Management Commentary

Strategy and the environment

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

Corporate strategy

General

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

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

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

Best customer experience

In order to inspire its customers, Swisscom has to provide them with the best service at all times, regardless of their location. The customer experience is based on a high-performance infrastructure. Swisscom therefore aims to offer its customers the latest IT and communications infrastructure and therefore assert its position as a technological leader. Customer requirements vis-à-vis the availability and performance of the networks are constantly growing. As a result, Swisscom is setting up and operating networks that are second to none in terms of security,

availability and performance. By expanding and upgrading its fixed telephone and mobile network infrastructure with the latest technologies (such as 5G), Swisscom is ensuring that its customers enjoy the best experiences when utilising the company's offerings. The Swisscom Cloud is the key platform for the internal and external provision of services and forms the basis for new, scalable offerings that are produced in Switzerland. Swisscom complements its own cloud with global solutions, thereby operating as a service provider that also integrates solutions into hybrid environments.
The key to the success enjoyed by Swisscom is its relationships with its customers. The company's main guiding principles are to provide the best service and inspirational experiences across the board. Swisscom customers can count on us as a competent, reliable partner and enjoy service that is individual, flexible and personal at all points of contact. For example, customers can have their damaged mobile phones repaired in no time at all in the nine Repair Centres, which meets a key customer requirement. Swisscom is thus reducing complexity and providing relevant, innovative offerings. In the TV segment, Swisscom is continually simplifying operability and offers each and every one of its customers a personalised entertainment service thanks to the further development of the user interface. Swisscom is also continually upgrading its service offerings, such as with My Service – the personal support offering for technical enquiries. When creating new digital services and experiences, Swisscom always focuses on meeting the needs of its customers. In this way, Swisscom is restoring the trust its customers have in the company, reinforcing customers' loyalty to the brand and increasing agility and efficiency.

Operational excellence

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

New growth

Swisscom anticipates that the figures for the relevant markets in Switzerland and Italy will continue to grow steadily on the whole. The main driving forces behind this are modest population growth, the increase in use of ICT in a wide variety of industries and the relatively low broadband penetration in Italy. Nevertheless, price pressure remains at a high level, to the extent that a slight drop in market revenue is to be expected on the whole, particularly in the telecommunications market.
Swisscom wants to realise growth opportunities by further developing its core business – for example by means of growth in entertainment (such as TV) and in Wholesale or by making use of opportunities that arise as a result of new consumer applications in the area of the Internet of Things (IoT). There are further opportunities for growth in the medium term in other sectors, too, such as healthcare and banking – in which Swisscom provides vertical ICT services – as well as the solutions business relating to digital security and in the cloud segment. Swisscom is launching new digital services in selected areas. Some of these services are based on new business models, focusing on marketplaces (such as siroop and Mila), digital services for SMEs (such as localsearch), and support technologies and platforms (such as blockchain). When selecting growth areas, Swisscom is guided by future customer requirements, focuses on future-oriented business models with substantial growth and is making increased use of partnerships. In addition to the activities mentioned above, Italian subsidiary Fastweb is playing a key role in the realisation of growth opportunities. Swisscom is improving Fastweb's market position and achieving growth in Italy thanks to the further development of the mobile communications market, the expansion of the business customer portfolio by means of horizontal solutions in relation to the cloud and digital security, high-quality service, the utilisation of partnerships as well as a convergent product portfolio which cuts an impressive figure due to its transparency, fairness and simplicity.
In order to both further develop the core business and also tap into new business areas, Swisscom is continuously striving to transform the corporate culture. To achieve this, it will focus on agile and customer-centric working models and organisational structures, the development of relevant key skills and technological transformation, for example.

