Annual Report 2019

swisscom

Annual Report publications

The Annual Report, Sustainability Report and "2019 at a glance" together make up Swisscom's reporting on 2019. The three publications are available online at: **swisscom.ch/report2019**

Concept of "Simply using opportunities"

In the city and in the country, at home and on the road – people everywhere in Switzerland can take advantage of the countless opportunities offered by the networked world. Swisscom wants to connect Switzerland and enable the Swiss public to benefit from the opportunities offered by digitisation.

The pictures in the 2019 Annual Report show the diversity of digital needs and how easy it is for people to make use of the opportunities available to them.

A big thank you to all who took time to pose for these photographs: Nina and Louis, 5th grade, Hagen primary school in Altdorf, Dominique Bausback, Malik Hashim, Claudia Lenzi, Nils Kessler, Patric and Tatjana Fischli with Anais, Laurence Brun from the Clinique de Genolier (Swiss Medical Network private clinic group) and Gérard Fornerod from Confiserie Fornerod.

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2019 in review

Net revenue	billion CHF	11.5	▼ 2.2 %
EBITDA	billion CHF	4.4	▲ 3.4 %
Capital expenditure	billion CHF	2.4	▲ 1.4 %
Net income	billion CHF	1.7	▲ 9.7 %
Net debt incl. lease to EBITDA ratio		2.0	▶
Equity ratio	%	36.6	▲ 0.3 PP
Employees (full-time equivalent)		19,317	▼ 2.7 %
Dividend per share	CHF	22	▶
Total shareholder re-turn Swisscom share	%	14.3	▲ 19.5 PP

Number 1 confirmed in tests

Swisscom successful in
- the network test carried out by trade magazine connect for the tenth time in 2019, achieving the grade “phenomenal”.
- the mobile phone test carried out by the trade magazine CHIP for the fourth time in a row.
- the Ookla speed test for the fastest mobile network and the best coverage.

5G
in Switzerland

On 17 April 2019, Swisscom became the first provider in Europe to put its 5G network into operation.

Swisscom TV with
voice assistant

The voice assistant of the new Swisscom Box also controls smart home devices.

The subscription
inOne mobile

allows unlimited phone calls, surfing and texting in 39 countries within Europe.

Even more protection
for SMEs

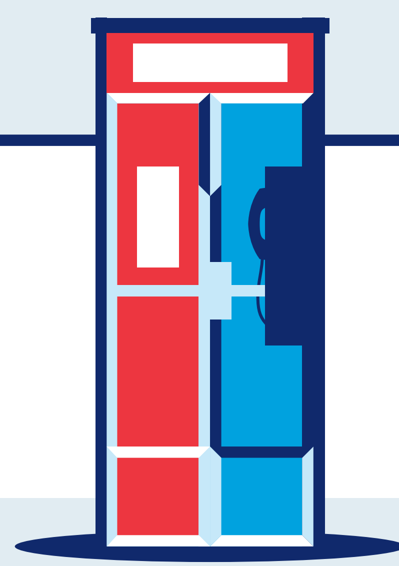
SMEs can protect themselves efficiently against attacks from the network and from data loss with the new overall Managed Security and Managed Backup solution.

Exclusive
UEFA Champions League

Teleclub will also exclusively show all matches in the 2021/2022 season.

New partnership
in Italy

Fastweb is working together with WindTre, and so is expanding its mobile telephony offering.



138 years
Publifon payphone

The last Swisscom telephone booth has started its journey to the Museum of Communication in Berne.

KPIs of Swisscom Group

In CHF million, except where indicated		2019	2018	Change
Net revenue and results [1]				
Net revenue		11,453	11,714	–2.2%
Operating income before depreciation and amortisation (EBITDA) [2]		4,358	4,213	3.4%
EBITDA as % of net revenue	%	38.1	36.0	
Operating income (EBIT)		1,910	2,069	–7.7%
Net income		1,669	1,521	9.7%
Earnings per share	CHF	32.28	29.48	9.5%
Balance sheet and cash flows [1]				
Equity		8,875	8,208	8.1%
Equity ratio [2]	%	36.6	36.3	
Operating free cash flow proxy		1,626	1,809	–10.1%
Capital expenditure		2,438	2,404	1.4%
Net debt incl. lease liabilities [2]		8,785	7,393	18.8%
Operational data				
Fixed telephony access lines in Switzerland	in thousand	1,594	1,788	–10.9%
Broadband access lines retail in Switzerland	in thousand	2,033	2,033	0.0%
Swisscom TV access lines in Switzerland	in thousand	1,555	1,519	2.4%
Mobile access lines in Switzerland	in thousand	6,333	6,370	–0.6%
Revenue generating units (RGU) Switzerland	in thousand	11,515	11,710	–1.7%
Broadband access lines wholesale in Switzerland	in thousand	515	481	7.1%
Broadband access lines in Italy	in thousand	2,637	2,547	3.5%
Mobile access lines in Italy	in thousand	1,806	1,432	26.1%
Swisscom share				
Number of issued shares	in thousand	51,802	51,801	–
Market capitalisation		26,553	24,331	9.1%
Closing price at end of period	CHF	512.60	469.70	9.1%
Closing price highest	CHF	523.40	530.60	
Closing price lowest	CHF	441.10	427.00	
Dividend per share	CHF	22.00	22.00 [3]	–
Employees				
Full-time equivalent employees at end of year	number	19,317	19,845	–2.7%
Average number of full-time equivalent employees	number	19,561	20,083	–2.6%

1 Swisscom uses various alternative performance measures. The definition and reconciliation of values in accordance with IFRS are set out in the chapter on financial review.
2 Swisscom has been applying IFRS 16 “Leases” since 1 January 2019. The prior year’s figures have not been adjusted. As a consequence of the first-time application of IFRS 16, additional lease liabilities and right-of-use assets of CHF 1,238 million were reported with effect from 1 January 2019. As a result, the equity ratio fell to 34.4% as at 1 January 2019. EBITDA of the previous year includes expenses of CHF 207 million from operating leasing in accordance with IAS 17.
3 In accordance with the proposal of the Board of Directors to the Annual General Meeting.

Business overview

Swisscom Switzerland

Residential Customers
The Residential Customers business unit provides mobile and fixed services. These include telephony, broadband, TV and mobile services and also holistic ICT solutions for SMEs.

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

IT, Network & Infrastructure
The IT, Network & Infrastructure area plans, operates and maintains the network and IT infrastructure in Switzerland.

Wholesale
The Wholesale segment enables other telecommunications providers to use the Swisscom fixed and mobile network.

Fastweb

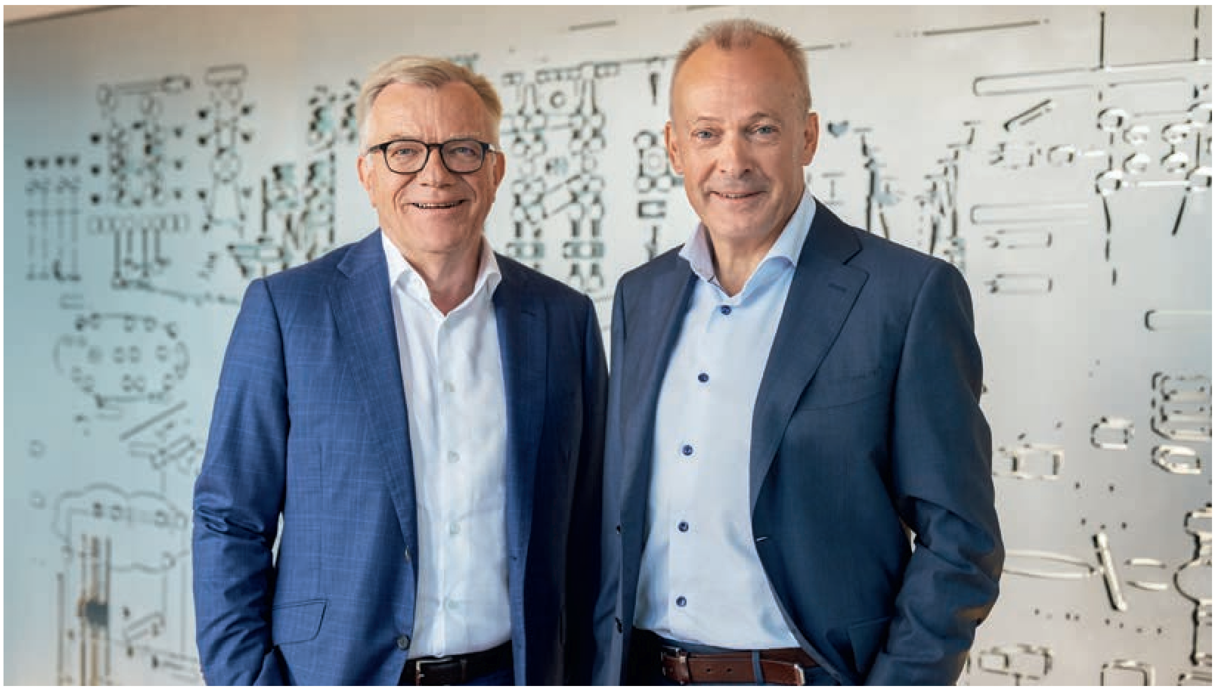
Fastweb is one of Italy's largest providers of broadband services. The product portfolio comprises voice, data, broadband and TV services, as well as video-on-demand for residential and business customers. Fastweb also delivers mobile services. This is complemented by customer-specific solutions and wholesale services for business customers.

Other Operating Segments

With subsidiaries in the area of network construction and maintenance (cablex) and broadcast services (Swisscom Broadcast), Swisscom is supplementing the core business in related areas. The Digital Business area focusses on growth areas in the field of Internet services and digital business models, and also includes business with online directories and telephone books (localsearch).

	Swisscom Switzerland	Fastweb	Other Operating Segments
Revenues	CHF 8.6 bn	CHF 2.5 bn	CHF 0.9 bn
EBITDA	CHF 3.5 bn	CHF 0.8 bn	CHF 0.2 bn

A year of innovations in a challenging market environment



Hansueli Loosli, Chairman of the Board of Directors Swisscom Ltd and Urs Schaeppi, CEO Swisscom Ltd

Dear Shareholders

In 2019, Swisscom made impressive use of the opportunities that are opening up for all of us thanks to digitisation. Our response to the ongoing challenging environment was, and will remain, new offerings and the expansion of our networks. Swisscom impressed the market with innovations in the TV and mobile communications segments and in subscriptions. Swisscom achieved a solid financial result. Group sales declined in line with expectations, while consolidated operating income before depreciation and amortisation (EBITDA) remained at the previous year's level. Our Italian subsidiary, Fastweb, continued to grow, making gains among both residential and business customers.

Financial targets met
Swisscom generated net revenue of CHF 11,453 million in 2019. Consolidated operating income before depreciation and amortisation (EBITDA) was CHF 4,358 million and thus above the previous year; on an adjusted basis, EBITDA remained stable. Net income was CHF 1,669 million.

Swisscom is investing today in the networks of tomorrow
The Swiss market is saturated in the mobile communications and TV segments, while the number of broadband connections is remaining constant due to high market penetration. At the same time, data growth continues unabated. In mobile communications alone, the use of mobile data services has increased 40-fold in the last seven years. What is more, security requirements are constantly growing. We are meeting these challenges by consistently expanding and continuously developing our networks.

Swisscom makes over two thirds of the investments in the Swiss telecommunications infrastructure. In 2019, it invested around CHF 2.4 billion in network expansion, of which around CHF 1.8 billion in Switzerland.

As at the end of 2019, Swisscom had established 3.9 million ultra-fast broadband service connections with speeds in excess of 80 Mbps. Swisscom will continue to invest massively in its infrastructure in the coming years, to ensure the best experiences for its customers.

Investing in Swiss infrastructure is paying off. This is demonstrated by Swisscom's top ranking in all relevant network tests. For example, in 2019, Swisscom won connect magazine's mobile network test for the tenth time, achieving the rating of "outstanding". Swisscom prevailed in the CHIP test for the fourth time in a row. Swisscom also took first place in Ookla's speed test for the fastest mobile network and the best coverage.

The future of mobile communications
In February 2019, Swisscom successfully took part in the 5G frequencies auction. In April, Swisscom was the first provider in Europe to commercially launch the new mobile communication standard. At the end of 2019, Swisscom reached the next milestone: basic 5G coverage has since been extended to 90% of the Swiss population. However, in order for data to be transmitted up to 1,000 times more efficiently, and thus in a more energy-saving manner, the full version of 5G is needed. To draw an analogy: expansion of the 5G network is like adding more lanes on the data highway. To ensure that data traffic flows unhindered and to avoid data tailbacks and jams happening in future, it is essential to have new antenna locations or to convert the existing installations. However, some segments of the population have concerns about 5G. Swisscom is all the more aware of its responsibility in this regard and is actively engaging in the social debate on mobile communications and the environment. Naturally, all mobile communications installations operated by Swisscom comply at all times with Switzerland's rigorous limits, which are exemplary in their strictness.

Swisscom TV – more than just television
The new Swisscom Box not only offers the best TV experience, but also networks smart home objects such as lamps. Just like the television, these items can be controlled with the integrated voice assistant. A total of 1.56 million customers use Swisscom TV, which corresponds to a market share of 36%. This means that Swisscom TV is still Switzerland's most popular TV offering. Swisscom subsidiary Teleclub has reached an important milestone by securing the rights to the UEFA Champions League from the 2021/2022 season. Teleclub will continue to show all the football matches on an exclusive basis.

New addition to the inOne family
The inOne combined package, introduced in 2017, continues to be extremely successful. inOne flexibly combines mobile, broadband, TV and fixed-line telephony products. Launched in April 2019, the new inOne mobile package allows unlimited phone calls, surfing and texting in 39 countries within Europe. By the end of 2019, around 1.15 million customers had opted for this new subscription. In total, Swisscom has 2.75 million inOne customers.

Tough competition in corporate business

The corporate customer market is fiercely contested, and the pressure on pricing remains high. Compared to the previous year, revenue from telecommunications services fell by 10.9% or CHF 112 million, to CHF 919 million. Swisscom holds a strong position as full service provider. It's offerings meet customers' needs, and customer satisfaction is consistently high. Demand for cloud, security and IoT solutions has continued to grow. In addition, Swisscom again succeeded in renewing contracts with many existing customers in 2019. Revenue in the solutions business remained virtually stable at EUR 1,021 million (–0.6%).

For SMEs, Swisscom has had Managed Security and Managed Backup in its portfolio since spring. These two new product modules are designed to protect companies from attacks in the network and data loss and to relieve them of their workload for security tasks. In order to provide all business customers a customer experience tailored to their needs, Swisscom merged the SME segment and the corporate customer segment.

Fastweb continues successful path in Italy

Fastweb grew again in 2019 and made gains among both residential and business customers. In the fixed-network business, the number of customers rose to 2.64 million broadband customers. In mobile communications, Fastweb posted an increase in customers of 26.1% to 1.81 million in total. Fastweb also entered into a strategic partnership with WindTre for the construction of a nationwide 5G network. The two operators are keen to work together to accelerate the development of a nationwide ultramodern 5G network. For this reason, Fastweb is placing a stronger focus on convergence: 34% of subscribers already use a bundled offering combining fixed network and mobile services. The business customer segment also continued to develop positively, with revenue growth of EUR 82 million (+10.5%). Overall, Fastweb increased its revenues to EUR 2,218 million (+5.4%). Operating income before interest, taxes, depreciation and amortisation (EBITDA) rose to EUR 750 million (+5.2% on an adjusted basis).

A simple way to make use of opportunities

Our environment is changing rapidly. So, standing still is not an option for Swisscom. Instead, we are sticking to our promise of enabling our customers to make simple use of the opportunities of a networked future. What's more, our employees and the company itself continue to develop steadily in line with our values of being committed, trustworthy and inquisitive. That is why we have pooled our efforts in Customer Field Service. Around 1,000 employees began working at the subsidiary cablex in January 2020. Thanks to this merger, customers are now served on site for installations, maintenance and troubleshooting, for example, by just one party. Also, as of 2020, we amalgamated Sales & Services with Products & Marketing to form the new Residential Customers unit. Together, we will focus on our three strategic ambitions on which we are working hard with our colleagues.

Offering the best experiences

We want to inspire our customers by providing them with the best service at all times, wherever they are, for example in our shops. For this reason, we have been testing a new shop concept since the end of 2019. In Uster and Thun, we advise residential and business customers in a cosy living room atmosphere, inspire them with technological innovations and address their issues at the service bar.

Operational excellence

Our industry is being transformed dramatically by digitisation. At the same time, Swisscom faces tough competition from global, Internet-based companies that benefit from low costs. We are responding to this development with rigorous cost management. In 2019, we exceeded the goal we announced in 2016 of reducing our cost base by CHF 100 million annually. For the years 2020 to 2022, we are planning further cost reductions of CHF 100 million annually.

New growth
Swisscom is keen to grow in its core business and related areas, such as entertainment, cloud services, the Internet of Things, wholesale and digital security. In selected areas, Swisscom is launching new digital services, which in part are based on novel web-based business models. Here the focus is on digital services for SMEs, digital marketing services as well as Swisscom Blockchain Ltd and the fintech segment.

Fastweb plays a key role. Therefore, Swisscom wants to maintain its growth course in Italy and further develop the company profitably.

Shareholder return
Swisscom pursues a payout policy with a stable dividend. In 2019, Swisscom paid an ordinary dividend of CHF 22 per share. The Swiss Market Index (SMI) rose by 26% compared with the previous year; the Swisscom share price increased by 9.1% to CHF 512.60.

Outlook
For 2020, Swisscom expects net revenue of around CHF 11.1 billion, EBITDA of around CHF 4.3 billion and capital expenditure of around CHF 2.3 billion. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2020 financial year at the 2021 Annual General Meeting.

Sincerest thanks
Shaping the future as the market leader means constantly developing and taking advantage of the opportunities that present themselves. Together with our colleagues, we have had a successful year and have achieved a lot. For this, we would like to thank our employees. It is thanks to their commitment, knowledge and motivation that Swisscom has become what it is today: a reliable partner for our customers, a sound investment for our shareholders and a pioneer in the networking of a modern Switzerland. We would also like to thank you, our valued shareholders, for the trust and confidence you have in our company.

Yours sincerely

U. Schaeppi

Hansueli Loosli
Chairman of the Board of Directors
Swisscom Ltd

Urs Schaeppi
CEO Swisscom Ltd

With Thymio, children learn how computers and robots work. Through play, the pupils develop the skills needed to navigate their way in the digital world and to actively shape it.

Five school classes with 100 pupils from five cantons are taking part in the pilot project called “Thymio goes to the mountains”.

Media skills

swisscom.ch/learning2019

The Swisscom Academy trainers support everyone who wants to make their everyday life easier with the help of smartphones, tablets and Swisscom products.

580,000 participants have attended Swisscom Academy courses over the last 15 years.

Management Commentary

Strategy and environment

Infrastructure

Employees

Brands, products and services

Innovation and development

Financial review

Capital market

Risks

Strategy and environment

Digitisation is having an ever greater impact on every area of life. The market environment is influenced by increasing connectivity, changing customer requirements and technological progress. As a market, technology and innovation leader, Swisscom seeks to hold its own in its competitive core business and conquer new growth areas. In order to make its vision a reality, Swisscom has set out three strategic aspirations in its corporate strategy: provide the best customer experience, operational excellence and new growth. In doing this, Swisscom wants to secure its market position and make it easy for its customers to seize the opportunities presented by the networked world.

