-on-year
Net income in 2016 amounted to

1.60 billion Swiss francs

Segment revenue and results

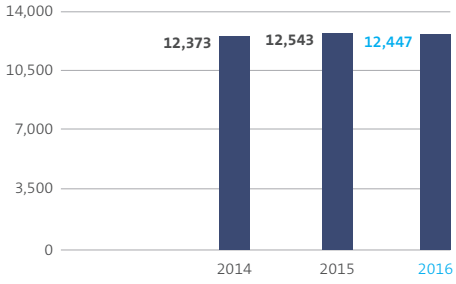
Swisscom's financial reporting focuses on the three operating divisions Swisscom Switzerland, Fastweb and Other Operating Segments, and Group Headquarters. Swisscom Switzerland is the Swiss market leader in the field of telecommunications. Fastweb is one of the largest broadband telecom companies in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

Development of revenue from external customers Swisscom Switzerland in CHF million



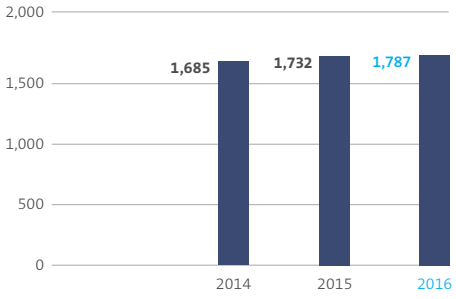
	2014	2015	2016
Revenue mobile single subscriptions	2,776	2,729	2,614
Revenue fixed-line single subscriptions	1,967	1,731	1,466
Revenue bundled subscriptions	1,921	2,234	2,502
Revenue others	2,589	2,781	2,792
Total	**9,253**	**9,475**	**9,374**

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



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

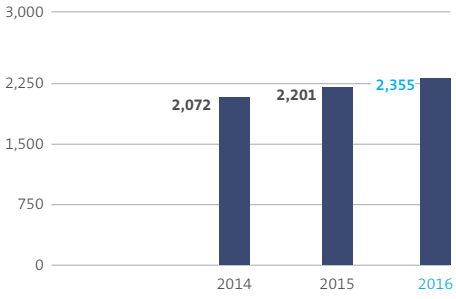
Development of revenue from external customers Fastweb* in EUR million



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

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

Development of broadband access lines Fastweb in thousand



Swisscom Switzerland

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

Net revenue of Swisscom Switzerland declined by CHF 105 million or 1.1% year-on-year to CHF 9,440 million. While revenue from telecommunications services for end customers declined by CHF 124 million or 1.8% as a result of greater competitive pressure and falling roaming prices, revenue in the solutions business with business customers increased by CHF 31 million or 2.9%. The number of revenue generating units (RGU) in Swiss core business fell by 96,000 or 0.8% to 12.4 million as a result of market saturation. Nevertheless, the company maintained or, as in the case of Swisscom TV, even increased its market shares. Swisscom TV is market leader, with a market share of 32% (prior year: 29%). In the fixed-line business the number of RGUs fell by 83,000. The increase in the TV and broadband business was more than offset by a drop in fixed-line telephony connections. In the mobile communications business, the number of connections was down by 13,000.
Operating income before depreciation and amortisation (EBITDA) was CHF 85 million or 2.4% higher at CHF 3,686 million. Operating income in 2015 was heavily impacted by one-off expenses, such as an addition to provisions for the ongoing Competition Commission proceedings on broadband services. Adjusted for these provisions and other non-recurring items such as provisions for headcount reduction and regulatory risks and gains from the sale of real estate, EBITDA decreased by CHF 125 million or 3.2%. At CHF 1,743 million, capital expenditure was CHF 56 million or 3.1% lower year-on-year. A rise in capital expenditure for the expansion of broadband networks was offset in other areas. Headcount fell year-on-year by 626 FTEs or 3.6% to 16,573 FTEs. Excluding company acquisitions, the number of FTEs decreased by 687 or 4.0%.