Forerunner in corporate responsibility

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

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

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

Objectives and achievement of targets

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

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

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

General conditions

Market environment

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

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

[1] Forecast SECO
[2] Forecast Istat

Economy

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

Interest rates

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

Currencies

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

Legal environment

Swisscom's legal framework

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

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

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

See www.swisscom.ch/targets_2018-2021

Telecommunications Act (TCA)

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

See www.admin.ch

Network access

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

See www.admin.ch

Basic service provision

The aim of the basic service is to provide reliable and affordable basic telecommunications to all sections of the population in all regions of the country. The scope of services as well as the related quality and pricing requirements are determined periodically by the Federal Council. The current licence (2018 to 2022) comprises a multifunctional telephone line, Internet access with a minimum data transfer rate of 3 Mbps (download) and various services for the disabled. The law provides that the overall net costs of the basic service are compensated for via a sector-specific fund. Up until now, Swisscom has abstained from bringing the overall net costs to bear for the basic service.

Mobile phone licence

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

Federal Cartel Act (CartA)

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

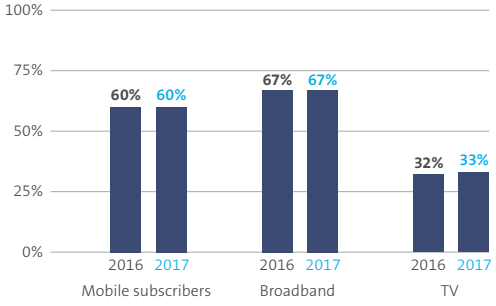
Legal and regulatory environment in Italy

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

Swiss market trends in telecoms and IT services

The Swiss telecommunications market is highly developed by international standards. It is characterised by innovation and a wide range of voice and data products and services. The constant advancement of digitisation and connectivity is a key trend. In addition to the established national telecommunications companies, more and more global competitors are entering the Swiss telecoms market, offering both free and paying Internet-based services around the world, including telephony, SMS messaging and streaming services. Cloud solutions are also playing an ever more important role, with storage capacity, processing power, software and services all relocating to an increasing degree to the Internet. These developments are generating constant growth in demand for high bandwidths that enable fast, high-quality access to data and applications. The uninterrupted availability of data and services, as well as the security involved in ensuring this availability, play a key role here. Modern, highly effective network infrastructures provide the ideal foundations for this. Swisscom is therefore setting up the networks of the future for both fixed-line and mobile communications.
The Swiss telecoms market is broken down into the submarkets of relevance to Swisscom – mobile and fixed-line telephony. The total revenue it generates is estimated at around CHF 12 billion; however, this is being put under increasing pressure. Market saturation is ramping up the fierce competition in almost all submarkets. As a result of the increased price pressure, most market players are being confronted with a trend towards sinking revenues. Various market participants adjusted their portfolios of offerings during the course of 2017, with the focus of the changes on new, convergent offerings which can also contain one or more mobile lines in addition to a fixed broadband connection with Internet, TV and fixed-line telephony. Swisscom's range likewise includes bundled offerings combining different technologies, while it also offers products and services from the core business using secondary and third-party brands.