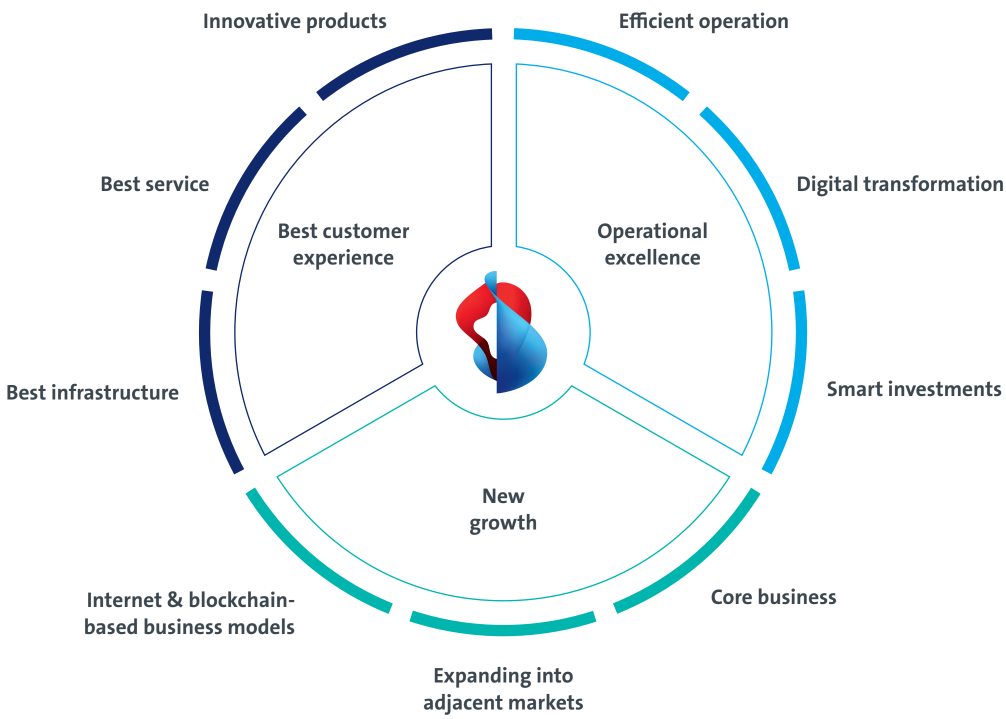
Corporate strategy

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. The subsidiary Fastweb is an infrastructure-based, alternative provider for residential and business customers in Italy, offering both fixed-network and mobile services.

Megatrends such as digitisation and connectivity, customisation and demographic change are indelibly shaping and altering our society and the economy and have a long-term impact on the activities of Swisscom. The increasing proliferation of the Internet of Things, the rollout of the 5G mobile telephony standard, the growing importance of voice recognition and the advancements made in the field of artificial intelligence are short- to medium-term trends that impact Swisscom's business.

Swisscom and its environment are experiencing rapid change. Characteristic examples of this include increasing connectivity, the exponential growth in data, changing customer needs, the mounting importance of software, content, security and data protection, and technological progress. Digitisation is increasingly penetrating all areas of life and leading to new, rapidly developing business models. The core business is characterised by fierce competition with high price pressure. The overall market for connectivity services is shrinking. Global Internet companies are using their economies of scale and forcing themselves into local ICT markets for both residential and business customers.

Swisscom is a market, technology and innovation leader in Switzerland with high quality standards, connecting both residential and corporate customers. It is at the heart of digitisation and enables its customers to seize the opportunities presented by the networked world without difficulty. In everything it does, Swisscom focuses on people's needs. Its employees work in concert to provide inspirational experiences. Swisscom is committed and trustworthy in its actions and consistently seeks to learn new things and develop itself further, without ever losing sight of what is important when pursuing its goals. What matters most to Swisscom is its customers' trust in it. That trust is strengthened by Swisscom's high level of reliability and sustainability in everything it undertakes. To realise its vision of being a leader in shaping the future and inspiring people in a networked world, Swisscom has set out three strategic aspirations that give tangible expression to its strategy.



Swisscom strategy

Best customer experience

Swisscom wants to inspire its customers by providing them with the best service at all times, regardless of their location. The customer experience is based on a high-performance infrastructure: Swisscom offers its customers the latest IT and communications infrastructure and enhances these on an ongoing basis. Customer requirements for 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. Swisscom is expanding its fixed telephone and mobile network infrastructure. In doing so, it is enabling its customers to enjoy the best experiences when utilising its offerings. and thereby consistently driving the expansion of 5G forward in Switzerland. Following its successful participation in the 5G auction in the spring of 2019, Swisscom put into operation the first 5G network in Europe to include commercial offerings and end devices.

The Swisscom Cloud forms the basis for new, scalable offerings produced in Switzerland. Swisscom complements its own cloud with global solutions (such as Amazon Web Services and Microsoft Azure), thereby operating as a service provider that integrates solutions into hybrid environments.

The key to the success enjoyed by Swisscom is its relationships with customers. Swisscom'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 touchpoints. In order to create even more positive experiences and be even closer to its customers, Swisscom has combined its Customer Field Services at its subsidiary cablex with effect from 1 January 2020. Swisscom is reducing complexity and providing relevant, innovative offerings. The inOne mobile go offering eliminates the much-acriticised charges for mobile phone use in the EU, allowing Swisscom customers to surf in the EU in the same carefree manner as they do in Switzerland. The new generation of Swisscom TV gives customers access to the top content of the broad Teleclub portfolio, Netflix, as well as other popular TV apps directly on their homescreens. Swisscom has also added gaming and other features to the offering. The voice assistant incorporated into the new Swisscom Box greatly simplifies access to content, information and home networking. Swisscom provides small and medium-sized enterprises (SMEs) with in-depth, personal, local support thanks to a nationwide network of SME specialists and certified partners. Since spring 2018, Swisscom has been providing SMEs with Smart ICT complete solutions for IT outsourcing that significantly reduce these companies' workloads. In the business customer segment, customer needs are shifting towards standardised products. In order to serve the market even better in the future, Swisscom merged the SME and corporate customer segments into one organisation (Business Customers) as of 1 January 2020. This reorganisation provides business customers with an even more consistent product and customer experience. Also as of 1 January 2020, it will be merging Swisscom Switzerland's Sales & Services and Products & Marketing divisions into the Residential Customers division.

Operational excellence

Due to fierce competition, revenues in the core business are still under strong pressure. Swisscom wants to offset these revenue losses as much as possible through growth in new areas and strict cost management. Swisscom also wants to further lower its cost base over the coming years in order to secure long-term profitability. This will allow Swisscom to free up funds for the exploration of new business opportunities and make the investments necessary to ensure success. Swisscom's main approach in optimising costs is to economise in a more focused manner and create more efficient operating procedures, for example by simplifying and adjusting the product portfolio, reducing the number of interfaces, using agile development methods, modernising and consolidating the IT platforms, increasing the efficiency of staff deployments, and optimising processes through the All IP migration. The internal digital transformation and the higher level of digitisation that accompanies it is also crucial for Swisscom. In this context, Swisscom intends to virtualise network functions, strengthen and expand the online channel, increasingly automate processes and use enhanced artificial intelligence and analytics, among other things. Swisscom is also making its investment activities more efficient, for example through an intelligent mix of technologies and value-oriented network expansion.

New growth

The market for telecommunications in Switzerland is becoming increasingly saturated, especially for broadband and TV, but Swisscom expects further moderate volume growth in the postpaid segment of mobile communications. Price pressure will remain high in all markets, and Swisscom therefore expects revenue to decline slightly in the telecommunications market as a whole. In Italy, Swisscom anticipates further market growth, especially in the broadband area given that broadband penetration in Italy is relatively low. Market experts believe the IT services market will continue to enjoy moderate growth over the next few years, being driven by the growing use of ICT in many industries.

By further developing its core business and areas related to its core business, Swisscom intends to exploit growth opportunities, for example through the further expansion of its TV/entertainment offering, growth in the wholesale sector, the Cloud, Smart ICT for small and medium-sized enterprises and the solutions business for digital security. Swisscom is launching new digital services in selected areas that in part are based on new business models. This is especially true when it comes to the Digital Business Unit (DBU). DBU focuses on digital services for SMEs such as localsearch (Swisscom Directories Ltd), Swisscom Blockchain Ltd, fintech operations and digital marketing services. When selecting growth areas, Swisscom is guided by future customer requirements, focuses on future-oriented business models offering growth and makes increased use of partnerships.

Fastweb is making a significant contribution to growth in Italy in the areas of broadband and mobile communications – both among residential and business customers. Swisscom is strengthening Fastweb's market position through targeted investments, particularly in mobile communications, so as to maintain its growth course and further develop the company profitably. Fastweb's strategy is based on convergent offerings that provide transparency, fairness and simplicity as well as high service quality and partnerships. For business customers, Fastweb is making strategic expansions to its portfolio by employing horizontal solutions focused on the cloud and digital security. The strategic partnership with WindTre, which was concluded in the summer of 2019, and the acquisition of mobile spectrum constitute key pillars in the further development of Fastweb. Fastweb is thus strengthening both its mobile communications and convergent offerings and also further expanding its market position.

Transformation

In order to deal with constant change and successfully implement its strategy, Swisscom employs a systematic customer focus in all of its customer interactions. It also relies on agile work and organisational forms and on a continuous reduction in complexity by promoting simplicity. The desired changes in behaviour within the organisation are supported by targeted communication and training measures.

Sustainability strategy

Digitisation is having a growing impact on the economy and society. As one of Switzerland's leading ICT companies, Swisscom bears a special responsibility in this respect. That is why it wants to recognise the opportunities and risks of digitisation and play as full a role as possible in helping shape the future of the country in a trustworthy, attentive, committed manner. Swisscom has identified three fields of activity in which it wants to make contributions: Promotion digital competency, contributing to climate protection and a reliable and secure ICT infrastructure. Swisscom has formulated three strategic priorities with corresponding objectives to address these fields of activity: More for the people, more for the environment and more for Switzerland. These objectives also make a contribution towards the 17 Sustainable Development Goals of the United Nations. Further information can be found in the separate Sustainability Report.

See www.swisscom.ch/sustainability

Promoting digital competency

While technologies advance at great speed, people's skills do not simply change without help. Competent handling of digital media is important in all areas of life. Whether at school, at work, as parents, in politics or in retirement – contact with the networked world is inevitable and we would do well to keep pace with these new demands.

More for the people

Swisscom enables people in Switzerland to make use of the opportunities presented by a networked world. It is helping two million people a year to develop their digital skills and is improving working conditions in its supply chain, a focus it will maintain until at least 2025.

Contributing to climate protection

Climate change is turning out to be a global problem of the first order, affecting the basic resources needed to sustain life in Switzerland. All countries must contribute to climate protection. Digitisation harbours promising possibilities for this effort.

More for the environment

Swisscom cares about the environment. It is working with its customers to reduce its CO_2 emissions by 450,000 tonnes. This corresponds to 1% of Switzerland's greenhouse gas emissions.

Reliable and secure ICT infrastructure

Reliable, secure infrastructure is fundamental to Switzerland's competitiveness, prosperity and quality of life.

More for Switzerland

Swisscom uses the best networks and progressive solutions to create added value for its customers, employees, shareholders and suppliers, and for all of Switzerland. It provides people and businesses in Switzerland with reliable ultra-fast broadband, thus making Switzerland a more competitive country and a better place to live.

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 2019
Financial targets		
Net revenue	Net revenue for 2019 of around CHF 11.4 bn	CHF 11,453 mn
Operating income before depreciation and amortisation (EBITDA)	EBITDA for 2019 of more than CHF 4.3 bn	CHF 4,358 mn
Capital expenditure	Capital expenditure for 2019 [1] of around CHF 2.5 bn	CHF 2,438 mn
Operational Excellence	Reduction of CHF 100 million in cost base in the Swiss business in 2019	CHF 127 mn
Other targets		
Ultra-fast broadband in Switzerland [2]	Coverage of 90% by the end of 2021 in excess of 80 Mbps	74%
Ultra-fast broadband in Switzerland [2]	Coverage of 75% by the end of 2021 in excess of 200 Mbps	47%

1 Incl. expenditure of CHF 0.2 bn on mobile frequencies in Switzerland.

2 Basis: 4.3 mn homes and 0.7 mn businesses (Swiss Federal Statistical Office – SFSO).

General conditions

Market environment

The three macroeconomic factors of the economy (in Switzerland and in 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	2015	2016	2017	2018	2019
Change GDP Switzerland	in %	1.2	1.4	1.0	2.8	0.9 [1]
Change GDP Italy	in %	0.8	0.9	1.5	0.1	0.2 [2]
Yield on government bonds (10 years)	in %	(0.04)	(0.14)	(0.07)	(0.24)	(0.46)
Closing rate CHF/EUR	in CHF	1.08	1.07	1.17	1.13	1.09
Closing rate CHF/USD	in CHF	1.00	1.02	0.98	0.99	0.97

1 Forecast SECO
2 Forecast Istat

Economy

Economic growth in 2019 slowed throughout the world as well as in Switzerland. Inflation remains very low. Economic developments are having a wide range of impacts on Swisscom's customer segments. A high share of the revenues generated in the Residential Customers segment can be attributed to products with fixed monthly charges, meaning the impact of economic fluctuations is low. Project business with business customers is more sensitive to cyclical factors. Economic fluctuations tend to have a greater impact on the 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 constitute a key assumption for the impairment assessment of recognised goodwill and other items in the financial statements. The returns on ten-year government bonds fell further in 2019 and are at an historically low level. Swisscom issued two bonds totalling CHF 405 million in 2019. The average interest expense on these financial liabilities (excl. lease liabilities) was 1.0% at the end of 2019. Of these financial liabilities, 78% have a fixed interest rate, and the average term is 5.5 years. This financing structure offers considerable protection against a potential rise in interest rates.

Currencies

Exchange rate fluctuations have very little impact on Swisscom's income or financial position. Transaction risks on operational cash flows exist primarily in the purchase of end devices and technical equipment and services from network operators outside of Switzerland (e.g. for roaming). In the core business in Switzerland, the amount of money paid out in foreign currencies is higher than the income in the corresponding currencies (primarily in USD). The net cash flows in foreign currency are partly hedged by foreign currency forward contracts, and hedge accounting is applied in the consolidated financial statements. Swisscom funds itself for the most part in Swiss francs and to a lesser extent in EUR. In recent years, the share of the funding denominated in EUR has gradually increased to 43%. The net assets of Fastweb and other foreign subsidiaries are also subject to a currency translation risk in the consolidated financial statements. At the end of 2019, Fastweb's net assets were EUR 3.0 billion. The balance sheet items of the foreign subsidiaries were translated into Swiss francs at the exchange rate on the balance sheet date, and differences arising in translation were recognised directly in equity. Cumulative currency translation losses in respect of foreign subsidiaries amounted to CHF 1.8 billion at the end of 2019. A portion of the financial liabilities in EUR has been classified as a currency hedge of the Fastweb net assets.

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, in particular, the Telecommunications Enterprise Act (TEA). In its capacity as a listed company, Swisscom also observes capital market law and the provisions concerning management remuneration. The legal framework for Swisscom's business activities is primarily derived from 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.

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. During the reporting period, Parliament debated a revision of the TCA and adopted an amended version, which is expected to come into force as of 2021.

See www.admin.ch

Network access

The intention of the legislators is that network access regulation should not be expanded to include newly built fibre-optic-based fixed networks (no technology-neutral network access). This means that Swisscom is required to allow other providers physical network access only to copper lines at cost-based prices. Access to fibre-optic lines continues to be on the basis of commercial agreements.

Basic service provision

The aim of the basic service is to provide reliable, 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, and barrier-free services such as transcription, SMS messaging and directory services for people with disabilities. During the reporting period, the Federal Council decided to increase the minimum data transmission rate as of 1 January 2020 from 3 Mbps (download) and 300 Kbps (upload) to 10 Mbps and 1 Mbps, respectively.

Mobile phone licence

The Federal Communications Commission (ComCom) normally grants mobile radio licences within the framework of public tenders. In 2012, all of the frequencies available for mobile communications were sold in an auction. Swisscom acquired 44% of the auctioned frequencies. The licences run until the end of 2028 and can be used with all technologies. In February 2019, further mobile radio frequencies, which, for example, could be used for the new 5G technology, were auctioned off to Swisscom and other bidders. Together with the spectrum already acquired in 2012, Swisscom now holds a total of 45% of all the frequencies in operation with mobile communications providers. The licence for the frequency spectrum auctioned in 2019 is valid until April 2034.

Federal Cartel Act (CartA)

Particularly as a result of Swisscom's market position, competition law (the Federal Cartel Act) is highly relevant for several of its products and services. The Federal Cartel Act allows for direct sanctions to be imposed for unlawful conduct by market-dominant companies. The Swiss competition authorities (COMCO) have classified Swisscom as being market-dominant in a wide range of submarkets. In its ruling of 9 December 2019, the Federal Supreme Court dismissed Swisscom's appeal in the ADSL case and confirmed the CHF 186 million sanction imposed by the Federal Administrative Court in 2015. Swisscom had already had to pay the penalty in 2016. The Federal Supreme Court's ruling has no impact on the 2019 annual financial statements. Proceedings concerning two other matters are currently underway, within the context of which COMCO has classified Swisscom as being market-dominant and its conduct as being unlawful, and has thus imposed direct financial sanctions. The proceedings relate to 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).

The Federal Copyright Act (CopA)

Swiss copyright law protects the rights of creators of works while also facilitating the fair use of works subject to copyright, which may generally be used only with the copyright holder's consent and in return for a consideration. An exception to this rule is made for private use and for copying for private use. The compensation payable to the copyright holder for certain types of use protected by copyright law (collective management of rights) is determined by reference to collectively negotiated copyright tariffs. These apply to distribution of television programmes and to the use of time-delayed television viewing (Replay TV). After a legislative process lasting many years, Parliament adopted a draft revision of the CopA in autumn 2019. The primary aim of this bill was to adapt copyright law to the Internet age and to combat Internet piracy. Contrary to the demands of the television broadcasters, the revised CopA forgoes restrictive provisions in connection with Replay TV.

The Federal Radio and Television Act (FRTA)

Switzerland's Radio and Television Act governs the production, presentation, transmission and reception of radio and television programmes. It is primarily on account of Swisscom TV that Swisscom is affected by the rules on the transmission and broadcasting of media offerings. The various privileges (known as the "must carry" provisions) applicable to certain broadcasters are relevant to Swisscom.

Federal Act on Data Protection (FADP)

The Federal Act on Data Protection (FADP) regulates the treatment of personal data. The draft of the revised Data Protection Act (FADP) was published in September 2017 and is currently progressing through Parliament on its way to becoming law. It is not yet known when the revised FADP will enter into force. Swisscom is working on the assumption that the new FADP will more closely resemble the European Union's General Data Protection Regulation (GDPR).

The European Union's General Data Protection Regulation (GDPR)

The GDPR governs the processing of personal data and has been in force since May 2018. The GDPR is relevant to Swisscom especially as regards its provision of services to residential customers within the European Economic Area (EEA) and its provision of IT services to business customers directly subject to the GDPR. The actions required to comply with the GDPR's requirements, in so far as it impacts Swisscom's operations, were taken by Swisscom within the specified time period.