Swisscom Switzerland / net revenue

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

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

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

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

Swisscom Switzerland / operating expenses and segment result

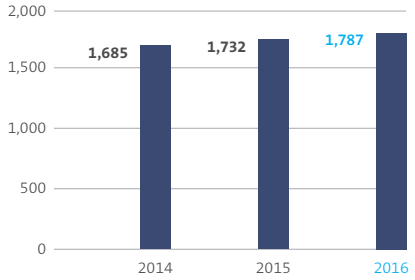
In CHF million, except where indicated	2016	2015	Change
Segment expenses by nature of cost			
Traffic fees	(459)	(440)	4.3%
Subscriber acquisition and retention costs	(504)	(459)	9.8%
Other direct costs	(1,074)	(1,114)	–3.6%
Direct costs	**(2,037)**	**(2,013)**	**1.2%**
Personnel expense	(2,413)	(2,502)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

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

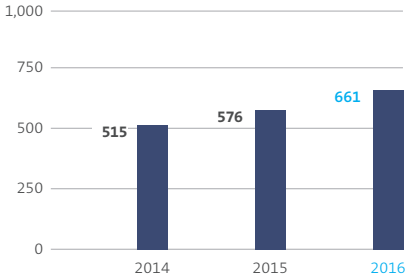
Fastweb

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

Development of revenue from external customers in EUR million



Development of EBITDA in EUR million

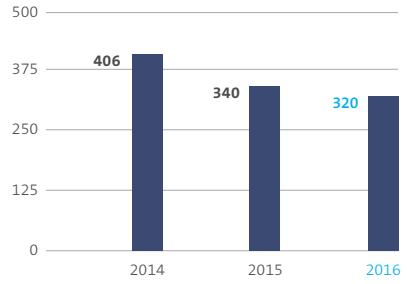


Fastweb's net revenue rose by EUR 59 million or 3.4% year-on-year to EUR 1,795 million. Despite difficult market conditions, Fastweb's broadband customer base grew by 154,000 or 7.0% to 2.36 million in 2016. Fierce competition reduced average revenue per residential broadband customer by around 3% over the prior year. Nevertheless, this decline was outweighed by customer growth. Revenue from residential customers rose accordingly by EUR 28 million or 3.2% to EUR 906 million. Fastweb held its strong position in the market for business customers, with revenue from business customers falling only slightly by EUR 5 million or 0.7% year-on-year to EUR 706 million. Revenue from wholesale business increased by EUR 32 million or 22.4% to EUR 175 million.
The segment result before depreciation and amortisation (EBITDA) rose by EUR 85 million or 14.8% to EUR 661 million. In 2016, Fastweb received compensation from Telecom Italia in the amount of EUR 55 million as a result of an out-of-court settlement following a legal dispute. In the previous year, compensation as a result of legal proceedings amounted to EUR 15 million. Excluding compensation from legal proceedings, EBITDA rose by EUR 45 million or 8.0% and the profit margin by 1.5 percentage points to 33.8%. The headcount at Fastweb rose by 67 FTEs or 2.8% to 2,468 FTEs, driven primarily by the appointment of external workforce in the technical areas and the reinforcement of resources in the mobile communications business. Fastweb continues to make progress on network expansion. 810,000 customers were connected to the company's own ultrafast broadband network at the end of 2016 (+25% year-on-year), which represents around one-third of all Fastweb broadband customers. The Fastweb network now extends to around 100 towns and cities in Italy, thus covering 30% of the population or 7.5 million households. Capital expenditure at Fastweb increased by EUR 40 million or 7.4% to EUR 581 million due to accelerated broadband expansion.

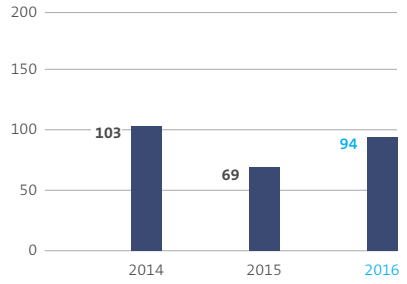
Other Operating Segments

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

Development of revenue from external customers in CHF million



Development of EBITDA in CHF million



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

Group Headquarters and reconciliation of pension cost

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

Quarterly review 2015 and 2016

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

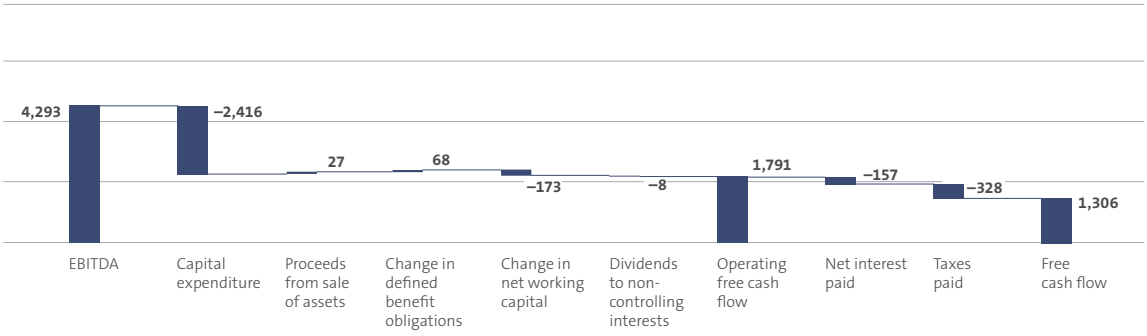
In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2015	1. quarter	2. quarter	3. quarter	4. quarter	2016
Swisscom Switzerland Net revenue and results										
Residential Customers	438	449	460	433	1,780	426	428	441	432	1,727
Small and Medium-Sized Enterprises	101	102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