Market share Swisscom Swiss telecommunication market



Mobile communications market

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

Fixed-line market

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

Broadband market

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

TV market

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

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

Fixed-line telephony market

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

IT services market in Switzerland

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

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

Italian market trends in telecoms services

Italian broadband market

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

Italian mobile communications market

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

Data protection

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

See
www.swisscom.ch/dataprotection

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

Infrastructure

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

Infrastructure in Switzerland

Network infrastructure

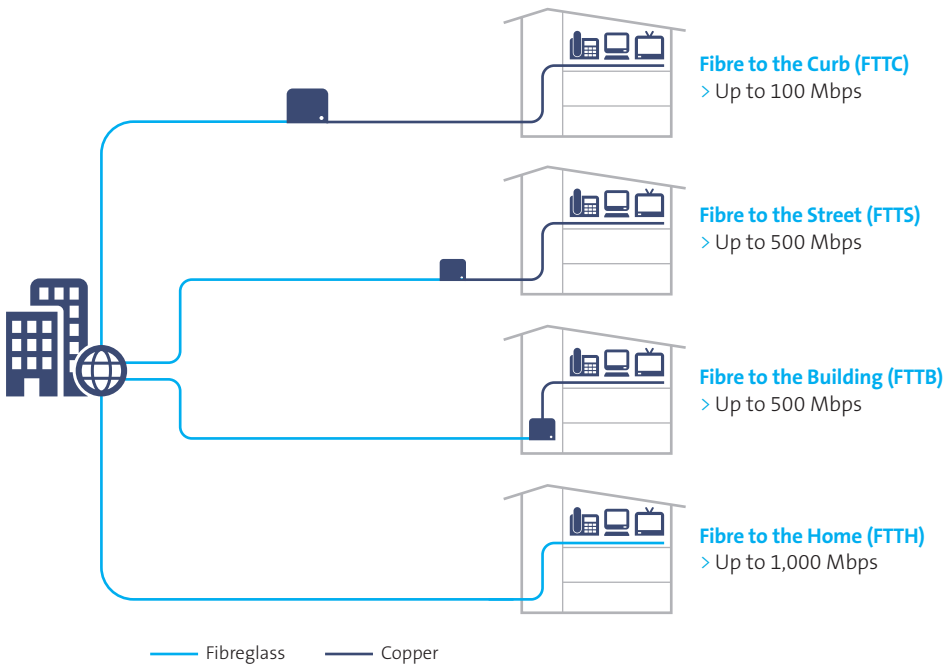
The telecommunication networks form the backbone of the Swiss information society. Swisscom pursues the same strategy both on the ground and in the air – to provide Switzerland with the best network and thus provide a solid foundation for the digital transformation. Swisscom currently operates three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

A uniform basis for increasing demand

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

Leading international position thanks to constant expansion

International studies carried out by the OECD, the Institute for Advanced Studies (IHS) and Akamai regularly show that Switzerland possesses one of the best information and telecommunications infrastructures in the world. Rural regions benefit in particular from the high level of capital expenditure, almost two thirds of which is financed by Swisscom. According to a study carried out by the IHS (Broadband Coverage in Europe 2016), the availability of broadband in rural regions of Switzerland is twice as high as the EU average.
In mobile communications, broadband LTE coverage now extends to 99% of the population. 80% of the population currently has 4G+ with speeds of up to 300 Mbps, and 60% 4G+ with speeds of up to 450 Mbps. In addition, Swisscom already provides speeds of up to 1 Gbps in 11 Swiss cities – and 30% of the Swiss population is set to benefit from these speeds by the end of 2018. This makes Swisscom the largest network operator in Switzerland by far, both in the fixed and mobile network. In the fixed-line segment, Swisscom continues to expand its ultrafast broadband coverage with minimum bandwidths of 80 Mbps. In doing so, it is focusing on establishing a globally unique mix of fibre-optic technologies as well as convergent approaches that harness both the mobile and fixed-line networks in combination. When talking about fibre-optic technologies, Swisscom is referring to Fibre to the Home (FTTH) as well as network architectures in which copper cables are used in the last few metres of the connection, i.e. Fibre to the Curb (FTTC), Fibre to the Street (FTTS) and Fibre to the Building (FTTB). Optical fibre is getting ever closer to the customer.