Legal and regulatory environment in Italy

The legal framework for Fastweb's business activities is determined primarily by Italy's telecommunications legislation and the EU. Based on a market analysis, the national regulatory authority AGCOM published a decision in August 2019 on the wholesale access services of Telecom Italia (TIM) for the period from 2018 to 2021. The decision also includes a reduction in prices for virtual unbundled access (VULA) based on FTTS for the period from 2019 to 2021. In addition, AGCOM approved TIM's reference offer for the fixed-network access services for 2018.

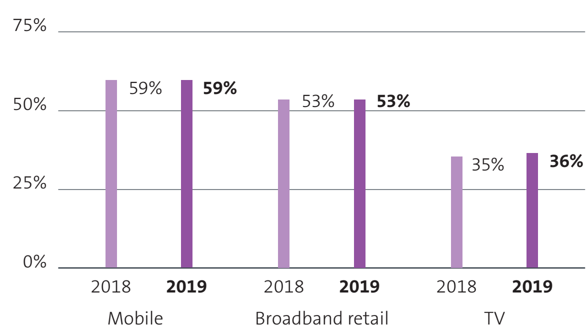
Swiss market trends in telecoms and IT services

The Swiss telecommunication market is characterised by a wide range of voice and data products and services. The continuing advance of digitisation and connectivity is a key trend. In addition to the established regional and national telecommunications companies, internationally active companies are entering the Swiss telecommunications market, offering both free and paid-for Internet-based services around the world, including telephony, SMS messaging and streaming services. Cloud solutions also play an important role, with storage capacity, processing power, software and services all relocating 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. 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 11 billion, but this remains under pressure. Market saturation is ramping up the fierce competition in all markets. The individual submarkets are characterised by a high level of promotional activity on the part of the individual market participants and corresponding price pressure. Bundled offerings play an important role here, as they tie these customers more effectively to the company. At the heart of the portfolio of offerings are 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 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 also offer their own mobile services as MVNOs (mobile virtual network operators) on these networks. Swisscom makes its mobile communications network available to selected third-party providers so that they can offer proprietary products and services to their customers via the Swisscom network. The expansion of the mobile communications networks with the introduction of the modern 5G standard, which began in 2019, increases the technical possibilities. 5G technology is the basis for a variety of applications. For example, it allows a wired connection based on fibre optics or VDSL to be replaced by a wireless connection (fixed wireless access) on the last mile. Due to the high level of market penetration, the mobile communications market in Switzerland is showing signs of saturation. The number of mobile lines (SIM cards) in Switzerland is thus stagnating at around 11 million, and mobile access line penetration in Switzerland remains at 126%. 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 stands at approximately 75% (prior year: 71%). Swisscom's market share remains unchanged from the previous year at 59% (postpaid: 59%; prepaid: 58%).

Fixed-line market

Close to 100% of Switzerland is covered by 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 by and large also made available to other market participants so that they can supply their products and services. This has made the fixed broadband connection the key access point for many customers. It is the basis for a wide-ranging product offering from both national and global competitors. Competition in the fixed-network segment has gained momentum due to the entry of new providers.

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 2019, the number of retail broadband access lines in Switzerland totalled 3.8 million, corresponding to around 85% of homes and offices. Due to market saturation, the number of broadband connections remained virtually constant, as in the previous year. The growth in broadband connections supplied by telecommunications providers contrasted with a decrease in connections supplied by cable network operators. Swisscom's market share remains unchanged at 53%.

TV market

In Switzerland, TV signals are transmitted via cable, broadband, satellite and mobile. The broadcasting of TV programmes via antennas (terrestrial) was discontinued in the course of 2019. This enables consumers to watch television programmes on a very wide variety of devices. The Swiss TV market features a wide range of offerings from established national market participants. Offerings from other national and international companies are also available on the market, including TV and streaming services that can be used over an existing broadband connection, regardless of the Internet provider. The competitive dynamics in the saturated TV market remains high, driven by the large number of different offerings. 94% of TV connections are provided via cable or broadband networks. Swisscom has steadily increased the market share of its own TV offering, Swisscom TV, over the past few years. It is the market leader, and further expanded on this leading position at the end of 2019 with a market share of 36% (prior year: 35%).

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 continued in 2019, with the number of Swisscom fixed-line connections falling by around 11% to 1.6 million. The main reason for the decline was the substitution of mobile phones for fixed-line telephony.

IT services market in Switzerland

The market for IT services and software generated revenue of around CHF 17 billion in 2019 and, taken as a whole, will continue to grow in the coming years. The areas in which Swisscom expects the most growth are the cloud, security, the Internet of Things (IoT) and business applications. This growth results from the increasing number of business-driven ICT projects, the growing willingness to purchase external services, an increase in the threat situation in IT security and new technological opportunities in the IoT area (e.g. new sensors and improved connectivity). Customers usually expect services customised to their individual sector and business processes with appropriate advice.

In the IT services sector Swisscom did not grow as planned. The decline in sales led to a loss of market share in the year under review. This development was mainly attributable to the relocation of applications to the cloud, a trend that will continue in the coming years. Growth themes performed positively, however, with market revenues rising for areas such as the cloud, data centres and security services.

Italian market trends in telecoms services

Italian broadband market

With revenue of EUR 15 billion, including wholesale, Italy's broadband market is the fourth largest in Europe. Broadband provision in homes and offices has increased steadily in recent years. The broadband market comprises more than 16 million lines distributed among four main competitors and other smaller providers. Fastweb is the second largest fixed-network broadband provider, with a market share of around 15% in the residential segment.

Italian mobile communications market

The Italian mobile phone market currently has a volume of around 82 million SIM cards, with an aggregate sales volume of around EUR 15 billion. Competitive and price pressure are enormous. Despite the difficult environment, Fastweb increased its customer base in mobile communications to 1.8 million.

Data protection

Swisscom attaches great importance to the legally compliant and responsible processing of personal data. In order to meet its own requirements, Swisscom increased the number of staff in the organisational unit responsible for compliance with data protection in the past financial year and implemented a large number of protective measures. The responsible teams now have a tool with which they can periodically check their products or business processes for compliance with data protection. Swisscom significantly improved the transparency of data processing for new products. Several training sessions were conducted to increase employees' awareness of data protection. In addition, new roles were created and trained in all divisions of Swisscom and the Group companies in order to also embed data protection within operations. Finally, Swisscom started to implement the requirements of the new Swiss Data Protection Act early.

Swisscom works continuously to extend its data protection measures. Data protection within Swisscom is controlled and monitored by a central data governance unit, which works closely with all the divisions and other staff units.

See www.swisscom.ch/dataprotection

Infrastructure

The Swiss information society is supported by telecommunications networks. Swisscom continues to invest heavily in infrastructure to meet the broadband needs of the Swiss fixed and mobile network. The majority of people in every Swiss municipality should have access to increased bandwidths by the end of 2021, and FTTH coverage will nearly double by the end of 2025. At the end of 2019, Swisscom supplied 90% of the Swiss population with the basic version of 5G. commensurate with its strategy of building the best networks and laying a solid foundation for the digital transformation for Switzerland.

Infrastructure in Switzerland

Network infrastructure

The telecommunications networks form the backbone of the Swiss information society. This makes Swisscom the largest network operator in Switzerland by far, in both fixed and mobile networks. Swisscom wants to provide Swiss customers with the best fixed and mobile network, and is focusing on a smart combination of different network technologies so that the whole of Switzerland can benefit from the opportunities offered by the digital world. Swisscom currently operates three networks: the fixed network, the mobile network and the low-power network.

A new age of communication has begun

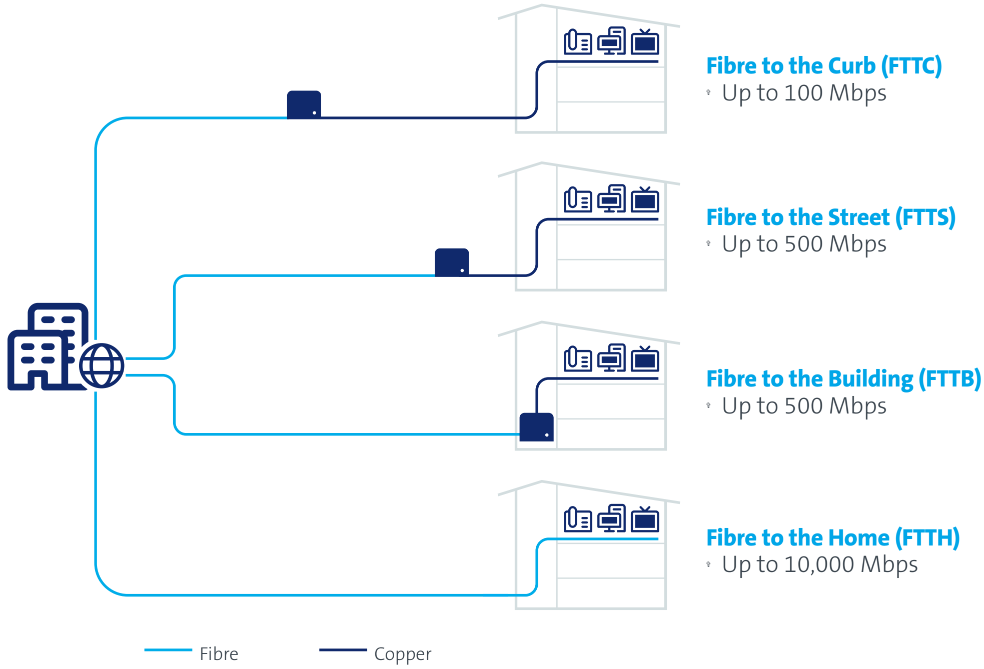
Swisscom has replaced conventional fixed-line telephony with the Internet protocol (IP), and thus geared its network towards the future. All Swiss municipalities have already switched to IP telephony. Private customers benefit from significantly improved voice quality, automatic name display and the ability to block annoying advertising calls. Swisscom wants to have transferred the last business customer locations to IP by the end of the first quarter of 2020. The dismantling of the old TDM systems is progressing, and large quantities of valuable materials such as copper, aluminium and precious metals are being recycled.

Leading international position thanks to constant expansion

Switzerland boasts one of the best IT and telecoms infrastructures worldwide, as international studies carried out by the OECD and IHS (Information Handling Services) regularly show. 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 IHS (Broadband Coverage in Europe 2018), the availability of broadband in rural regions of Switzerland is about twice as high as the EU average. By the end of 2019, 74% of homes and offices were already using bandwidths of more than 80 Mbps, over 47% of more than 200 Mbps and over 29% of up to 1 Gbps. The Swisscom mobile network is one of the best by international standards. It currently supplies around 99% of the Swiss population with 4G, 3G and 2G coverage. 97% of the population currently has 4G+ with speeds of up to 300 Mbps, 72% 4G+ with speeds of up to 500 Mbps, and 27% 4G+ with speeds of up to 700 Mbps.

Network expansion

Bandwidth requirements in the Swiss fixed and mobile telephone network continue to grow. In order to maintain such a high level of service provision, further investments in the networks are necessary. Swisscom therefore invests around CHF 1.6 billion in IT and infrastructure in Switzerland every year. In the fixed network segment, Swisscom is continuing to expand ultra-fast broadband coverage with minimum bandwidths of 80 Mbps by the end of 2021, and has now set itself new expansion targets to be achieved by the end of 2025. In doing so, it is focusing on a mix of fibre-optic technologies and convergent approaches that intelligently combine different network technologies. Swisscom uses the term “fibre-optic technologies” to mean Fibre to the Home (FTTH) as well as network architectures in which copper cables are used in the last few metres of the connection, such as 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.



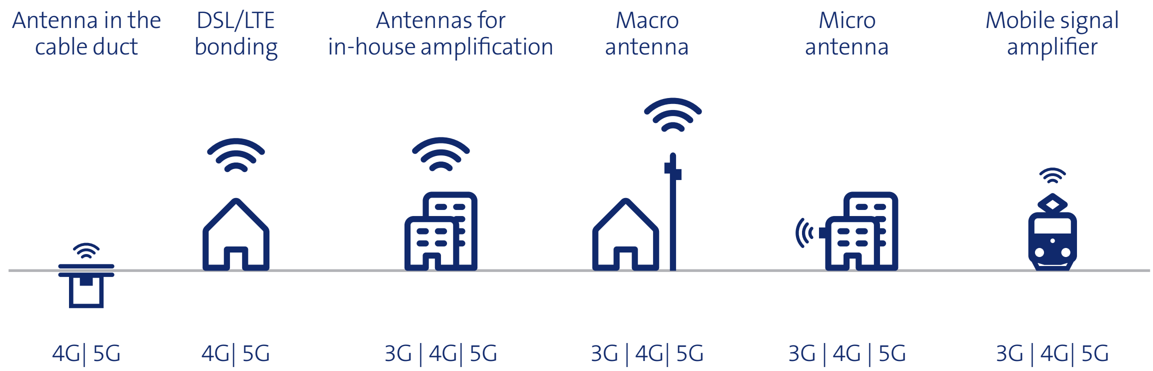
The majority of people in every Swiss municipality should have access to increased bandwidths by the end of 2021: by the end of 2021, some 90% of all homes and offices will have a minimum bandwidth of 80 Mbps – with around 85% of connections achieving speeds of 100 Mbps or higher.

Compared to 2019, FTTH coverage will also nearly double by the end of 2025. This means that 50% to 60% of all homes and offices will have a bandwidth of up to 10 Gbps. At the same time, Swisscom will continue to modernise its existing network in the coming years, giving 30% to 40% of homes and offices access to a bandwidth of 300 to 500 Mbps. Bonding technology is also helping to noticeably improve broadband provision in certain regions. Bonding combines the performance of the fixed-line network with that of the mobile network, thus ensuring a significantly better customer experience.

The volume of data transferred on the mobile network is constantly on the rise. 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. Progress continues to be made on expanding 4G+. The expansion of the fifth generation of mobile communications (5G) will be a key topic for Swisscom in the coming years. In February 2019, the Swiss Confederation auctioned off the mobile-phone licences for additional frequencies. Swisscom successfully participated in the auction and on 17 April 2019 became the first company in Switzerland and one of the first in the world to put its 5G network into operation.

See www.swisscom.ch/networkcoverage

5G is the mobile communication standard of digitisation and is therefore vitally important to Switzerland as a business centre, enabling speeds of up to 10 Gbps, real-time reaction and much larger capacities than current standards. By putting in place the first 5G infrastructure, Swisscom is highlighting its leadership in technology and laying the foundation for the further development of 5G applications. Swisscom has been working together with Ericsson since 2015 on the introduction of 5G in Switzerland. Its expectation is that 5G will drive forward the networking of the Internet of Things.



Swisscom is introducing 5G on various frequencies. The full version of 5G is based on the new 5G frequencies (3.5 GHz), while the basic version of 5G uses the existing mobile spectrum. With the basic 5G version, Swisscom has achieved its goal of covering 90% of the population by the end of 2019. That means we will be ready when devices capable of using 5G enter the market, which is expected to be in the first quarter of 2020. Despite the rapid nationwide introduction of 5G, it is not possible to use 5G to its full potential because of the strict legal limits that apply (ONIR – Ordinance on Protection against Non-Ionising Radiation). Furthermore, Swisscom takes the concerns many people have about 5G and mobile networks very seriously. Swisscom complies at all times with the strict precautionary limits in force, while working to clarify misunderstandings regarding 5G and mobile networks in the general public.

The Internet of Things (IoT) has long connected an immense number of objects and devices to one another and to users. Swisscom has further expanded its IoT portfolio. The dedicated IoT technologies Narrowband IoT and LTE-M have been introduced throughout Switzerland. The low-power network (LPN) now offers coverage of 97%. The entry of international cloud providers into the IoT market has given new impetus to the integration and scaling of IoT. Thanks to strong partnerships with Amazon and Microsoft, Swisscom is well positioned in this respect. It is already the leading provider of IoT system solutions required for cloud and analytics implementations as well as for operating them.

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 now shares nearly a quarter of its approximately 8,600 antenna sites with other providers. At the end of 2019, Swisscom had around 5,900 exterior units and 2,700 mobile communication antennas in buildings. With around 5,900 hotspots in Switzerland, it is also the country's leading provider of public wireless local area networks.

Mobile frequencies

Transmission of mobile signals requires the availability of suitable frequencies. In Switzerland, such frequencies are allocated on a technology-neutral basis, i.e. any mobile communications technology can be transmitted on the available frequencies. In 2012, the Federal Communications Commission (ComCom) allocated the frequencies 800 MHz, 900 MHz, 1,800 MHz, 2,100 MHz and 2,600 MHz. Swisscom currently uses these frequencies to offer its customers services via the 4G, 3G and 2G mobile communications technologies. In February 2019, further mobile radio frequencies – 700 MHz, 1,400 MHz, 2,600 MHz and 3,500 MHz – were allocated in Switzerland, primarily for transmission via 5G. Swisscom currently uses these mobile radio frequencies to offer its customers services via the 5G, 4G, 3G and 2G mobile communications technologies. It always does this within the legal limits, which in Switzerland are ten times stricter than those recommended by the World Health Organisation.

IT infrastructure and platforms

Not only are bandwidths in the networks constantly increasing, but so is the usage of cloud services. Swisscom is positioning itself as a trustworthy provider of private, public and hybrid cloud services and expanding its portfolio with the help of internationally renowned partners.

With its cloud strategy, Swisscom is positioning itself as a reliable IT partner with a broad range of services. Existing Swisscom IT platforms such as the Enterprise Service Cloud are becoming increasingly well established on the Swiss market and are being supplemented by innovative solutions such as Container as a Service. In addition, Swisscom is expanding its services with public cloud services (such as Amazon Web Services and Microsoft Azure) in order to address customers' individual needs.

The switch to data transmission only by means of Internet Protocol (All IP), together with the expansion of connectivity services, is increasing the requirements imposed on locations that previously provided telephony services. In order to meet the additional requirements, Swisscom has distributed the virtualisation of the network functions across four locations. This enables the transfer of large amounts of data with short response times.

Swisscom consistently uses its cloud platforms to provide internal and external communication services. It operates these cloud platforms in its own geographically redundant data centres, which thus enables efficient, automated use and improves the customer experience in a targeted manner. Swisscom is expanding its existing connectivity offering to include modern software-defined networking (SDN), paying special attention to the combination of modern and established services.

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 infrastructure, Swisscom is increasingly making use of the standardised systems created by its partners The focus on the development of market-specific value-adding services based on such infrastructure has proven sound. The industrialisation of IT continues to make headway, as does the development of modern applications that benefit from the opportunities offered by the platforms, cut costs and ensure maximum stability.

Nevertheless, the old and new technologies will continue to exist and function side-by-side over the coming years. Here Swisscom is establishing its role in the digital transformation through specific services such as the "Journey to the Cloud" portfolio. By combining different generations of technology to meet its needs, Swisscom is building upon its experience and expertise to provide the best possible support to its customers as they make their way into the digital world.

Infrastructure in Italy

Network infrastructure

Coverage with next-generation access (NGA) networks has grown significantly in Italy. Fastweb has made a significant contribution to this development by investing heavily in its network. Fastweb's ultra-fast broadband (FTTH and FTTS) is available to eight million homes and offices, the equivalent of 30% of the population. Moreover, Fastweb provides an additional 10 million homes and offices with ultra-fast broadband services based on wholesale services. Over the next few years, Fastweb will continue to improve and expand its ultra-fast broadband (UBB) coverage. It is doing this by setting up a 5G fixed wireless access (FWA) on the one hand, and by entering into a long-term agreement with Open Fibre to use their FTTH network infrastructure on the other. Until 2023, Fastweb's network will achieve UBB coverage of 60%, respectively 90% until 2026.