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

Cash flows

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

Free cash flow in CHF million



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

Capital expenditure

See report
pages 48—51

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

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

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

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

Net asset position

Balance sheet

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

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

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

Fastweb

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

Goodwill

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

Post-employment benefits

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

Equity

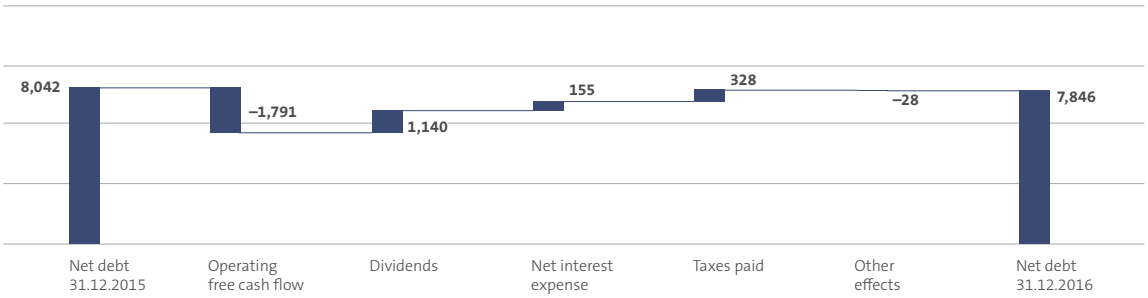
Equity increased by CHF 1,280 million or 24.4% to CHF 6,522 million. The ratio of equity to total assets rose from 24.8% to 30.4%. The CHF 1,604 million in net income and net gains of CHF 831 million recognised directly in equity exceeded dividend payments of CHF 1,140 million to the shareholders of Swisscom Ltd. Net gains recognised directly in equity include non-cash actuarial gains from pension plans totalling CHF 1,162 million as well as unrealised losses of CHF 21 million resulting from currency translation of foreign Group companies. The CHF/EUR exchange rate fell from 1.084 at the end of 2015 to 1.074 at the end of 2016. On 31 December 2016, cumulative currency translation losses recognised in equity amounted to CHF 1,834 million (after tax).
Distributable reserves are calculated on the basis of equity reported in the separate financial statements of Swisscom Ltd in accordance with Swiss company-law financial-reporting standards, rather than on the basis of equity as disclosed in the consolidated balance sheet prepared in accordance with International Financial Reporting Standards (IFRS). On 31 December 2016, the equity of Swisscom Ltd totalled CHF 6,255 million. The difference between this amount and equity disclosed in the consolidated balance sheet is essentially due to earnings retained by subsidiaries as well as different accounting and valuation methods. Under Swiss company law, share capital and that part of the general reserves representing 20% of the share capital may not be distributed. On 31 December 2016, Swisscom Ltd held distributable reserves of CHF 6,193 million.

Net debt

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

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

Development of net debt in CHF million



The ratio of net debt to EBITDA was 1.8 at the end of 2016 (prior year: 2.0). In recent years, Swisscom has taken advantage of favourable capital market conditions with a view to optimising the interest and maturity structure of the Group's financial obligations. The share of the Group's variable interest-bearing financial liabilities amounts to 21%.

Maturity profile of financial liabilities

Swisscom aims for a broadly diversified debt portfolio. This involves paying particular attention to balancing maturities and a diversification of financing instruments and markets. The table below shows the maturity profile of interest-bearing financial liabilities at nominal value as at 31 December 2016:

In CHF million	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due within 6 to 10 years	Due after 10 years	Total
Bank loans	198	64	345	–	101	708
Debenture bonds	600	1,425	1,074	1,987	1,010	6,096
Private placements	250	72	278	–	150	750
Finance lease liabilities	16	16	24	36	416	508
Other financial liabilities	1	23	1	9	–	34
Total interest-bearing financial liabilities	**1,065**	**1,600**	**1,722**	**2,032**	**1,677**	**8,096**