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

Innovative technologies put us right at the cutting edge

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

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

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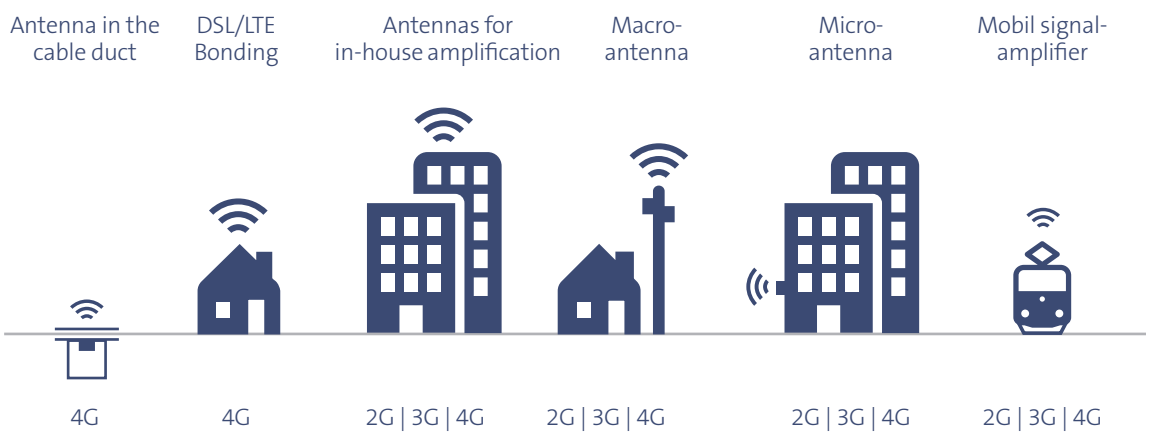
www.swisscom.ch/networkcoverage



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

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

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

IT infrastructure

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

Infrastructure in Italy

Network infrastructure

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

IT infrastructure

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

Employees

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

Employees in Switzerland

Introduction

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

Collective employment agreement (CEA)

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

Social plan

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

Employee remuneration

Salary system

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

See report
page 81

Pay round and payroll development

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

Staff development

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

Employee satisfaction

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

Diversity

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

Employees in Italy

Employment agreement for the telecoms sector

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

Employee representation and relations with the unions

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

Industry-wide collective agreement for employees

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

Working time model

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

Employee remuneration

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

Brands, products and services

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

Swisscom brands

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

Extract of the brand portfolio

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

Products and services in Switzerland

Residential Customers

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

Offerings for private individuals

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

Offerings for SMEs

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

Enterprise Customers

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

Wholesale

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

Products and services in Italy

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

Customer satisfaction

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

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

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

Innovation and development

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

Innovation as an important driver

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

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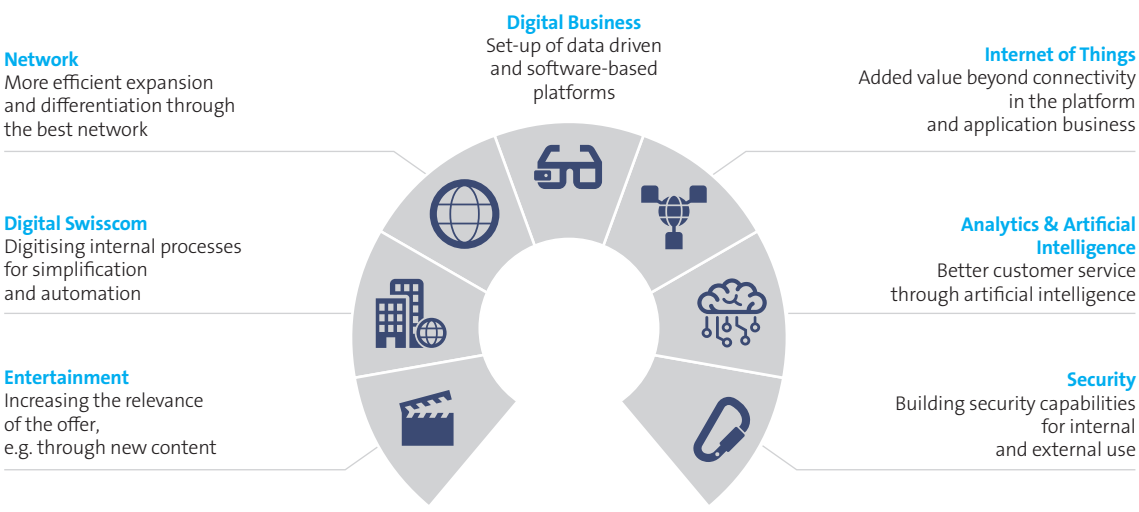
Targeted innovation