In 2018, Fastweb acquired in a public auction 200 MHz of the 26 GHz mobile spectrum and 40 MHz of the 3.5 GHz from another company. In 2019, Fastweb signed an agreement with WindTre for the construction and operation of a nationwide 5G network, and received a licence from the Italian authorities to operate as a mobile provider. In December 2019, Fastweb and Linkem concluded an agreement on a long-term cooperation. The subject of the cooperation is the joint expansion of the 5G fixed wireless access network infrastructure in medium-sized and small towns in Italy, as well as the mutual provision of wholesale services.

IT infrastructure

Fastweb operates four large data centres in Italy. The IT infrastructure comprises around 6,000 virtual servers and physical servers. One data centre is managed by a technology partner with responsibility for setting up and developing the data centre further, as well as for the operational areas of Fastweb's IT infrastructure. Two data centres are mainly used for the corporate business segment, including housing, the cloud, and other ICT-managed services.

Employees

In an environment that is changing at a rapid pace, Swisscom is getting to grips with the working models of the future, making targeted investments in professional training for its employees in order to maintain and improve their employability and the company's competitiveness in the long term. Swisscom grants its employees five training days a year. As a family-friendly company, Swisscom offers a wide range of options such as mobile working and flexible working hours. At the end of 2019, Swisscom had 19,317 full-time equivalent employees, of whom 16,628 or 86% were employed in Switzerland. Swisscom is also training around 900 apprentices in Switzerland.

Employees in Switzerland

Introduction

The digital transformation is happening everywhere – it presents many opportunities as well as great challenges for employees and companies. To take advantage of these opportunities and to overcome the challenges requires motivated employees who use their individual skills and experience to inspire people in the networked world on a daily basis. Swisscom supports its employees in enhancing and supplementing their skills so that the necessary competencies and resources will continue to be available in the future. In turn, it is key for employees to continuously develop and educate themselves. For this reason, Swisscom grants all employees five training and development days per year, for which a provision is included in the Collective Employment Agreement (CEA). Swisscom also offers a wide range of training courses. These are aimed at strengthening the employability of employees. Swisscom has also signed Digital Switzerland's "Lifelong Learning" initiative, and supports lifelong learning in the public domain.

Swisscom positions itself on the ICT job market as an attractive employer, offering its employees the opportunity to assume responsibility, utilise their potential and further develop their abilities. Swisscom staff are employed under private law on the basis of the Code of Obligations. Swisscom management employees in Switzerland are subject to general terms and conditions of employment, while all other employees are subject to Swisscom's Collective Employment Agreement (CEA). The terms and conditions of employment exceed the minimum standard defined by the Code of Obligations. In the year under review, 98.7% of the employees in Switzerland were on open-ended contracts (prior year: 99.7%). Part-time employees made up 20.1% (prior year: 20.2%). The fluctuation rate, representing departing employees in Switzerland, was 6.1% of the workforce (prior year: 6.8%). Further information on HR matters 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 in the various divisions). The Collective Employment Agreement (CEA) and the social plan, with their fair and jointly drafted provisions, are negotiated by Swisscom Ltd and its social partners and applicable to Swisscom Ltd's employees. Subsidiaries adopt the CEA, either in its original form or as adapted to specific sectors or lines of business, by means of an affiliation agreement. cablex Ltd negotiates its own CEA with the social partners. The present cablex CEA has been in force since 1 January 2019.

Under the Telecommunications Enterprise Act (TEA), Swisscom is 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 present CEA has been in force since 1 July 2018. At the end of December 2019, 81% of the workforce in Switzerland were covered by the CEA (prior year: 82%).

The Swisscom CEA includes progressive employment conditions and benefits such as five days of further training per year, 18 weeks of maternity leave and three weeks of paternity leave. The CEA also accords the social partners and employee representations a greater or lesser degree of entitlement to information, participation and co-decision making in various areas.

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. The social plan also makes use of instruments 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 services it offers include skill assessments, career advice and coaching. 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. In 2019, 83% of those affected by personnel reduction measures had found a new job before the social plan programme ended (prior year: 88%). For employees with management contracts, there is an arrangement comparable to the social plan which supports them in their professional reorientation.

Employee remuneration

Salary system

Competitive remuneration 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. The company's success is measured by the achievement of overriding objectives such as financial parameters, customer loyalty and the implementation of the Swisscom Group's strategy. Individual performance is measured on the basis of 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 96**

Pay round and payroll development

In 2019, Swisscom and its social partners signed an agreement on the pay round for the year under review. With effect from April 2019, salaries for employees subject to the CEA were increased by 1.4% of the total payroll, dependent on performance. Employees with salaries in the entry-level or market segment received a salary increase of at least 0.9%, subject to their performance. The performance of employees whose salaries are in the upper range of the respective salary band was rewarded by a one-off payment. Specific adjustments were made to salaries that needed to be brought in line with the market. The total payroll for managers increased by 1.25% to allow for individual salary adjustments. Compared to the prior year, the total payroll in Switzerland fell by 1% to CHF 2.0 billion, as a result of the reduced headcount.

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. By doing this, it provides employees and management with a learning environment in which they can develop new skills and shape their own professional development. In 2019, every Swisscom employee spent an average of 3.3 days on learning, training and development.

Employee satisfaction

The Pulse survey gives Swisscom employees an opportunity to submit their feedback on a wide variety of issues relating to their personal work situation twice a year. The results and the comments in which employees give their assessments are available to all employees in real time. They enable every employee, the teams and the organisation as a whole to respond quickly to the feedback and start to make improvements. A survey of this type fosters a culture of feedback which creates a basis on which Swisscom and its employees can grow together. The rate of responses to the Pulse survey is constantly rising: the average employee participation rate for the two surveys in 2019 was 70% (2018: 67%). Some 90% of the employees participating in the survey said they were highly likely to recommend Swisscom as an employer. Swisscom's ratings are generally higher than the comparative figures for the sector in the factors surveyed.

Diversity

The different points of view, experiences, ideas and skills that every single employee brings to bear on their everyday work are what make Swisscom a successful and innovative company. To promote diversity, Swisscom focuses in its activities on the factors of gender, inclusion, generations and language regions. In relation to gender, for example, Swisscom also endeavours to make work compatible with family life. Flexible working models and the option of reducing working hours on an experimental basis are making part-time working more acceptable. Swisscom is also committed to making jobs available to people with physical or psychological impairments in order to (re)integrate them into the workforce (inclusion). The proportion of such posts increased from 0.93% to 0.97% versus the previous year. Swisscom tries to earmark at least 1% of jobs for inclusion employment solutions. Swisscom also works towards integration where generation management is concerned, with flexible working models and many development measures in place to help older employees keep working for as long as possible. Swisscom is represented in all of Switzerland's language regions. It attaches great importance to ensuring that the various languages are adequately represented on the governing bodies.

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. 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 salary for 180 days and payment of 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 complies with the legal minimum salary defined by the CCNL.


Stay well connected even in the most remote locations, and make sure that loved ones can be part of your life.
Swisscom is improving broadband connections in every municipality by constantly expanding the network and increasingly combining the performance of the fixed line and mobile networks.


Best network
Share the most beautiful moments at any time – no matter when, where and with whom.
Each year, Swisscom invests around CHF 1.6 billion in its infrastructure in Switzerland.

Brands, products and services

The Swisscom brand builds a bridge between the familiar and the new. It brings together all products and services from the core business under a single roof. Swisscom constantly adapts the range of services and products it offers to its customers' needs. Both residential and business customers have benefited from changes and improvements to their inOne, Swisscom TV and other services. In line with the current trend in Italy, Fastweb strengthens the customer base with convergent products.

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 Swisscom brand is implemented across all units in a consistent and high-quality manner. At the same time, it has to be extremely flexible, 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.

Core business products and services are offered under the Swisscom brand, as well as under the secondary brand Wingo and the third-party brands Coop Mobile and M-Budget. Its portfolio also includes other brands which are associated with other themes and business areas. Swisscom operates the Teleclub, Kitag and Cinetrade brands, which help to position the Group in the entertainment field. 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

Society, technology and the environment are changing ever more rapidly. A brand must absorb these changes while offering direction and stability. Swisscom expects its employees to demonstrate trustworthiness, commitment and curiosity in everything they do. Based on these foundations, Swisscom presents itself as a reliable provider, builds on its position as market leader and opens up new business areas. Swisscom gives its customers the opportunity to take advantage of the networked future easily.

The year under review was shaped by the strategic decisions taken in the previous year. The more flexible corporate design, which is increasingly geared to digital applications and is intended to spotlight customers and their options even more, has been extended to a wide range of touchpoints. The Swisscom promise and design are visible and tangible in all of Swisscom's offerings, products and communication measures.

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. In the "Switzerland 50" survey carried out by Brand Finance, Swisscom ranks in eighth place. This makes it one of the most valuable brands in Switzerland, worth around CHF 6 billion according to Brand Finance.

Products and services in Switzerland

Residential Customers

In order to provide its customers with the best communications experiences, Swisscom is constantly adjusting its portfolio of offerings to meet customer needs. It has further developed the successful inOne subscriptions and made them even more attractive. The modular structure of inOne subscriptions enables customers to select the performance of individual components according to their needs and to easily deploy new mobile devices such as smart watches, trackers or tablets.

Thanks to inOne, Swisscom is able to provide private individuals with a bundled offering with a choice of TV, mobile and fixed-line telephony on top of the broadband connection. Customers can choose from three separately priced profiles with varying levels of service for each of the components. As the profiles differ mainly in terms of Internet speed, the number of TV channels available, the recording and replay functions, and the billing of call minutes/SMS messages, inOne can be easily adapted to individuals' needs.

In 2019, Swisscom further expanded the inOne mobile subscription. The new inOne mobile go subscription allows customers unlimited use of their smartphones in Switzerland. But that's not all. Swisscom is the first provider to also include use in the EU/Western Europe in its subscription. Swisscom customers thus enjoy carefree calling, SMS messaging and surfing in the Internet in Switzerland and on most trips abroad. Plus, customers can add on devices such as tablets, laptops, smart watches, GPS trackers or a second smartphone easily and inexpensively, all under their existing contract. Customers are increasingly keen to have devices of this kind with a mobile connection.

Swisscom TV also once again significantly enhanced its appeal to customers during the year. Thanks to a new user interface and improved integration of the various content providers, content can be found and enjoyed even more easily on Swisscom TV. The new Swisscom Box also creates a completely new TV experience. With the new, integrated language assistant, customers not only control Swisscom TV more easily than before, but also operate smart home devices such as lamps and music systems linked via the Swisscom Home app simply by voice command. The new Swisscom Box thus creates an ecosystem that offers customers more freedom and options in the digital world.

Swisscom targets its other brands – Wingo, Coop Mobile and M-Budget – at customers who do not want the high-quality service and extensive range offered by Swisscom products. M-Budget and Wingo offer customers straightforward and attractive mobile, Internet and fixed-line services. Coop Mobile is exclusively a mobile subscription. What sets it apart is that 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. Swisscom is also continually upgrading its service offerings, thus catering to changing customer needs.

Business customers

The digital transformation continues to be a key issue for companies and is changing their business processes, business models, customer experiences and working environments. The digital transformation depends on solid communication networks. Swisscom makes use of its many years of experience as an integrated telecommunications and IT company in supporting customers through the digitisation process. It works together with customers to develop future-oriented solutions, supported by one of the most comprehensive ICT portfolios in Switzerland, which comprises cloud, outsourcing, workplace and IoT solutions, as well as mobile phone solutions, networking solutions, location networking, business process optimisation, SAP solutions, security and authentication solutions and a full range of services tailored to the banking industry. In 2019, Swisscom primarily extended its global cloud offering with Microsoft Azure and expanded security and IoT solutions. The company makes hospitals more efficient by providing them with support in the digitisation of their processes. 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.

Standardised yet individual: Swisscom offers small businesses a bundled package for Internet and telephony called “inOne SME”. Larger SMEs or those with more complex needs can use “Smart Business Connect”, an individualised communication solution with collaboration and networking features. Both offerings include integrated services such as Internet failure protection and can be supplemented with Swisscom TV, Swisscom TV Public or, most recently, Swisscom TV Host for hotels and homes. SMEs also depend on a reliable IT infrastructure for their business operations, because IT infrastructure is increasingly becoming the lifeline of companies. However, IT should not only run flawlessly throughout, but should also be easily and flexibly adaptable to market and company changes at any time. “Smart ICT” provides customers with a complete IT outsourcing package as a modular integrated solution. Together with IT partners in the regions, Swisscom handles the operation of the customer’s ICT infrastructure and takes care of data security in a professional manner. In 2019, Swisscom launched “Managed Security” and “Managed Backup”, two new IT security products aimed at offering SMEs maximum security against attacks and loss. The SME portfolio is completed by mobile subscriptions tailored to the needs of business customers along with software and Internet services.

Through integrated and innovative offerings, Swisscom aims to relieve the burden on Swiss SMEs and enable them to take advantage of the opportunities offered by the networked world. Swisscom also 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).

Wholesale

Swisscom provides a variety of copper- and fibre-optic-based connectors as per customer requirements. With its Carrier Ethernet and Carrier Line services and lines leased under the TCA, Swisscom Wholesale offers telecoms service providers high-quality, transparent, point-to-point connections tailored to their needs with a range of bandwidths and interfaces and/or a flexible Ethernet service allowing tailored bandwidths and service level agreements. Swisscom Wholesale also provides basic offerings for the connection (interconnection) of telecoms systems and services as well as infrastructure products such as the shared use of cable ducts. In addition, Swisscom Wholesale is opening up advanced business areas in the over-the-top (OTT) content field.

Products and services in Italy

In the residential customer segment, Fastweb further strengthened its fixed-mobile convergent business and its go-to-market approach based on transparency and simplicity. As a result, it confirmed its leading position in customer satisfaction in fixed-line services and also achieved a top ranking in mobile communications. In addition, Fastweb supplemented its portfolio for residential customers with the personal cloud service “WOW Space”.

In the business customer segment, Fastweb maintained its leading role, particularly in the area of public administration, where it won major national public framework contracts for wireline and ICT services. Fastweb has launched UBB wholesale services for corporate customers, with the aim of becoming a strong alternative to the incumbent.

Customer satisfaction

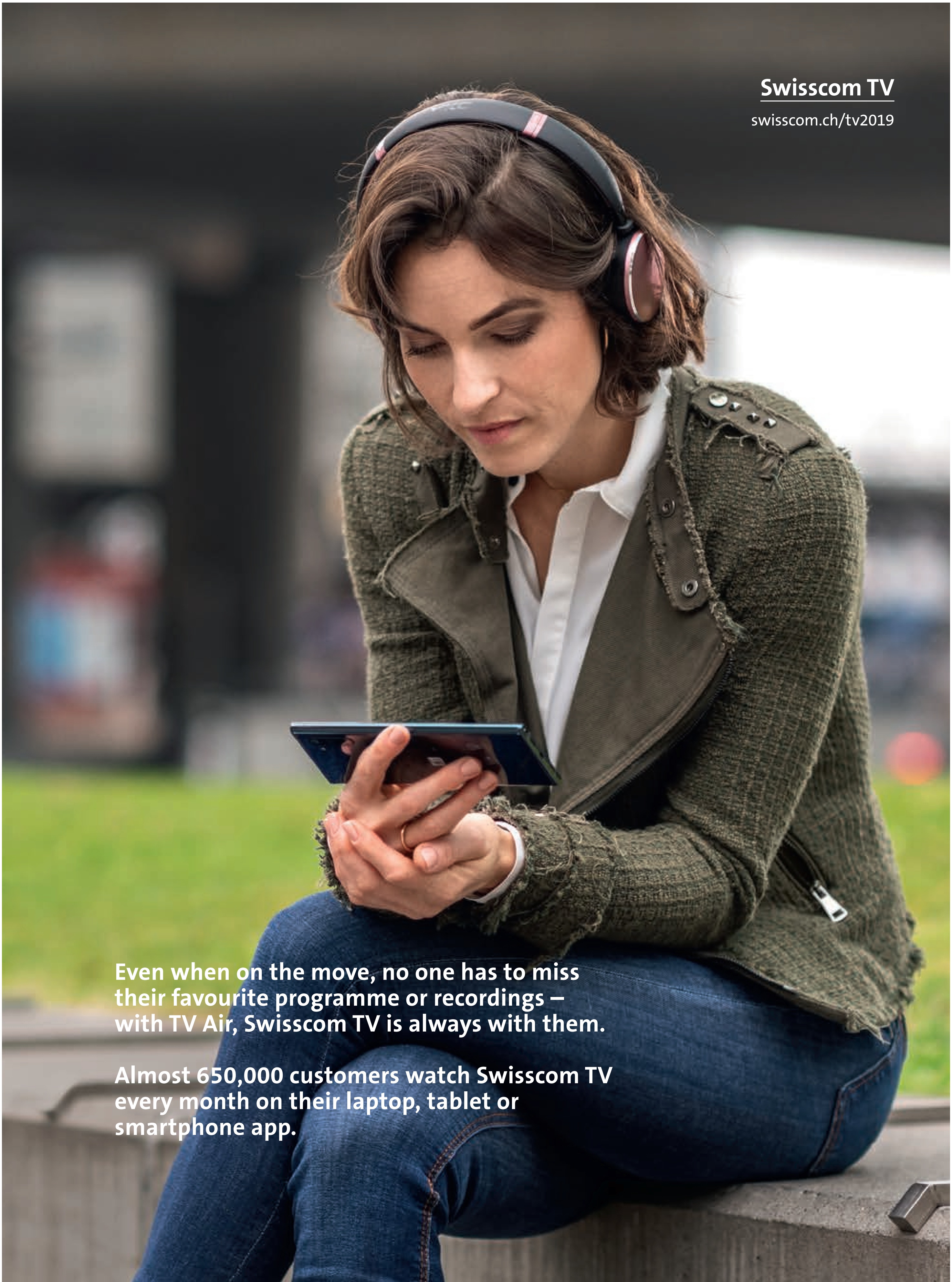
Swisscom Switzerland conducts segment-specific surveys and studies in order to measure customer satisfaction. It measures customer satisfaction twice a year, in the second and fourth quarters of the year. The Wholesale segment measures customer satisfaction once a year. For all segments, the most important 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. It 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 customers' willingness 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 formulate measures to further improve its services and products. They also influence the variable performance-related component of remuneration for employees and management.

Hey Swisscom – the new Swisscom Box not only offers the best TV entertainment, it now also allows additional networked smart home devices to be voice-controlled.

1.56 million customers have signed up to Switzerland’s most popular television service.


Swisscom TV
swisscom.ch/tv2019
Even when on the move, no one has to miss their favourite programme or recordings – with TV Air, Swisscom TV is always with them.
Almost 650,000 customers watch Swisscom TV every month on their laptop, tablet or smartphone app.

Innovation and development

Globalisation, new technologies and changing customer needs are leading to an ever more rapid pace of change. By constantly investing in innovation, Swisscom brings new products and services to market, optimises processes and secures its long-term market position.