Statement of added value

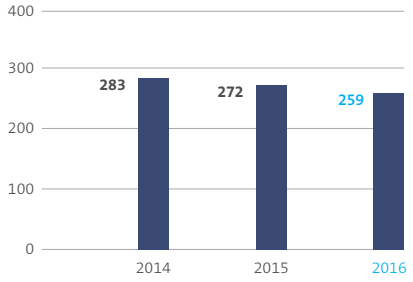
Operating added value is equivalent to net revenue less goods and services purchased, other operating expenses, and depreciation and amortisation. Personnel expense is treated as use of added value rather than as an intermediate input. Swisscom generates the bulk of its added value in Switzerland, with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

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

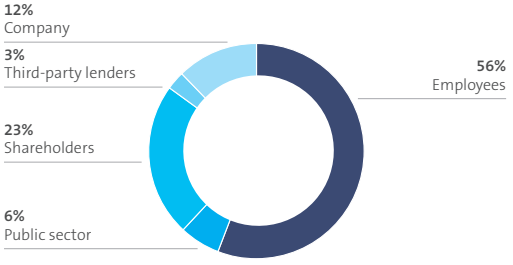
[1] Other operating expense: excluding taxes on capital and other taxes not based on income.
[2] Depreciation and amortisation: excluding amortisation of acquisition-related intangible assets such as brands or customer relations.
[3] Other non-operating result: financial result excluding net interest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

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

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



Allocation of added value in %



Energy efficiency and CO_2 emissions in Switzerland

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

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

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

Outlook for net revenue
Expectation for 2017 of around

11.6 billion Swiss francs

Outlook for EBITDA
Expectation for 2017 of around

4.2 billion Swiss francs

Financial outlook

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

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

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

Outlook for capital expenditure
Expectation for 2017 of around

2.4 billion Swiss francs

Dividend per share
If 2017 targets are met

22 Swiss francs

Capital market

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

Swisscom share

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

Ownership structure

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

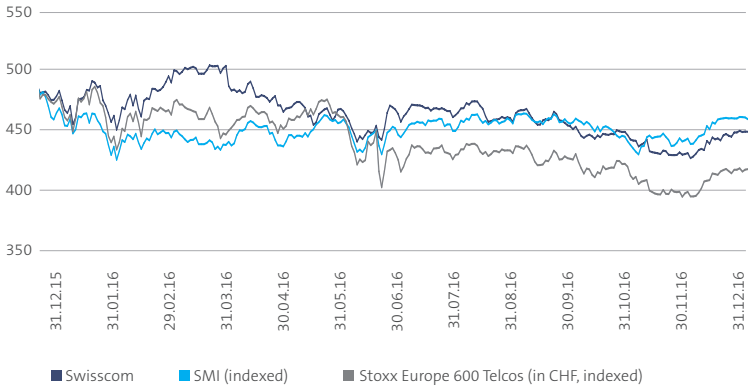
The majority shareholder as at 31 December 2016 was the Swiss Confederation, with 51.0% of the voting rights and capital. The Confederation is obligated by current law to hold the majority of the capital and voting rights. As at 31 December 2016, some 21% of the shares were held in unregistered shareholdings.

Stock exchanges

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

Share performance

Share performance 2016 in CHF



See
www.swisscom.ch/
shareprice

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

Shareholder return

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

Swisscom share performance indicators

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

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

Analysts' recommendations

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

Payout policy

Swisscom pursues a stable dividend policy that is focused on cash flow generation and capital allocation. At the forthcoming Annual General Meeting on 3 April 2017, the Board of Directors will propose an ordinary dividend of CHF 22 per share for the financial year 2016 (prior year: CHF 22 per share). This is equivalent to a total dividend payout of CHF 1,140 million.
Since going public in 1998, Swisscom has distributed a total of CHF 29.5 billion to its shareholders: CHF 17.5 billion in dividend payments, CHF 1.6 billion in capital reductions and CHF 10.4 billion in share buybacks. Swisscom has paid out a total of CHF 345 per share since the initial public offering. Together with the overall increase in share price of CHF 116 per share, this amounts to an average annual total return of 5.2%.

Indebtedness

Level of indebtedness

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

Dividend per share
in the 2016 reporting year

22 CHF

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

4.8 %

Credit ratings and financing

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

Listed debenture bonds

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

Bonds listed on the Six Swiss Exchange

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

[1] Reopening.

Bonds listed on the Irish Stock Exchange (ISE)

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

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

Risks

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

Risk management system

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

Objectives

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

Organisation

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

Process

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

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General statement on the risk situation

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

Risk factors

Telecommunications market

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

Politics and regulation

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

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Increased bandwidth in the access network

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

Employees

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

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

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

Business interruption

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

Information and security technologies

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

Environment and health

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

See
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