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



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

Network

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

Internet of Things

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

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www.swisscom.ch/lpn

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

Analytics & Artificial Intelligence

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

Security

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

Entertainment

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

Digital Swisscom

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

Digital Business

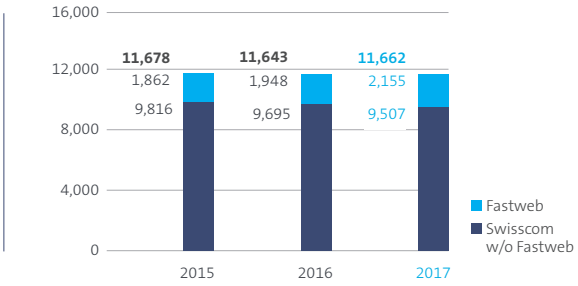
In the Digital Business innovation field, Swisscom supported key innovations in 2017, both within and outside the company, through the promotion of intrapreneurship as well as through Swisscom Ventures.

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

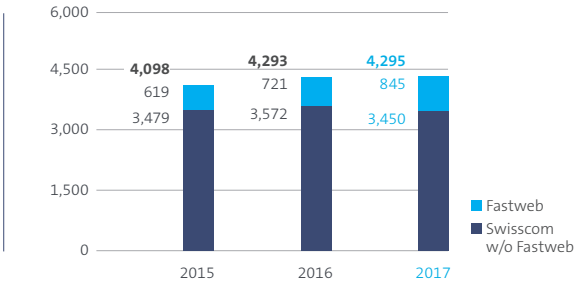
In addition to the activities it carries out in innovation fields, Swisscom is constantly investigating the opportunities offered by new technologies. In 2017, it focused on the potential of blockchain disruptive technology as well as virtual and augmented reality. The aim is for Swisscom to provide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