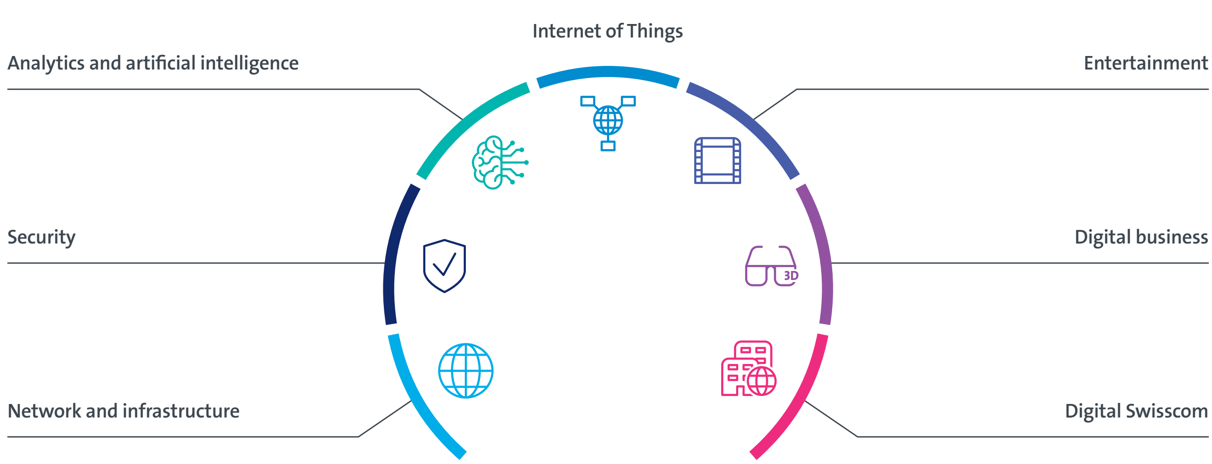
Innovation as an important driver

Innovation has continually gained in importance in recent years. In addition to the ongoing optimisation of existing resources, Swisscom is investing in disruptive innovations, thereby creating new markets and maintaining its corporate value in the long term. Swisscom strives to anticipate strategic challenges, new growth areas and future customer needs early on and to formulate solutions that create added value and inspire people. To this end, it works closely with partners, universities, start-ups and established technology companies: Swisscom Outposts in Silicon Valley, Shanghai and Berlin conduct technology scouting and transfers for Swisscom. Swisscom Ventures networks start-ups with Swisscom's business units in order to stimulate innovation. Investments in over 61 new companies since 2007 have already created more than 1,300 jobs in Switzerland. The Digital Transformation Fund, launched in 2018, will continue this story. In addition, the internal intrapreneurship programme, "Kickbox", supports the company's internal innovation process. It provides employees with tools, a clear process and resources for innovation projects. The programme is available to other corporate customers via getkickbox.com.

See www.swisscom.ch/innovation

Innovation focused on specific topics

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



Within these areas of innovation, Swisscom continually invests in progressive solutions to meet its strategic goals. In doing so, its primary goal 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 and infrastructure

Swisscom is focusing on a technology mix so that the whole of Switzerland can benefit from the best infrastructure. Its innovative architecture also enables it to renew all components from the core network to the connection. Swisscom is thus laying the foundations to enable the rapid introduction of new services in the future and to be the first provider to make new developments available to customers.

Mobile telephony

Swisscom has strongly promoted 5G as the next generation of mobile communications standards. In November 2018, its connection of the first prototype of a 5G mobile handset with a 5G network was a world premiere. The first international 5G call was made to Australia in February 2019. In April 2019, Swisscom became the first mobile operator in Switzerland and one of the first operators worldwide to launch the commercial 5G live network and also presented the first commercially available 5G mobile device in Europe.

XGS-PON

Swisscom is one of the first Swiss companies to use XGS-PON fibre-optic technology, which significantly increases the available bandwidths on a fibre-optic connection. With XGS-PON, several customers use one fibre optic cable at the same time until the manhole near the building. In the manhole, Swisscom applies a splitter in an advanced architecture.

Internet of Things (IoT)

The innovation potential of IoT accelerates lucrative business models, automated processes and the creation of novel customer interactions and intelligent products. Swisscom also supports companies and start-ups through various formats to successfully enter the IoT and to develop it further.

First IoT overall solution

Swisscom has further expanded its IoT portfolio and also positioned itself as a provider of system solutions. Swisscom's "Data driven" service supports companies to collect and process data and shows them the resulting added value. For example, Swisscom partnered with the international goods inspection company SGS to develop a system solution for monitoring the degree of fermentation of grain in Egyptian silos. The data is collected on site and then transmitted securely and reliably, processed in the Microsoft Azure Cloud, analysed and finally fed into the customer's data system (ERP). With this solution, Swisscom ensures that huge quantities of grain do not ferment and become unusable.

See www.swisscom.ch/lpn

Analytics and artificial intelligence

Artificial intelligence (AI)

Swisscom makes targeted use of artificial intelligence to offer its customers an even better service. AI is used in areas such as customer service to detect network faults and to enhance the efficiency of internal processes. In future, customers will be able to control the automated voice dialogue on the Swisscom hotline via AI-based voice recognition instead of the classic numeric input. This will allow customer concerns to be identified more quickly and customers to be forwarded directly to the appropriate agent.

Security

Security thanks to automation

Threats from the Internet are constantly growing in number and becoming increasingly intelligent. Swisscom is already using automation technologies and artificial intelligence (AI) to help repel attacks by automatically detecting attacks and dangers and promptly initiating appropriate countermeasures to protect the company, its infrastructure and customers. In early 2019, Swisscom opened the Security Operations Center (SOC) in Zurich. For business customers, Swisscom offers dedicated facilities through Managed Security Services to monitor the infrastructure. Swisscom is also increasing the transparency of the data processed by building an extensive data inventory.

Entertainment

Swisscom Box with Voice Assistant

The innovative Swisscom Box opens up brand-new possibilities for customers. It combines the content from streaming and classic television on one screen and, with an integrated language assistant, enables the control of Swisscom TV functions and the first smart home applications. The new Entertainment OS4 user interface also makes Swisscom TV even more personal.

Digital Swisscom

In a dynamic market environment characterised by competition and price pressure, the speed of change is accelerating rapidly due to increasing digitisation. For Swisscom, this means adapting its forms of cooperation and structures accordingly. In 2019, Swisscom therefore took further steps to digitise its network, its workplaces and its processes. Swisscom Message Services was expanded in 2019 to include the WhatsApp platform. Swisscom is thus meeting a growing customer need. In the future, it will systematically develop its communication channels even more efficiently, digitally and automatically. Swisscom is also consolidating its leading role in service among Swiss telecommunications providers.

Digital business

In the field of digital business innovation, Swisscom supported developments within and outside its own company in 2019 by setting up and further developing joint ventures with strategic partners and promoting intrapreneurship. Swisscom is focusing on the fintech, digital marketing and blockchain segments. It is also continuously researching other segments that could become relevant to its activities.

Swisscom Directories Ltd (localsearch)

Many Swiss SMEs have yet to experience any substantial benefits of digitisation. Swisscom's subsidiary Swisscom Directories Ltd (localsearch) helps SMEs in the digital world achieve success, enabling them to be found online, to acquire new customers and secure their loyalty; in these ways, localsearch helps SMEs use digital marketing to make their mark. With SWISS LIST, localsearch is taking classical directory entries into the digital era. SWISS LIST was launched in 2019 and has already amassed more than 100,000 customers. In addition, localsearch operates the local.ch and search.ch platforms, the directories with the most extensive reach in Switzerland.

FinTech

Swisscom and Sygnum Bank Ltd want to build a comprehensive ecosystem for digital assets. The core elements of this ecosystem are the issue of securities, safekeeping and access to liquidity and banking services. It is based on a distributed ledger technology developed and operated by Swisscom. Included in the ecosystem is daura Ltd, in which Swisscom holds a minority interest, and the subsidiary Custodigit Ltd. The daura Ltd platform is designed to enable unlisted companies to register or issue equities via blockchain and to transfer them securely worldwide. Certain functions are still subject to the approval of the supervisory authority. Custodigit Ltd offers regulated financial service providers a technical solution for the safekeeping of digital assets. The integrated platform enables customers to manage the entire lifecycle of their digital assets. In addition to assets, Swisscom also intends to digitise documents on the basis of the blockchain infrastructure. In the future, it should be possible to digitally issue, verify, transfer and archive not only registers, but also contracts and certificates.

Intelligent networking

Founded by Swisscom and AMAG, autoSense Ltd focuses on the development of advanced automotive services, and has quickly established itself as one of the most important players in this segment. The company offers services related to the intelligent networking of cars for private individuals and companies as well as partner services, which are constantly being expanded. These include a driver's logbook, remote diagnosis with warnings in the event of engine problems, an app for cashless refuelling, pay-per-kilometre insurance and digital assistance for driving instructors and students.

Digital identity

Swisscom holds a stake in the SwissSign Group Ltd. SwissSign is widely supported by state-owned enterprises as well as by finance and insurance companies. Its shareholders want SwissID to become a means of establishing an open and simple system for digital identification. SwissID can already be used easily and securely on numerous online portals, including those of Swiss Post, St. Galler Kantonalbank and the cantons of Jura, Graubünden and Zug.

Digital advertising

The interactive platform "Beem" allows users to interact with objects in their vicinity. Once Beem is activated, one click takes users to additional information on their smartphones, e.g. excursion tips, background information on art exhibitions, exclusive tickets and ordering options for products. Beem has been available since October 2019 in the apps of partners 20Minuten and Bluewin and in the Beem app. In the first half of 2020, Blick.ch will follow as a further partner.

Drones

Swisscom is digitising airspace, and wants to automate drone flights and make them safe. One of the functions of the Swisscom Drone Hub is to identify ways of using the mobile network to control drones. In the second half of 2019, Swisscom Broadcast launched "Drone Spotter", a modular protection solution for detecting, tracking and monitoring drones. Swisscom also cooperates with start-ups and the Zurich Federal Institute of Technology (ETH), for example in the projects Smart Farming (use of drones for more sustainable agriculture) and Illgraben (early warning system for natural hazards). Swisscom, together with other partners, is also part of the U-Space initiative launched by the Federal Office of Civil Aviation (FOCA). This nationwide cooperation, commenced at the end of March 2019, promotes the safe integration of drones in airspace.

“We prefer to spend our time exciting our customers with exclusive chocolate creations – we leave the technical work to the professionals.”

Confiserie Fornerod, Morges

Swisscom eases the burden on small and medium-sized companies with standardised and modular products for telephony and IT infrastructure. This allows SMEs to focus on their core business.

“Networking 21 clinics right now throughout Switzerland makes it easier for our 2,000 users to collaborate digitally. It is important for us to be able to rely on a strong partner when it comes to security as well.”

Clinique de Genolier, a private clinic of Swiss Medical Network

Business customers can count on comprehensive support from Swisscom, whether this is for telephony, workstation networking or integrated and secure IT solutions.

Financial review

Alternative performance measures

Swisscom uses key indicators defined in the International Financial Reporting Standards (IFRS) throughout its entire financial reporting, as well as selected alternative performance measures (APMs). These alternative measures provide useful information on the Group's financial situation and are used for financial management and control purposes.

As these measures are not defined under IFRS, the calculation may differ from the published APMs of other companies. For this reason, comparability across companies may be limited.

The key alternative performance measures used at Swisscom for the 2019 financial reporting are defined as follows:

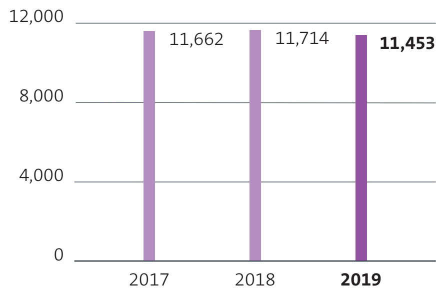
Key performance measure	Swisscom definition
Adjustments	Significant items that, due to their exceptional nature, cannot be considered part of the Swisscom Group's ongoing performance, such as termination benefits and significant positions in connection with legal cases or other non-recurring items. In addition, the application of changes in the IFRS accounting principles and standards can have an impact on comparability with the previous year if these principles are not applied retrospectively.
Adjusted and at constant exchange rates	Key performance measures considering adjustments and the currency effects (figures for 2019 are translated at the 2018 exchange rate to calculate the currency effect).
Operating income before depreciation and amortisation (EBITDA)	Operating income before depreciation of property, plant and equipment, amortization of intangible assets and rights of use, financial expenses and financial income, income from investments accounted for using the equity method and income tax expense.
Operating income (EBIT)	Operating income before depreciation and amortisation of property, plant and equipment, intangible assets and right-of-use assets, financial expense and financial income, result of equity-accounted investees and income tax expense.
Capital expenditure	Purchase of property, plant and equipment and intangible assets and payments for indefeasible rights of use (IRU) which are classified as leases under IFRS 16. In general, IRUs are paid in full at the beginning of use.
Operating free cash flow proxy	Operating income before depreciation and amortisation (EBITDA) less purchase of property, plant and equipment and intangible assets and payments for indefeasible rights of use (IRU) and lease expense. Lease expense for 2019 include interest expense on lease liabilities and depreciation of right-of-use assets excl. depreciation of IRUs. In 2018, lease expense according to IAS 17 is included in operating free cash flow proxy.
Free cash flow	Cash flows from operating and investing activities excl. cash flows from the purchase and sale of subsidiaries and purchase of and proceeds from equity-accounted investees and other financial assets. In prior year, dividends received are not included in free cash flow.
Net debt	Financial liabilities less cash and cash equivalents, current financial assets, derivative financial instruments held to hedge financial liabilities and other non-current financial assets directly related to non-current financial liabilities (certificates of deposit and U.S. treasury bond strips). See annual report page 56.
Net debt incl. lease liabilities	Net debt and lease liabilities.

Reconciliation of alternative performance measures

In CHF million	2019	2018	Change
Net revenue			
Net revenue	**11,453**	**11,714**	**–2.2%**
Foreign currency translation	89	–	
Net revenue at constant exchange rates	**11,542**	**11,714**	**–1.5%**
Operating income before depreciation and amortisation (EBITDA)			
EBITDA	**4,358**	**4,213**	**3.4%**
Termination benefits	56	–	
Operating lease expense according to IAS 17	–	207	
Other adjustments from first-time application of IFRS 16	–	19	
EBITDA adjusted	**4,414**	**4,439**	**–0.6%**
Foreign currency translation	29	–	
EBITDA adjusted and at constant exchange rates	**4,443**	**4,439**	**0.1%**
Capital expenditure			
Capital expenditure in property, plant and equipment and intangible assets	2,390	2,404	
Payments for indefeasible rights of use (IRU)	48	–	
Capital expenditure	**2,438**	**2,404**	**1.4%**
Foreign currency translation	24	–	
Capital expenditure at constant exchange rates	**2,462**	**2,404**	**2.4%**
Operating free cash flow proxy			
Cash inflow from operating activities	3,981	3,720	261
Capital expenditure	(2,438)	(2,404)	(34)
Depreciation of right-of-use assets	(282)	–	(282)
Depreciation of indefeasible rights of use (IRU)	30	–	30
Change in deferred gain from the sale and leaseback of real estate	12	12	–
Change in operating assets and liabilities	(100)	70	(170)
Change in provisions	(58)	57	(115)
Change in defined benefit obligations	(48)	(64)	16
Gain on sale of property, plant and equipment	13	17	(4)
Loss on disposal of property, plant and equipment	–	(7)	7
Expense for share-based payments	(1)	(1)	–
Revenue from finance leases	101	–	101
Interest received	(25)	(24)	(1)
Interest paid on financial liabilities	88	133	(45)
Interest paid on lease liabilities	–	24	(24)
Dividends received	(18)	(18)	–
Income taxes paid	371	294	77
Operating free cash flow proxy	**1,626**	**1,809**	**(183)**
Free cash flow			
Cash inflow from operating activities	3,981	3,720	261
Cash flow used in investing activities	(2,733)	(2,495)	(238)
Repayment of lease liabilities	(276)	–	(276)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	394	78	316
Sale of subsidiaries, net of cash and cash equivalents sold	3	–	3
Purchase of equity-accounted investees	15	35	(20)
Purchase of other financial assets	13	31	(18)
Proceeds from other financial assets	(52)	(32)	(20)
Dividends received	–	(18)	18
Free cash flow	**1,345**	**1,319**	**26**

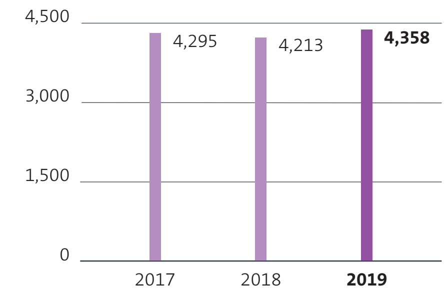
Net revenue

in CHF million



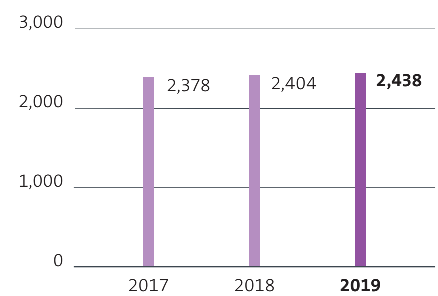
EBITDA

in CHF million



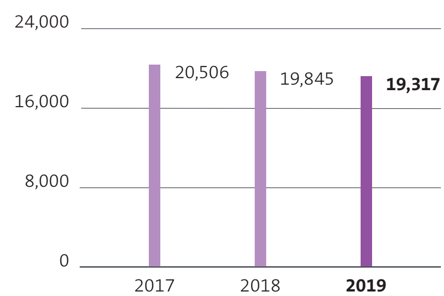
Capital expenditure

in CHF million



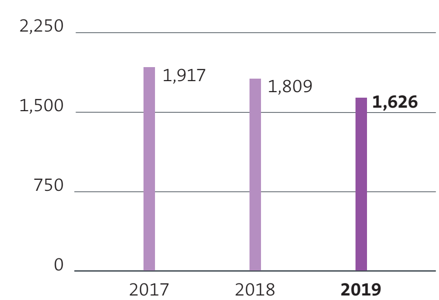
Headcount

in full-time equivalents



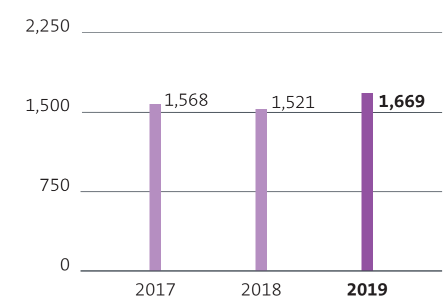
Operating free cash flow proxy

in CHF million



Net income

in CHF million



Summary

In CHF million, except where indicated	2019	2018	Change
Net revenue	11,453	11,714	–2.2%
Operating income before depreciation and amortisation (EBITDA) [1]	4,358	4,213	3.4%
EBITDA as % of net revenue	38.1	36.0	
Operating income (EBIT)	1,910	2,069	–7.7%
Net income	1,669	1,521	9.7%
Earnings per share (in CHF)	32.28	29.48	9.5%
Operating free cash flow proxy	1,626	1,809	–10.1%
Capital expenditure	2,438	2,404	1.4%
Net debt incl. lease liabilities [1]	8,785	7,393	18.8%
Equity ratio [1]	36.6	36.3	
Full-time equivalent employees at end of year	19,317	19,845	–2.7%

1 Swisscom has been applying IFRS 16 "Leases" since 1 January 2019. The prior year's figures have not been adjusted. As a consequence of the first-time application of IFRS 16, additional lease liabilities and right-of-use assets of CHF 1,238 million were reported with effect from 1 January 2019. As a result, the equity ratio fell to 34.4% as at 1 January 2019. EBITDA of the previous year includes expenses of CHF 207 million from operating leasing in accordance with IAS 17.