Financial review

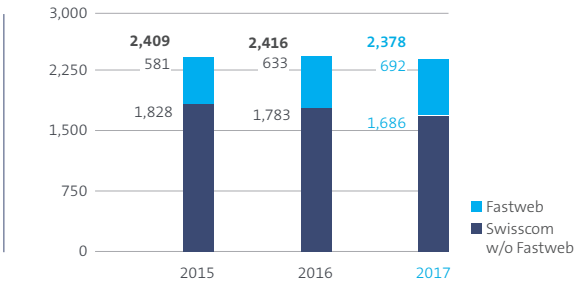
Net revenue in CHF million



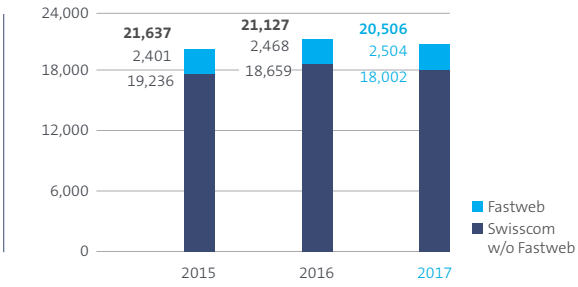
EBITDA in CHF million



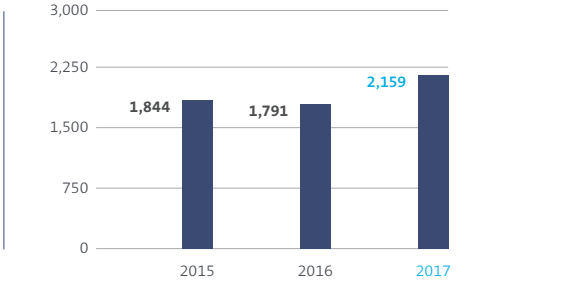
Capital expenditure in CHF million



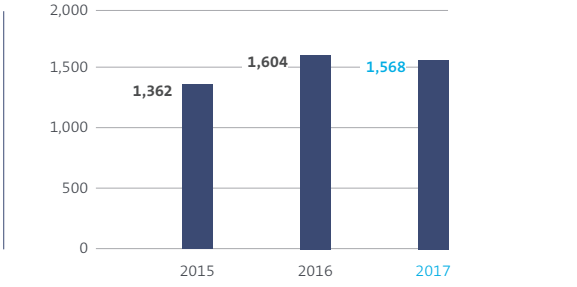
Headcount in full-time equivalents



Operating free cash flow in CHF million



Net income in CHF million



Summary

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

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

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

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

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

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

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

Segment results

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

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

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

Swisscom Switzerland

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

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

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

Segment expense fell by CHF 83 million or 1.5% to CHF 5,558 million. Excluding non-recurring items such as provisions recognised for headcount reduction or regulatory risks and gains from the sale of properties, the decrease was 2.0% on a like-for-like basis. The decrease of CHF 85 million or 4.2% in direct costs to CHF 1,943 million is due to the lower termination tariffs on mobile networks and lower costs of purchasing goods. At CHF 3,615 million,

indirect costs were only marginally higher than the prior-year figure of CHF 3,613 million. Excluding non-recurring items, indirect costs fell by 0.7%, whereby the reduced costs resulting from the decrease in headcount were partially offset by the lower capitalised costs of self-constructed assets. Headcount fell year-on-year as a result of efficiency measures by 719 FTEs or 4.5% to 15,157. The segment result before depreciation and amortisation was CHF 116 million or 3.2% lower at CHF 3,500 million. A large portion of the drop in revenue was offset by cost savings, resulting in a decline of 2.4% on a like-for-like basis. Capital expenditure fell by CHF 101 million or 5.8% to CHF 1,654 million. Capital expenditure for the expansion of the broadband networks remained virtually unchanged at a high level, while customer-driven investment and investment in other infrastructure decreased.

Fastweb

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

Fastweb's net revenue rose by EUR 149 million or 8.3% year-on-year to EUR 1,944 million. Despite difficult market conditions, Fastweb's broadband customer base grew by 96,000 or 4.1% to around 2.5 million in 2017. Fastweb is also growing in mobile telephony: compared to the previous year, the number of mobile access lines increased by 389,000 or 57.5% to 1.07 million due to the launch of attractive mobile offerings during 2017. The pressure on pricing in the Residential Customers segment as a consequence of fierce competition was more than offset by customer growth and the reduction in the billing period to four weeks introduced in the second quarter of 2017. Revenue from residential customers rose accordingly by EUR 80 million or 8.8% to EUR 986 million. Despite the high level of competition, Fastweb held its strong position in the market for business customers. Revenue from corporate business increased by EUR 4 million or 0.6% to EUR 710 million, while wholesale business revenue was up by EUR 65 million or 37.1% to EUR 240 million.
The segment result before depreciation and amortisation totalled EUR 759 million, equivalent to a year-on-year increase of EUR 98 million or 14.8%. This includes one-off income from legal disputes amounting to EUR 95 million (prior year: EUR 55 million). Adjusted for these effects, EBITDA rose by EUR 58 million or 9.6%. This increase was mainly the result of higher revenue and improved regulatory conditions. The adjusted EBITDA margin rose by 0.4 percentage points to 34.2%. The expansion of Italy's fibre-optic broadband network is continuing as planned. Capital expenditure remained at a high level, totalling EUR 622 million. Headcount at Fastweb rose by 36 FTEs or 1.5% to 2,504 FTEs, driven chiefly by the appointment of new employees in the corporate business segment.

Other Operating Segments

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

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

Depreciation and amortisation, non-operating results

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

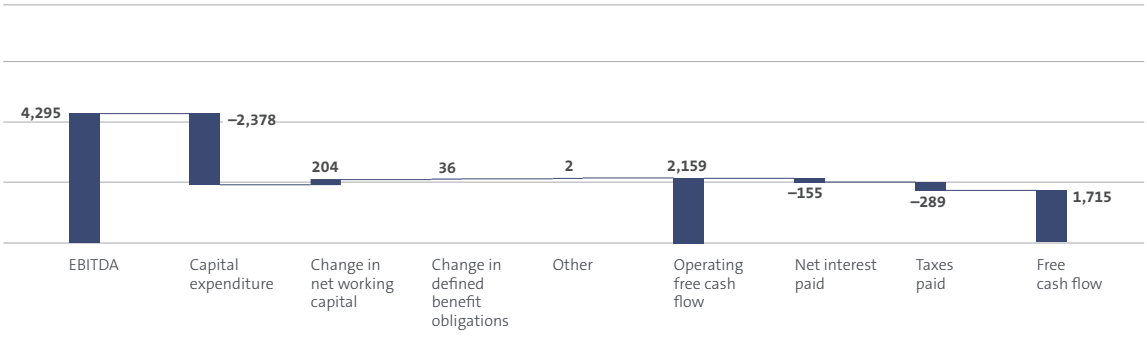
Depreciation and amortisation increased year-on-year by CHF 19 million or 0.9% to CHF 2,164 million; at constant exchange rates this represents a rise of 0.3%. The amortisation of intangible assets related to business combinations declined, amounting to CHF 50 million (prior year: CHF 104 million). Net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

Cash flows

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

Free cash flow increased year-on-year by CHF 409 million to CHF 1,715 million, mainly due to higher operating free cash flow. Operating free cash flow increased by CHF 368 million to CHF 2,159 million. In the previous year, cash flow was affected by the payment of the penalty of CHF 186 million for the ongoing Competition Commission proceedings regarding broadband services. Swisscom does not consider the sanction justified and has lodged an appeal with the Federal Court. It paid the penalty of CHF 186 million in the first quarter of 2016, as no suspensive effect had been granted. Excluding this payment, operating free cash flow rose by CHF 182 million or 9.2% versus the previous year. This is attributable primarily to lower trade receivables, on the one hand, and prepaid expenses, on the other. In the second quarter of 2017, the Swisscom pension fund (comPlan) also received a one-time payment of CHF 50 million as a result of the pension fund changes communicated in October 2016.
Net expenditure for company acquisitions and disposals amounted to CHF 106 million (prior year: net proceeds of CHF 43 million). This includes, in particular, the purchase of a Tiscali business division by Fastweb and the acquisition of the remaining shares of Cinetrade (prior year: sale of stake in Metroweb). Other cash flows chiefly include the taking out and repayment of fixed-term deposits. In 2017, Swisscom issued debenture bonds with an aggregate nominal value of CHF 500 million and paid back debenture bonds and private placements totalling around CHF 900 million.

Development of free cash flow in CHF million



Capital expenditure

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

See report
pages 24—27

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

[1] Including All IP migration.