Swisscom's net revenue decreased by 2.2% to CHF 11,453 million. On the basis of constant exchange rates, the decrease was 1.5%. The year-on-year comparison of operating income before depreciation and amortisation (EBITDA) is affected by the application of new requirements for the recognition of leases (IFRS 16). At CHF 4,358 million, reported EBITDA was up by 3.4% or CHF 145 million, and was unchanged from the previous year on an adjusted basis and at constant exchange rates (+0.1%). Net income increased by 9.7% to CHF 1,669 million due to one-off effects in income tax expense. Payment of an unchanged dividend of CHF 22 per share for the 2019 financial year will be proposed to the Annual General Meeting.

In the Swiss core business, revenue fell by CHF 243 million or 2.8% to CHF 8,563 million as a result of ongoing price pressure and the decline in the number of connections in fixed-line telephony. The number of revenue generating units (RGU) dropped by 1.7% compared with the previous year to 11.5 million. In contrast, revenue at Italian subsidiary Fastweb increased in local currency by EUR 114 million or 5.4% to EUR 2,218 million, driven by revenue growth in business with residential and business customers. The number of customers in the broadband business rose by 3.5% to 2.64 million and in mobile telephony by 26.1% to 1.81 million.

In the Swiss core business, EBITDA decreased by 2.4% to CHF 3,491 million; on an adjusted basis the decline was 0.6%. This decrease, which is attributable to lower revenue, was largely offset by ongoing cost-cutting measures. At Fastweb, EBITDA rose in local currency by 7.8% to EUR 750 million as a result of the growth in revenue; on an adjusted basis the increase was 5.2%.

Swisscom's capital expenditure increased by 1.4% or CHF 34 million to CHF 2,438 million. This figure includes CHF 196 million paid for mobile radio frequencies which Swisscom acquired at auction in Switzerland. The frequencies were allocated in April 2019 and will remain with Swisscom until 2034. Due to the expenses for the mobile frequencies acquired, capital expenditure rose in Switzerland to CHF 1,770 million. At Fastweb, capital expenditure decreased by 8.8% or EUR 58 million to EUR 599 million. The previous year's figure included expenses of EUR 64 million for the acquisition of mobile radio frequencies.

Operating free cash flow proxy declined by CHF 183 million or 10.1% to CHF 1,626 million, mainly as a result of expenses of CHF 196 million for mobile radio frequencies in Switzerland. Net debt including lease liabilities amounted to CHF 8,785 million, while the net debt/EBITDA ratio remained stable at 2.0.

The number of employees declined by 2.7% year-on-year, to 19,317 FTEs. In Switzerland, headcount fell by 519 FTEs or 3.0% to 16,628 FTEs as a result of the declining core business. Over half of the reduction was achieved through natural fluctuation and vacancy management.

For 2020, Swisscom expects net revenue of around CHF 11.1 billion, EBITDA of around CHF 4.3 billion and capital expenditure of around CHF 2.3 billion. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2020 financial year at the 2021 Annual General Meeting.

Segment results

In CHF million, except where indicated	2019	2018	Change
Net revenue			
Residential Customers	5,691	5,924	–3.9%
Enterprise Customers	2,312	2,408	–4.0%
Wholesale [1]	968	894	8.3%
IT, Network & Infrastructure	85	79	7.6%
Intersegment elimination	(493)	(499)	–1.2%
Swisscom Switzerland	**8,563**	**8,806**	**–2.8%**
Fastweb	2,468	2,426	1.7%
Other Operating Segments	929	909	2.2%
Group Headquarters	1	2	–50.0%
Intersegment elimination	(508)	(429)	18.4%
Revenue from external customers	**11,453**	**11,714**	**–2.2%**
Operating income before depreciation and amortisation (EBITDA)			
Residential Customers	3,415	3,463	–1.4%
Enterprise Customers	705	804	–12.3%
Wholesale	525	447	17.4%
IT, Network & Infrastructure	(1,154)	(1,138)	1.4%
Swisscom Switzerland	**3,491**	**3,576**	**–2.4%**
Fastweb	834	803	3.9%
Other Operating Segments	188	197	–4.6%
Group Headquarters	(72)	(76)	–5.3%
Reconciliation pension cost [2]	(47)	(60)	–21.7%
Reconciliation lease expense (IAS 17) [3]	–	(207)	–100.0%
Intersegment elimination	(36)	(20)	80.0%
Operating income before depreciation and amortisation (EBITDA)	**4,358**	**4,213**	**3.4%**

1 Incl. intersegment recharges 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.
3 Swisscom has been applying IFRS 16 "Leases" since 1 January 2019. The operating result before depreciation and amortisation (EBITDA) of the segments for 2018 does not include any expenses for operating leases in accordance with IAS 17. The 2018 expense for operating leases in accordance with IAS 17 is shown 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. The remaining services between the segments are recharged 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 segments "Residential Customers", "Enterprise Customers" and "Wholesale" correspond to a contribution margin prior to network costs.

Swisscom Switzerland

In CHF million, except where indicated	2019	2018	Change
Net revenue and results			
Telecom services	5,932	6,222	–4.7%
Solution business	1,021	1,027	–0.6%
Merchandise	808	718	12.5%
Wholesale	643	566	13.6%
Revenue other	80	202	–60.4%
Revenue from external customers	**8,484**	**8,735**	**–2.9%**
Intersegment revenue	79	71	11.3%
Net revenue	**8,563**	**8,806**	**–2.8%**
Direct costs	(1,897)	(1,971)	–3.8%
Indirect costs	(3,175)	(3,259)	–2.6%
Segment expenses	**(5,072)**	**(5,230)**	**–3.0%**
Segment result before depreciation and amortisation (EBITDA)	**3,491**	**3,576**	**–2.4%**
Margin as % of net revenue	40.8	40.6	
Lease expense	(226)	(221)[1]	2.3%
Depreciation	(1,515)	(1,471)	3.0%
Segment result	**1,750**	**1,884**	**–7.1%**
Operational data at end of period in thousand			
Fixed telephony access lines	1,594	1,788	–10.9%
Broadband access lines retail	2,033	2,033	0.0%
Swisscom TV access lines	1,555	1,519	2.4%
Mobile access lines	6,333	6,370	–0.6%
Revenue generating units (RGU)	11,515	11,710	–1.7%
Broadband access lines wholesale	515	481	7.1%
Capital expenditure and headcount			
Capital expenditure	1,761	1,620	8.7%
Full-time equivalent employees at end of year (number)	13,979	14,448	–3.2%

1 Includes expenses for operating and finance leases in accordance with IAS 17.

Net revenue for Swisscom Switzerland fell by CHF 243 million or 2.8% to CHF 8,563 million as a result of continuing price pressure and the decline in the number of connections in fixed-line telephony. Revenue from telecommunications services decreased by CHF 290 million or 4.7% to CHF 5,932 million. Of this decline, CHF 178 million (–3.4%) was attributable to the Residential Customers segment and CHF 112 million (–10.9%) to the Enterprise Customers segment. In Enterprise Customers, revenue from the solutions business remained relatively stable (–0.6%). The decline as a result of price pressure and lower volumes in the workplace and banking areas was nearly offset by growth in the areas of security and the cloud. Incoming orders in 2019 amounted to around CHF 3.1 billion. In Wholesale, revenues increased due to higher demand for broadband connections, additional mobile network customers and higher inbound roaming volumes.

The number of revenue-generating units decreased by 1.7% or 0.2 million to 11.5 million, chiefly as a result of the downward trend in fixed-line telephony. The number of fixed-line telephony connections fell by 194,000 or 10.9% to 1.6 million. In the saturated mobile telephony market, the subscriber base remained almost stable at 6.33 million (–0.6%). The number of prepaid lines declined by 7.8% to 1.56 million, while postpaid lines increased by 2.0% to a total of 4.77 million. The broadband and TV markets are also saturated. Nevertheless, the number of TV customers rose by 2.4% to 1.56 million, while the number of broadband connections remained stable at 2.03 million. The number of inOne customers is continuing to increase. In 2019, the inOne customer base grew by 0.4 million to 2.8 million. These customers are using a total of 5.4 million products, which represents an increase of 0.9 million within the space of a year. inOne mobile, which was launched in February 2019 and integrates roaming (voice and data) in Europe into the basic charge, had 1.15 million customers at the end of 2019.

Segment expense fell by CHF 158 million or 3.0% to CHF 5,072 million. Direct costs decreased by CHF 74 million or 3.8% to CHF 1,897 million. Lower costs for acquiring and retaining customers were offset by higher costs for the purchase of services and goods. Indirect costs were CHF 84 million or 2.6% lower at CHF 3,175 million. Adjusted for provisions of CHF 62 million recognised for headcount reduction, the decrease was CHF 146 million or 4.5%. This was mainly driven by the declining headcount and lower costs for external staff and the operation of IT systems. Headcount fell as a result of efficiency measures by 469 FTEs or 3.2% to 13,979. The segment result before depreciation and amortisation was CHF 85 million or 2.4% lower at CHF 3,491 million. This decrease, which is attributable to lower revenue, was largely offset by ongoing cost-cutting measures. Capital expenditure climbed by CHF 141 million or 8.7% to CHF 1,761 million as a result of the expenditure on the mobile radio frequencies acquired. Capital expenditure for the expansion of the broadband networks remained at a high level. As at the end of 2019, 74% of all households and businesses were connected with ultra-fast broadband exceeding 80 Mbps. 47% of all homes and offices benefit from fast connections with bandwidths of more than 200 Mbps.

Fastweb

In EUR million, except where indicated	2019	2018	Change
Residential Customers	1,104	1,050	5.1%
Corporate Business	862	780	10.5%
Wholesale	245	267	–8.2%
Revenue from external customers	**2,211**	**2,097**	**5.4%**
Intersegment revenue	7	7	0.0%
Net revenue	**2,218**	**2,104**	**5.4%**
Segment expenses	(1,468)	(1,408)	4.3%
Segment result before depreciation and amortisation (EBITDA)	**750**	**696**	**7.8%**
Margin as % of net revenue	33.8	33.1	
Lease expense	(50)	(23)[1]	117.4%
Depreciation	(560)	(509)	10.0%
Segment result	**140**	**164**	**–14.6%**
Capital expenditure	599	657	–8.8%
Full-time equivalent employees at end of year (number)	2,456	2,484	–1.1%
Broadband access lines at end of period in thousand	2,637	2,547	3.5%
Mobile access lines at end of period in thousand	1,806	1,432	26.1%

1 Includes expenses for operating and finance leases in accordance with IAS 17.

Fastweb's net revenue rose by EUR 114 million or 5.4% year-on-year to EUR 2,218 million. Despite difficult market conditions, Fastweb's broadband customer base grew year-on-year by 90,000 or 3.5% to around 2.64 million. Fastweb is also growing in the fiercely competitive mobile telephony market. The number of mobile access lines increased by 374,000 or 26.1% year-on-year to 1.81 million. The focus is increasingly on bundled offerings. Around 34% of subscribers already use a bundled offering combining a fixed broadband line and a mobile access line. Residential customer revenue rose by EUR 54 million or 5.1% to EUR 1,104 million as a result of customer growth. Fastweb held its strong position in the market for business customers, with revenue from business customers up by EUR 82 million or 10.5% to EUR 862 million as a result of higher revenue with public administrations. Revenue from wholesale business, by contrast, decreased by EUR 22 million or 8.2% to EUR 245 million.

The segment result before depreciation and amortisation increased by EUR 54 million or 7.8% to EUR 750 million, or by 5.2% on an adjusted basis, on the back of the growth in revenue. Capital expenditure decreased year-on-year by EUR 58 million or 8.8% to EUR 599 million. The previous year's figure includes expenses for the acquisition and extension of mobile radio frequencies in the amount of EUR 64 million. The investment volume remains at a high level overall, driven by the further expansion of the broadband networks. Fastweb's headcount was practically unchanged year-on-year at 2,456 FTEs.

Other Operating Segments

In CHF million, except where indicated	2019	2018	Change
Revenue from external customers	509	560	–9.1%
Intersegment revenue	420	349	20.3%
Net revenue	**929**	**909**	**2.2%**
Segment expenses	(741)	(712)	4.1%
Segment result before depreciation and amortisation (EBITDA)	**188**	**197**	**–4.6%**
Margin as % of net revenue	20.2	21.7	
Lease expense	(11)	(13)[1]	–15.4%
Depreciation	(63)	(59)	6.8%
Segment result	**114**	**125**	**–8.8%**
Capital expenditure	47	46	2.2%
Full-time equivalent employees at end of year (number)	2,685	2,679	0.2%

1 Includes expenses for operating and finance leases in accordance with IAS 17.

The net revenue of the Other Operating Segments rose year-on-year by CHF 20 million or 2.2% to CHF 929 million. The increase was mainly due to higher revenue from construction services rendered by cablex. The decline in revenue from external customers was attributable to the loss of Billag's mandate to collect national radio and television licence fees. The segment result before depreciation and amortisation decreased accordingly by CHF 9 million or 4.6% to CHF 188 million, while the profit margin fell to 20.2% (prior year: 21.7%). Headcount rose by 6 FTEs or 0.2% to 2,685 FTEs, driven primarily by the hiring of new employees at cablex due to higher order volumes. This increase was partly offset by the reduction in personnel at Billag.

Group Headquarters and reconciliation

In CHF million, except where indicated	2019	2018	Change
Group Headquarters	(72)	(76)	–5.3%
Reconciliation pension cost	(47)	(60)	–21.7%
Reconciliation lease expense (IAS 17)	–	(207)	–100.0%
Intersegment elimination	(36)	(20)	80.0%
Operating income before depreciation and amortisation (EBITDA)	**(155)**	**(363)**	**–57.3%**

In 2018, the payment obligations arising from operating lease were recognised as an operating expense and are shown here as a reconciliation item. As of 1 January 2019, this expense will be replaced by depreciation and interest. The other net costs not allocated to the operating segments, which comprise Group Headquarters, pension cost reconciliation and inter-segment eliminations, declined by CHF 1 million overall year-on-year. The reconciliation item for pension cost is the difference between the total of employer contributions and the cost under IFRS. The cost reduction here of CHF 13 million came about mainly as a result of changes in assumptions (in particular regarding the discount rate). Inter-segment eliminations pertain to unrealised profits on capitalised work of other Group companies.

Depreciation and amortisation, non-operating results

In CHF million, except where indicated	2019	2018	Change
Operating income before depreciation and amortisation (EBITDA)	**4,358**	**4,213**	**3.4%**
Depreciation and amortisation of property, plant and equipment and intangible asset	(2,166)	(2,144)	1.0%
Depreciation of right-of-use assets	(282)	–	
Operating income (EBIT)	**1,910**	**2,069**	**–7.7%**
Net interest expense for financial assets and liabilities	(62)	(104)	–40.4%
Interest expense on lease liabilities	(42)	(24)	75.0%
Other financial result	(54)	(30)	80.0%
Result of equity-accounted investees	(28)	5	
Income before income taxes	**1,724**	**1,916**	**–10.0%**
Income tax expense	(55)	(395)	–86.1%
Net income	**1,669**	**1,521**	**9.7%**
Share of net income attributable to equity holders of Swisscom Ltd	1,672	1,527	9.5%
Share of net income attributable to non-controlling interests	(3)	(6)	–50.0%
Earnings per share (in CHF)	32.28	29.48	9.5%

Due to the application of IFRS 16 Leases as of 1 January 2019, right-of-use assets are recognised and depreciated. In 2019, the depreciation of right-of-use assets amounted to CHF 282 million. The depreciation and amortisation of property, plant and equipment and intangible assets increased by CHF 22 million or 1.0% year-on-year to CHF 2,166 million, mainly reflecting an increase in depreciation and amortisation at Swisscom Switzerland and at Fastweb. Net interest expense excluding lease fell from CHF 104 million to CHF 62 million as a result of lower average interest costs. Negative effects of CHF 23 million from the change in the fair value of interest rate swaps and foreign exchange losses of CHF 12 million impacted the other financial result in 2019. Income tax expense amounted to CHF 55 million (prior year: CHF 395 million) as a result of the positive tax effects related to the adoption of the Swiss tax reform. Swisscom's net income increased by CHF 148 million or 9.7% to CHF 1,669 million, and earnings per share rose accordingly from CHF 29.48 to CHF 32.28.

Swiss tax reform

Income tax expense was CHF 55 million (prior year: CHF 395 million) in 2019, corresponding to an effective consolidated tax rate of 3.2% (prior year: 20.6%). The reasons for the significantly lower tax expense are tax law changes, adjustments from previous years and a CHF 192 million lower pre-tax result. In a federal referendum in May 2019, a bill with far-reaching changes in corporate taxation was adopted. In connection with this tax reform, most of the cantons decided to reduce the corporate income tax rates. As a result of the tax reform and the tax rate reductions, positive effects of CHF 269 million will be recognised in Swisscom's 2019 consolidated financial statement. These result from the recognition of deferred taxes in accordance with International Financial Reporting Standards (IFRS). Existing deferred tax liabilities were adjusted at the lower cantonal tax rates, while valuation adjustments pertaining to the holding company's transition to ordinary profit taxation led to the recognition of new deferred tax assets. The recognised deferred tax effects of CHF 269 million do not affect the taxes due for 2019 and are spread over a period of approximately ten years. Swisscom paid CHF 357 million in income taxes in Switzerland in 2019 (prior year: CHF 277 million). An out-of-period reduction in tax expense for 2019 totalling CHF 16 million also resulted from various adjustments to tax accruals for prior years. Based on the changes in legislation and tax rates that have been decided, Swisscom anticipates a future effective consolidated tax rate of around 19.5%.

Cash flows

In CHF million	2019	2018	Change
Operating income before depreciation and amortisation (EBITDA)	4,358	4,213	145
Capital expenditure	(2,438)	(2,404)	(34)
Lease expense	(294)	–	(294)
Operating free cash flow proxy	**1,626**	**1,809**	**(183)**
Change in net working capital	146	(139)	285
Change in defined benefit obligations	48	64	(16)
Net interest payments for financial assets and liabilities	(63)	(109)	46
Interest payments on finance lease liabilities	–	(24)	24
Income taxes paid	(371)	(294)	(77)
Other operating cash flow	(41)	12	(53)
Free cash flow	**1,345**	**1,319**	**26**
Net expenditures for company acquisitions and disposals	(413)	(113)	(300)
Other cash flows from investing activities, net	39	19	20
Issuance of financial liabilities	417	1,451	(1,034)
Repayment of financial liabilities	(374)	(1,545)	1,171
Repayment of financial lease liabilities according to IAS 17	–	(26)	26
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Other cash flows from financing activities	(16)	(10)	(6)
Net decrease in cash and cash equivalents	**(142)**	**(45)**	**(97)**

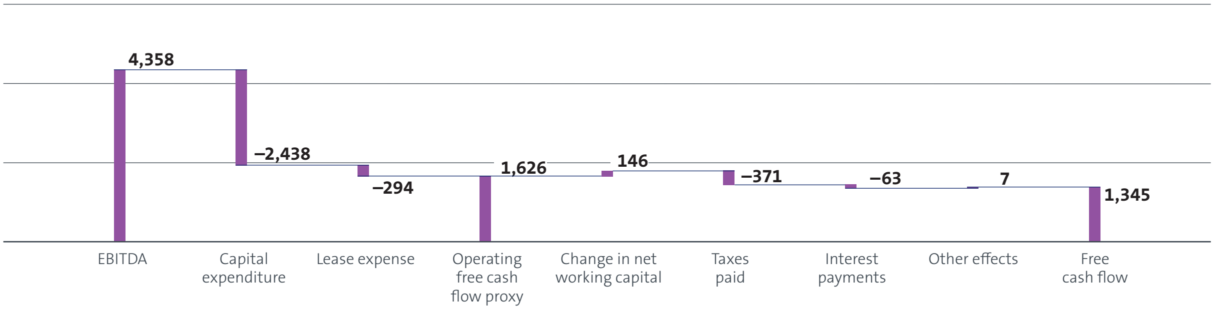
The operating free cash flow proxy declined year-on-year by CHF 183 million to CHF 1,626 million, owing largely to higher capital expenditure. Capital expenditure rose by CHF 34 million to CHF 2,438 million. This was driven by the expenditure of CHF 196 million for the mobile radio frequencies purchased by Swisscom Switzerland at auction in the first half of 2019. Excluding Swisscom's purchase of mobile radio frequencies, the operating free cash flow proxy rose by CHF 13 million.

Free cash flow increased year-on-year by CHF 26 million to CHF 1,345 million, fuelled largely by the improvement in net working capital. Net working capital decreased by CHF 146 million compared to the end of 2018 (prior year: increase of CHF 139 million).

Net expenditure for company acquisitions and disposals amounted to CHF 413 million (prior year: CHF 113 million). This includes the payment for the purchase price of CHF 240 million paid to Tamedia for the acquisition of the outstanding share of 31% in Swisscom Directories Ltd. Also included are payments for the acquisition of Tiscali's Fixed Wireless division by Fastweb as well as investments in equity-accounted investee Flash Fiber in connection with the network expansion in Italy. Swisscom issued various bonds totalling CHF 405 million in 2019. The funds received were used to repay existing loans.

Development of free cash flow

in CHF million



Capital expenditure

In CHF million, except where indicated	2019	2018	Change
Fixed access and infrastructure	459	496	–7.5%
Expansion of the fibre-optic network	494	490	0.8%
Mobile network	270	307	–12.1%
Mobile frequencies	196	–	
Customer driven	81	77	5.2%
Projects and others	261	250	4.4%
Swisscom Switzerland	**1,761**	**1,620**	**8.7%**
Fastweb	667	757	–11.9%
Other Operating Segments	47	46	2.2%
Group Headquarters and eliminations	(37)	(19)	94.7%
Total capital expenditure	**2,438**	**2,404**	**1.4%**
Thereof Switzerland	1,770	1,645	7.6%
Thereof foreign countries	668	759	–12.0%
Total capital expenditure as % of net revenue	21.3	20.5	

Capital expenditure rose year-on-year by CHF 34 million or 1.4% to CHF 2,438 million, corresponding to 21.3% of net revenue (prior year: 20.5%). Swisscom Switzerland accounted for 72% of 2019 capital expenditure, while Fastweb accounted for 27% and Other Operating Segments for 1%.

Capital expenditure incurred by Swisscom Switzerland increased year-on-year by CHF 141 million or 8.7% to CHF 1,761 million, corresponding to 20.6% of net revenue (prior year: 18.4%) and included expenditure of CHF 196 million in connection with the mobile radio frequencies acquired auction in the first half of 2019. Capital expenditure on broadband expansion with fibre optics remained stable at a high level, while capital expenditure on mobile communications and other fixed network and infrastructure declined.

Fastweb decreased its capital expenditure by CHF 90 million or 11.9% to CHF 667 million. In local currency, capital expenditure decreased by EUR 58 million or 8.8% to EUR 599 million. The decrease is mainly due to the expenses for the acquisition and extension of mobile radio frequencies in the amount of EUR 64 million in the previous year. The investment volume remains at a high level overall, driven by the further expansion of the broadband networks. The ratio of capital expenditure to net revenue fell as a result to 27.0% (prior year: 31.2%).

Net asset position

In CHF million	31.12.2019	01.01.2019 [1]	Change
Property, plant and equipment	10,529	10,425	104
Intangible assets	1,842	1,772	70
Goodwill	5,163	5,167	(4)
Right-of-use assets	2,177	1,786	391
Trade receivables	2,183	2,189	(6)
Trade payables	(1,614)	(1,658)	44
Provisions	(1,146)	(1,028)	(118)
Deferred gain on sale and leaseback of real estate	(122)	(134)	12
Other operating assets and liabilities, net	(26)	194	(220)
Net operating assets	**18,986**	**18,713**	**273**
Net debt	(6,758)	(7,009)	251
Lease liabilities	(2,027)	(1,622)	(405)
Defined benefit obligations	(1,058)	(1,196)	138
Income tax assets and liabilities, net	(607)	(873)	266
Equity-accounted investees and other non-current financial assets	339	217	122
Equity	**8,875**	**8,230**	**645**
Equity ratio at end of year	36.6	34.4	

1 Incl. effect of the initial application of IFRS 16.

Operating assets

Net operating assets rose by CHF 0.3 billion to CHF 19.0 billion. The increase was mainly attributable to increased property, plant and equipment, intangible assets and right-of-use assets. The net carrying amount of goodwill was CHF 5.2 billion, the bulk of which relates to Swisscom Switzerland (CHF 4.2 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 0.5 billion). Fastweb's carrying amount in the consolidated financial statements totals EUR 3.0 billion (CHF 3.3 billion).

Net debt

Net debt is composed of financial liabilities minus cash and cash equivalents, current financial assets, derivative financial instruments held to hedge financial liabilities and other non-current financial assets directly related to non-current financial liabilities (certificates of deposit, U.S. treasury bond strips). Net debt and the net debt to EBITDA ratio are presented both with and without classification of leases as financial liabilities. For credit rating purposes, rating agencies include lease liabilities in the calculation of net debt. However, for the financial target of the Federal Council's financing structure, leases are not classified as financial liabilities or part of net debt.

In CHF million	31.12.2019	01.01.2019 [1]
Ratio of net debt/EBITDA after lease expense		
Debenture bonds	5,915	5,554
Bank loans	1,080	1,233
Private placements	151	426
Other financial liabilities	314	570
Total financial liabilities	**7,460**	**7,783**
Cash and cash equivalents	(328)	(474)
Non-current certificates of deposit	(142)	(145)
Non-current listed debt instruments	(94)	–
Non-current derivative financial instruments for financing	(73)	(81)
Other current financial assets	(65)	(74)
Net debt	**6,758**	**7,009**
Operating income before depreciation and amortisation (EBITDA)	4,358	4,213
Lease expense	(294)	–
EBITDA after lease expense	**4,064**	**4,213**
Ratio of net debt/EBITDA after lease expense	1.7	1.7
Ratio of net debt incl. lease liabilities/EBITDA before lease expense		
Net debt	6,758	7,009
Lease liabilities	2,027	1,622
Net debt incl. lease liabilities	**8,785**	**8,631**
Operating income before depreciation and amortisation (EBITDA), excl. lease expense	4,358	4,213
Operating lease expense according to IAS 17	–	207
EBITDA before lease expense	**4,358**	**4,420**
Ratio of net debt incl. lease liabilities/EBITDA before lease expense	2.0	2.0

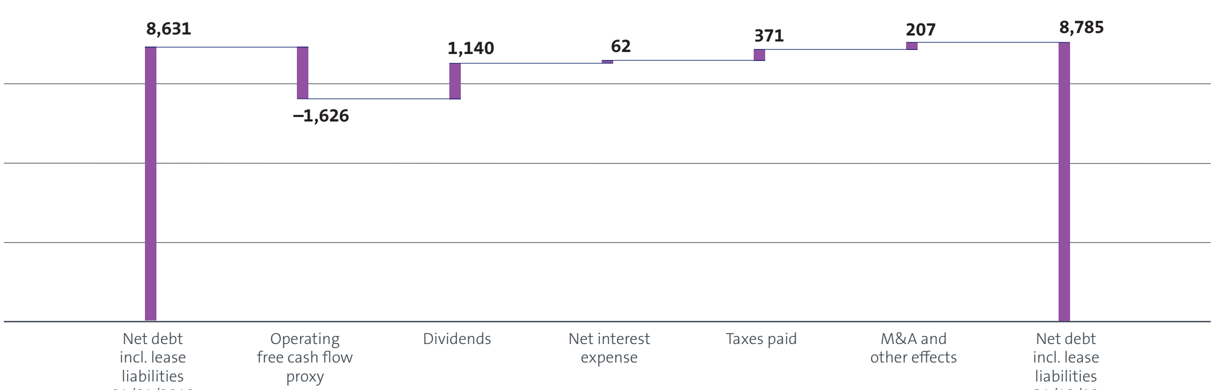
1 Incl. effect of the initial application of IFRS 16.

The ratio of net debt including lease liabilities to EBITDA was 2.0 at the end of 2019 (prior year: 2.0). Without classification of the leases as financial liabilities, the ratio of net debt to EBITDA after lease expense is 1.7 (prior year: 1.7). Both ratios reflect a stable debt situation compared to the previous year. Swisscom's goal of maintaining its single-A credit rating was achieved. The limit on net debt set by the Federal Council in the financial targets of 2.1 x EBITDA after lease expense was also adhered to.

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 22%.

Development of net debt incl. lease liabilities

in CHF million



Financial liabilities

The nominal amount of the financial liabilities excl. derivative financial instruments as at 31 December 2019 was CHF 7.3 billion. Around 81% 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 1.4 billion at 31 December 2019. In 2019, the average interest expense on all financial liabilities was 1.0%, and the average residual term to maturity was 5.5 years.

Nominal value (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	781	–	264	–	–	1,045
Debenture bonds	543	543	1,250	2,544	955	5,835
Private placements	–	–	–	–	150	150
Other financial liabilities	39	94	13	84	–	230
Total financial liabilities [1]	**1,363**	**637**	**1,527**	**2,628**	**1,105**	**7,260**

1 Excl. derivative financial instruments

Post-employment benefits

Defined benefit obligations recognised in the consolidated financial statements are measured in accordance with IFRS provisions. Net defined benefit obligations amounted to CHF 1.1 billion, which represents a CHF 0.1 billion decline year-on-year. This is mainly due to the positive return on plan assets. In accordance with the Swiss accounting standards applicable to the pension fund (Swiss GAAP ARR), the funding surplus amounts to CHF 1.1 billion, corresponding to a coverage ratio of 110% on the plan's assets of CHF 11.6 billion. The main reasons for the difference of CHF 2.2 billion compared to the measurement according to IFRS are twofold. Firstly, the use of different assumptions, in particular the interest rate for discounting future pension benefits less the financing share of employees (risk sharing), has a net effect of CHF 1.5 billion. Secondly, the valuation method treats future salary levels, contribution rates scaled by age group and early retirement differently, resulting in a net effect of CHF 0.7 billion.

Equity

Equity of CHF 8.9 billion (prior year: CHF 8.2 billion) and an equity ratio of 36.6% (as at 1 January 2019: 34.4%) were reported in the 2019 consolidated balance sheet. The increase of CHF 0.7 billion reported in equity resulted primarily from the fact that the net income of CHF 1.7 billion was higher than the dividend payment of CHF 1.1 billion. The foreign currency differences arising from the translation of foreign subsidiaries are recognised in equity. On 31 December 2019, the cumulative currency translation losses amounted to CHF 1.8 billion (after tax). Distributable reserves are not determined on the basis of the equity as reported in the consolidated financial statements but rather on the basis of equity as reported in the separate financial statements of Swisscom Ltd. The equity totalled CHF 6.8 billion in the 2019 separate financial statement of Swisscom Ltd. The difference of CHF 2.1 billion as compared to the equity disclosed in the consolidated balance sheet is largely due to earnings retained by subsidiaries and different accounting 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 2019, Swisscom Ltd held distributable reserves of CHF 6.7 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 settlement 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	31.12.2019	01.01.2019 [1]
Enterprise value		
Market capitalisation	26,553	24,331
Net debt incl. lease liabilities	8,785	8,631
Defined benefit obligations	1,058	1,196
Income tax assets and liabilities, net	607	873
Equity-accounted investees and other non-current financial assets	(339)	(217)
Non-controlling interests	3	(15)
Enterprise value (EV)	**36,667**	**34,799**
Operating income before depreciation and amortisation (EBITDA)	4,358	4,420 [2]
Ratio enterprise value/EBITDA	**8.4**	**7.9**

1 Incl. effect of the initial application of IFRS 16.

2 Excl. operating lease expense according to IAS 17.

Swisscom's enterprise value increased by 5.4% or CHF 1.9 billion to CHF 36.7 billion in 2019. The main reason for this was the CHF 2.2 billion increase in market capitalisation. On a comparable basis, EBITDA declined, however. Nevertheless, the ratio of total enterprise value to EBITDA increased slightly to 8.4 (prior year: 7.9). Swisscom's relative market valuation is therefore well above the average for comparable companies in Europe's telecoms sector. The higher relative valuation is supported by Swisscom's solid market position and attractive dividend. In addition, the lower interest rates and lower profit tax rates in Switzerland compared to other European countries have a positive effect.

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.

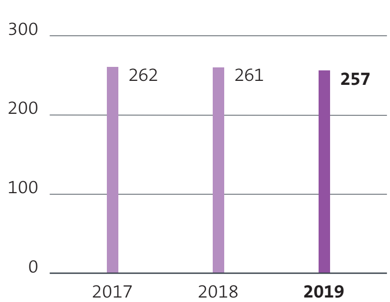
In CHF million			2019			2018
	Switzer-land	Other countries	Total	Switzer-land	Other countries	Total
Added value						
Net revenue	**8,969**	**2,484**	**11,453**	**9,274**	**2,440**	**11,714**
Capitalised self-constructed assets and other income	378	131	509	347	114	461
Direct costs	(1,925)	(890)	(2,815)	(2,001)	(953)	(2,954)
Other operating expense [1]	(1,314)	(662)	(1,976)	(1,390)	(575)	(1,965)
Lease expense	(238)	(86)	(294)	(181)	(26)	(207)
Depreciation and amortisation [2]	(1,542)	(594)	(2,136)	(1,521)	(586)	(2,107)
Intermediate inputs	**(4,641)**	**(2,101)**	**(6,742)**	**(4,746)**	**(2,026)**	**(6,772)**
Operating added value	**4,328**	**383**	**4,711**	**4,528**	**414**	**4,942**
Other non-operating result [3]			(154)			(62)
Total added value			**4,557**			**4,880**
Allocation of added value						
Employees [4]	2,522	231	2,753	2,531	224	2,755
Public sector [5]	317	11	328	335	25	360
Shareholders (dividends)			1,141			1,141
Third-party lenders (net interest expense)			62			128
Company (retained earnings) [6]			273			496
Total added value			**4,557**			**4,880**

1 Other operating expense: excl. taxes on capital and other taxes not based on income.
2 Depreciation and amortisation: excl. amortisation of acquisition-related intangible assets such as brands or customer relations.
3 Other non-operating result: financial result excl. net interest expense, result of equity-accounted investees, 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 tax expense, capital taxes and other taxes not based on income. Excl. payments for VAT and mobile communication frequencies.
6 Company: incl. changes in deferred income taxes and defined benefit obligations.

Of the consolidated operating added value of CHF 4.7 billion, 91.9% or CHF 4.3 billion was generated in Switzerland, which was 4.4% less than in the previous year. At the same time, added value per FTE was 1.5% lower at CHF 257,000. 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 2019, with added value contributed by suppliers in Switzerland of approximately 60% or CHF 2.9 billion.

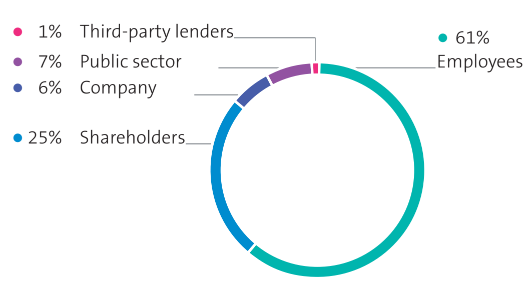
Swisscom development of value added per employee in Switzerland

in CHF thousand



Allocation of added value

in %



Financial outlook

In CHF million, except where indicated	2019 reported	Change Swisscom without Fastweb	Change Fastweb	2020 outlook [1]
Net revenue				
Swisscom Group	**11,453**	**< 0**	**> 0**	**~ CHF 11.1 bn**
Swisscom w/o Fastweb				~ CHF 8.7 bn
Fastweb				~ EUR 2.3 bn
Operating income before depreciation and amortisation (EBITDA)				
Swisscom Group	**4,358**	**< 0**	**> 0**	**~ CHF 4.3 bn** [2]
Swisscom w/o Fastweb				~ CHF 3.5 bn
Fastweb				~ EUR 0.8 bn
Capital expenditure				
Swisscom Group	**2,438** [3]	**–**	**–**	**~ CHF 2.3 bn**
Swisscom w/o Fastweb				~ CHF 1.6 bn
Fastweb				~ EUR 0.6 bn

1 Exchange rate CHF/EUR 1.07 (2019: CHF/EUR 1.11).
2 2020 outlook for EBITDA after lease expense ~ CHF 4.0 bn.
3 Incl. expenditure of CHF 196 mn for mobile radio frequencies in Switzerland.

For 2020, Swisscom expects net revenue of around CHF 11.1 billion, EBITDA of around CHF 4.3 billion and capital expenditure of around CHF 2.3 billion. Due to strong competition and price pressure and the ongoing decline in the number of fixed-line telephone connections, Swisscom expects revenue to be lower without Fastweb. Fastweb's revenue is expected to increase slightly from 2019. For Swisscom, excluding Fastweb, the decline in revenue cannot be fully compensated by cost savings. In contrast, an increase in EBITDA is anticipated for Fastweb on a like-for-like basis. Capital expenditure in Switzerland, excluding costs for acquiring additional mobile radio frequencies at auction, will be slightly less than in the previous year. Capital expenditure at Fastweb is expected to be lower. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2020 financial year at the 2021 Annual General Meeting.

Capital market

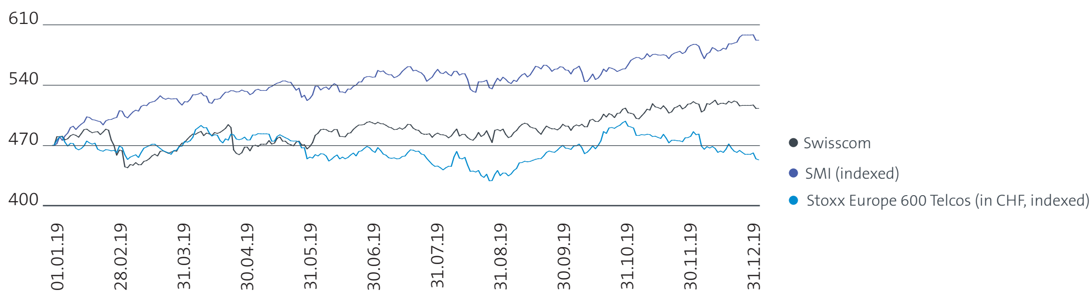
By consistently implementing its strategy, Swisscom has achieved its financial ambitions for 2019, which will enable it to create added value for shareholders once again this year. With ratings of A (stable) from Standard & Poor's and A2 (stable) from Moody's, Swisscom is one of the best-rated telecommunications companies in Europe.