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

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

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

Net asset position

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

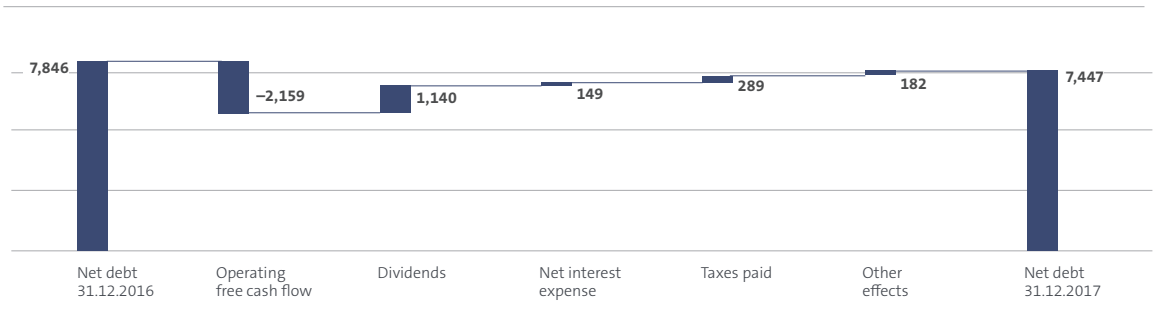
Operating assets

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

Net debt

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

Development of net debt in CHF million



The ratio of net debt to EBITDA was 1.7 at the end of 2017 (prior year: 1.8). In recent years, Swisscom has taken advantage of favourable capital market conditions with a view to optimising the interest and maturity structure of the Group's financial obligations. The share of the Group's variable interest-bearing financial liabilities amounts to 16%.

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

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

Post-employment benefits

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

Equity

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

Value-oriented business management

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

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

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

Statement of added value

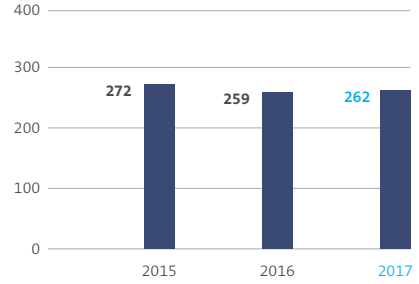
Thanks to a modern, high-performance network infrastructure and a comprehensive, needs-driven service offering, Swisscom makes an important contribution to Switzerland's competitiveness and economic success and generates direct added value. Operating added value is equivalent to net revenue less goods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

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

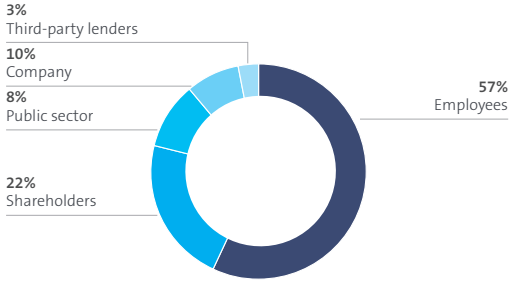
[1] Other operating expense: excluding taxes on capital and other taxes not based on income.
[2] Depreciation and amortisation: excluding amortisation of acquisition-related intangible assets such as brands or customer relations.
[3] Other non-operating result: financial result excluding net interest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

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

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



Allocation of added value in %



Financial outlook

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

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

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

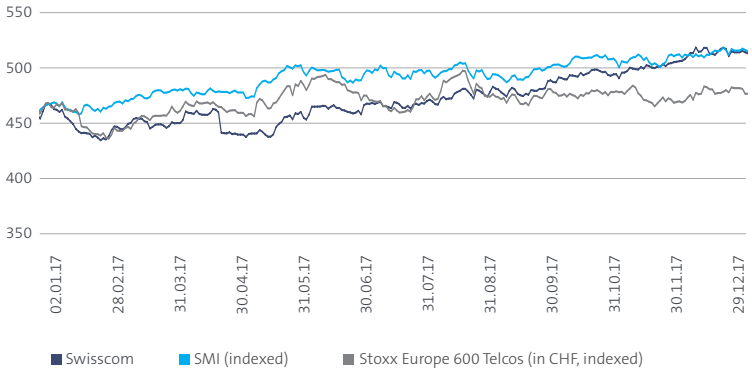
Capital market

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

Swisscom share

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

Share performance 2017 in CHF



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

See www.swisscom.ch/shareprice

Shareholder return

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

Stock exchanges

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

Ownership structure

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

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

Analysts' recommendations

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

Dividend policy

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

Indebtedness

Level of indebtedness

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

Credit ratings and financing

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

Risks

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

Risk situation

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

Risk factors

Telecommunications market

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

Politics and regulation

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

See report
page 20

Increased bandwidth in the access network

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

Employees

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

Competitive dynamics, regulation and recoverability of Fastweb's assets

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

Business interruption

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

Information and security technologies

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

Health and the environment

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

See
www.cdp.net