Swisscom share

Swisscom's market capitalisation as at 31 December 2019 amounted to CHF 26.6 billion (previous year: CHF 24.3 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 2019

in CHF



The Swiss Market Index (SMI) rose by 26.0% compared with the previous year. The Swisscom share price increased by 9.1% to CHF 512.60, outperforming the Stoxx Europe 600 Telecommunications Index (+0.4% in EUR). Average daily trading volume fell by 1.5% to 148,913 shares. The total trading volume of Swisscom shares in 2019 amounted to CHF 18.0 billion.

See www.swisscom.ch/shareprice

Shareholder return

On 8 April 2019, Swisscom paid out an ordinary dividend of CHF 22 per share. Based on the closing price at the end of 2018, this equates to a return of +4.7%. Taking into account the increase in the share price, the Swisscom share achieved a total shareholder return (TSR) of +14.3% in 2019. The TSR for the SMI was +30.2% and for the Stoxx Europe 600 Telecommunications Index +5.5% 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

	31.12.2019			31.12.2018		
	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	68,008	4,718,542	9.1%	70,206	4,995,716	9.6%
Institutions	2,733	20,689,401	39.9%	2,904	20,412,227	39.4%
Total	**70,742**	**51,801,943**	**100.0%**	**73,111**	**51,801,943**	**100.0%**

The majority shareholder as at 31 December 2019 was the Swiss Confederation, which is obligated by current law to hold the majority of the capital and voting rights. The free float is divided between around 40% institutional investors and around 9% natural persons. As at 31 December 2019, 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. Twenty-three analysts regularly publish studies on Swisscom. At the end of 2019, 9% of the analysts issued a buy rating for the Swisscom share, 39% a hold rating and 52% a sell rating. The average price target at 31 December 2019, according to the analysts' estimates, was CHF 469 per share.

Dividend policy

Swisscom pursues a return policy with a stable dividend. At the forthcoming Annual General Meeting on 6 April 2020, the Board of Directors will propose an unchanged ordinary dividend of CHF 22 per share for the 2019 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 33.0 billion to its shareholders: CHF 21.0 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 411 per share since the initial public offering. Together with the overall increase in share price of CHF 173 per share, this amounts to an average annual total return of 5.1%.

Credit ratings and financing

Swisscom enjoys good ratings from the Standard & Poor's and Moody's rating agencies, at A (stable) and A2 (stable) respectively. Swisscom aims to maintain the single-A credit rating. 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 diversification of financing instruments, markets and currencies. Swisscom's solid financial standing gave it unrestricted access to money and capital markets again in 2019.

Risks

Risks are driven by changes in the market and competitive environment, in the legal and economic framework and in technology. Swisscom's risk management system is aimed at safeguarding the company's enterprise value. Over the long term, market trends will necessitate major changes in the approach to risks related to the business model, technology and human capital.

Risk situation

Risks are driven by changes in markets, competition, technology, the regulatory environment and government policy. The importance of traditional telecommunications services is declining. New offerings in the areas of digitisation and IT services, such as cloud services, IT security and IoT solutions, are intended to compensate for sagging revenue from the traditional core business. Over the long term, the market trends will necessitate major changes in the approach to risks related to the business model, technology and human capital. The key risk factors are addressed below. The main risk factors in the supply chain are described separately in the Sustainability Report.

Risk factors

Telecommunications market

Infrastructure providers and service providers which do not have their own network infrastructure are driving competition, which is gaining momentum and 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 technical complexity remains undiminished.

Politics and regulation

The manner in which regulations are implemented entails risks for Swisscom, which could have an adverse impact on the company's financial position and results of operations. Sanctions by the Competition Commission could also reduce Swisscom's operating results and cause reputational damage to the company. Finally, excessively high political demands (e.g. those imposed on universal service provision) threaten to fundamentally undermine the current competitive system.

Increasing 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, IPTV, 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 this necessitates calls for major investments. To mitigate financial risks and ensure optimum network coverage, network expansion is geared towards 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 and technical opportunities on an ongoing basis.

Employees

Constant changes in background conditions and markets mean that corporate culture also has to continuously adapt. The key challenges in this context lie in maintaining employee motivation and high staff loyalty despite the pressure on costs, 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 that could have a detrimental impact on Fastweb's strategy and jeopardise projected revenue growth. The impairment test performed in 2019 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 an impairment loss. Major uncertainty also surrounds the future trend in interest rates 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 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 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 switching analogue telephony to Internet Protocol (IP). This transformation should enable Swisscom to produce more flexibly and efficiently than before. The experience 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 closely 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, making it 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 that are ten times stricter than those prescribed by the EU. The public's wary attitude, in particular towards mobile antenna sites, 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 changes in the legal framework and in physical climatic parameters (increased levels of precipitation, higher average temperatures and temperature extremes, and melting permafrost) and by 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 largely based on the official reports of the Federal Office for the Environment (FOEN) on climate change (CH2014 Impacts and CH2018 Climate Scenarios). Swisscom also publishes its own annual climate report.

See **www.cdp.net**

Corporate Governance and Remuneration Report

Corporate Governance

Remuneration Report

Corporate Governance

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

1 Principles

In performing their activities, the Board of Directors and Group Executive Board of Swisscom are guided by the objective of long-term and sustainable business management. They incorporate the legitimate interests of Swisscom shareholders, customers, employees and other interest groups into their decisions. To this end, the Board of Directors practises effective, transparent corporate governance, which is characterised by clearly assigned responsibilities and based on recognised standards. In this regard, Swisscom complies with the recommendations of the Swiss Code of Best Practice for Corporate Governance 2014 issued by economiesuisse, the umbrella organisation representing Swiss business, and the requirements of the Ordinance against Excessive Compensation in Listed Stock Companies (OaEC).

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

Swisscom's principles and rules on corporate governance are set out primarily in the company's Articles of Incorporation, Organisational Rules and the Rules of Procedure of the Board of Directors' committees. Of particular importance is the Code of Conduct approved by the Board of Directors. It contains an explicit declaration by Swisscom of its commitment to absolute integrity as well as compliance with the law and all other external and internal rules and regulations. Swisscom expects its employees to take responsibility for their actions, show responsibility for people, society and the environment, comply with applicable rules, demonstrate integrity and report any violations of the Code of Conduct.

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

See www.swisscom.ch/basicprinciples

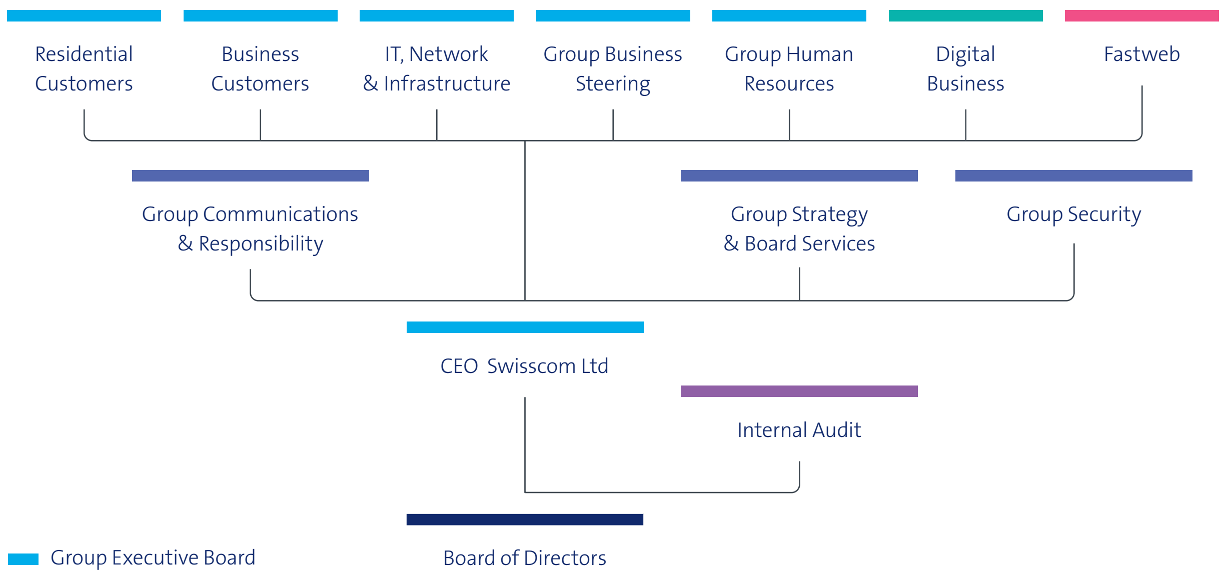
2 Group structure and shareholders

2.1 Group structure

Operational Group structure

Swisscom Ltd is a holding company. It comprises five Group divisions: Group Business Steering, Group Human Resources, Group Strategy & Board Services, Group Communications & Responsibility and Group Security. The Board of Directors delegates the day-to-day business management to the CEO of Swisscom Ltd. The Group Executive Board is comprised of the CEO, the heads of the Group divisions Group Business Steering (CFO) and Group Human Resources (CPO), plus the heads of the business divisions Sales & Services, Products & Marketing, Enterprise Customers, and IT, Network & Infrastructure. As of 1 January 2020, the Sales & Services (SAS) and Products & Marketing (PMK) divisions were merged into the new Residential Customers division, and the Enterprise Customers division was renamed "Business Customers". The Group also includes the Digital Business division and Group companies such as the Italian subsidiary Fastweb S.p.A.

The operational Group structure as at 1 January 2020 is shown in the diagram below.



Swisscom Ltd structure

The business activities are carried out by Swisscom Group companies. Strategic and financial management is assured through the rules governing the assignment of powers and responsibilities set by the Board of Directors of Swisscom Ltd. The Group companies are divided into three categories: strategic, important and other. Swisscom Ltd, Swisscom (Switzerland) Ltd and the subsidiary Fastweb S.p.A. are classified as strategic Group companies. The Board of Directors of Swisscom (Switzerland) Ltd comprises the CEO of Swisscom Ltd as Chairman, the CFO of Swisscom Ltd and the Head of Enterprise Customers (renamed “Business Customers” as of 1 January 2020). The CEO of Swisscom Ltd is responsible for the executive management of Swisscom (Switzerland) Ltd. Seats on the Board of Directors of Fastweb S.p.A. are held by the CEO of Swisscom Ltd, who acts as Chairman, together with the CFO of Swisscom Ltd and other representatives of Swisscom. The Board of Directors also includes an external member. The Board of Directors of Fastweb S.p.A. has empowered the Delegate of the Board of Directors with the executive management of the company. All other Group companies are assigned to a Group division or business division for management purposes. The members of the Board of Directors of the other Group companies are appointed by the CEO. In some cases, external parties also serve as members of the Board of Directors. A list of Group companies, including company name, registered office, percentage of shares held and share capital, is provided in Note 5.4 to the consolidated financial statements.

See report **pages 165—166**

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

See report **page 48**

Listed company

Swisscom Ltd is a company governed by Swiss law and has its registered office in Ittigen (Canton of Berne, Switzerland). It is listed in the Standard for Equity Securities, Sub-Standard International Reporting, of the SIX Swiss Exchange (Securities No.: 874251; ISIN:CH0008742519; ticker symbol SCMN).

Trading in the United States is conducted over the counter (OTC) as a Level 1 programme (ticker symbol: SCMWY; ISIN: CH008742519; CUSIP for ADR: 871013108). Within the framework of the programme, the Bank of New York Mellon Corporation issues the American Depository Shares (ADS). ADS are American securities that represent Swisscom shares. Ten ADS correspond to one share. The ADS are evidenced by American Depositary Receipts (ADR).

As at 31 December 2019, the stock market capitalisation of Swisscom Ltd was CHF 26,553 million. There are no other listed companies in the Swisscom Group.

2.2 Major shareholders

Pursuant to Article 120 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIA), there is a duty to disclose shareholdings to Swisscom Ltd and SIX Swiss Exchange whenever a person or group subject to the disclosure obligation reaches, exceeds or falls below 3, 5, 10, 15, 20, 25, $33^1/_3$, 50 or $66^2/_3$ per cent of the voting rights of Swisscom Ltd, irrespective of whether or not the voting rights can be exercised. The detailed disclosure requirements and the method for calculating these limits are specified in the FINMA Financial Market Infrastructure Ordinance (FMIO-FINMA). Under the FMIO-FINMA, nominee companies which are not able to independently decide how voting rights are exercised are not required to disclose when any of their shareholdings reach, exceed or fall below these limits. As shareholders are only required to notify the company and SIX Swiss Exchange if their shareholdings exceed or fall below one of the limits indicated above, the percentage of shares actually held by significant shareholders may differ from the percentage most recently disclosed.

The shareholding notifications can be viewed on the website of the SIX Exchange Regulation at: https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

In the 2019 reporting year, no shareholdings subject to Article 120 FMIA were reported to Swisscom. In August 2017, BlackRock, Inc., New York, reported a shareholding of 3.44% of the voting rights in Swisscom Ltd. According to the Swisscom share register, Chase Nominees Ltd., London, held 4.74% of the voting rights in Swisscom Ltd on 31 December 2019.

The Swiss federal government (Swiss Confederation), as majority shareholder, held 50.95% of the issued share capital of Swisscom Ltd on 31 December 2019, which was unchanged from the previous year. The Telecommunications Enterprises Act (TEA) provides that the Swiss Confederation shall hold the majority of the share capital and voting rights of Swisscom Ltd. The Federal Council defines the goals which the Confederation as principal shareholder of the company aims to achieve in the next four years. As a rule, stakeholder talks with the Chairman of the Board and the CEO are conducted three times a year by the responsible federal government departments – the Federal Department of the Environment, Transport, Energy and Communications (DETEC) and Federal Department of Finance (FEF) – led by the Head of DETEC, in which the status of target achievement is examined. After the close of the business year, target achievement is assessed by the Federal Council.

See www.swisscom.ch/targets_2018-2021

2.3 Cross-participations

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

3 Capital structure

3.1 Capital

The share capital of Swisscom AG has remained unchanged since 2009, totalling CHF 51,801,943. There is no authorised or conditional share capital. Information concerning equity can be found in the financial statements of Swisscom Ltd.

See report page 182

3.2 Shares, participation and profit-sharing certificates

All of the shares issued by Swisscom Ltd are fully paid-up registered shares with a par value of CHF 1. Each share entitles the holder to one vote. Shareholders may only exercise their voting rights, however, if their shares have been entered with voting rights in the share register of Swisscom Ltd. All registered shares with the exception of treasury shares held by Swisscom are eligible for a dividend. There are no preferential rights.

Registered shares of Swisscom Ltd are not issued in certificate form but are held as book-entry securities in the depositary holdings of SIX SIS AG, up to a maximum limit determined by the Swiss Confederation. Shareholders may at any time request confirmation of the registered shares they hold. However, they have no right to request the printing and delivery of certificates for their shares (registered shares with no right to printed certificates).

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

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

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

See report page 92
See report page 61

3.3 Limitations on transferability and nominee registrations

Swisscom shares are freely transferable, and the voting rights of the shares registered in the share register in accordance with the Articles of Incorporation are not subject to restrictions of any kind. In accordance with Article 3.5.1 of the Articles of Incorporation, the Board of Directors may refuse to recognise an acquirer of shares as a shareholder if the total holding, when the new shares are added to any voting shares already registered in its name, exceeds the limit of 5% of all registered shares entered in the commercial register. For the shares in excess of the limit, the acquirer is entered in the share register as a shareholder or beneficial holder without voting rights. The other statutory provisions on restricted transferability are described in Section 7.1 of this Corporate Governance report, "Voting right restrictions and proxies".

See www.swisscom.ch/basicprinciples
See report page 92

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

See www.swisscom.ch/basicprinciples

The entry of trustees and nominees as shareholders with voting rights is subject to application and the conclusion of an agreement by which the trustee or nominee acknowledges the applicable entry restrictions and disclosure obligations as binding. Trustees and nominees related in terms of capital or voting rights either contractually or through common management or other means are treated as a single shareholder (trustee or nominee).

3.4 Convertible bonds, debenture bonds and options

Swisscom has no convertible bonds outstanding. Details of the debenture bonds are given in Note 2.2 to the consolidated financial statements.

See report page 128

Swisscom does not issue options on registered shares of Swisscom Ltd to its employees.

4 Board of Directors

4.1 Members of the Board of Directors

As of 31 December 2019, the Board of Directors comprised the following non-executive members:

Name	Nationality	Year of birth	Function	Taking office at the Annual General Meeting
Hansueli Loosli [1]	Switzerland	1955	Chairman	2009
Roland Abt	Switzerland	1957	Member	2016
Alain Carrupt	Switzerland	1955	Member, representative of the employees	2016
Frank Esser	Germany	1958	Deputy Chairman	2014
Barbara Frei	Switzerland	1970	Member	2012
Sandra Lathion-Zweifel [2]	Switzerland	1976	Member, representative of the employees	2019
Anna Mossberg	Sweden	1972	Member	2018
Michael Rechsteiner [2]	Switzerland	1963	Member	2019
Renzo Simoni [3]	Switzerland	1961	Member, representative of the Confederation	2017

1 Since 1 September 2011 Chairman.
2 Elected to the Board of Directors as of 2 April 2019.
3 Designated by the Swiss Confederation.

Valérie Berset Bircher, the representative of the employees, resigned from her position on the Board of Directors on 31 December 2018 for professional reasons. Sandra Lathion-Zweifel was elected as her replacement by the Annual General Meeting on 2 April 2019. The Board of Directors therefore comprised only eight members from 1 January 2019 until the Annual General Meeting. At the Annual General Meeting on 2 April 2019, Catherine Mühlemann retired from the Board of Directors, having served the maximum permitted term of office. On the same date, the shareholders elected Michael Rechsteiner as her successor to the Board of Directors.

See www.swisscom.ch/cgreport2018

4.2 Education, professional activities and affiliations

Key details of the career and qualifications of each member of the Board of Directors are provided in the summary below, along with the mandates held outside the Group and other significant activities. Pursuant to the Articles of Incorporation, Board members may perform no more than three additional mandates in listed companies and no more than ten additional mandates in non-listed companies. In total, they may not perform more than ten such additional mandates. These restrictions on the number of mandates do not apply to mandates performed by a Board member by order of Swisscom or to mandates in interest groups, charitable associations, institutions and foundations, or employee retirement-benefit foundations. The number of mandates held by order of Swisscom is limited to ten, while the number of mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations is limited to seven. The Board members are obligated to consult the Chairman of the Board of Directors prior to accepting new mandates and to immediately advise him of any changes in their professional lives. The issue of affiliations is addressed with the Board of Directors as part of an annual internal training session that focuses on stock exchange regulations. Details on the regulation of external mandates, in particular the definition of the term "mandate" and information on other mandates that do not fall under the aforementioned numerical restrictions for listed and non-listed companies, are set out in Article 8.3 of the Articles of Incorporation. No member of the Board of Directors exceeds the limits set for mandates.

See www.swisscom.ch/basicprinciples

The members of the Board of Directors are required to order their personal and business affairs and take whatever measures necessary to ensure that conflicts of interest are avoided as far as possible. Should a conflict of interest nevertheless arise, the member concerned must inform the Chairman of the Board of Directors immediately. The members of the Board of Directors are obliged to abstain from negotiations in business which conflict with their own interests or with the interests of natural or legal persons closely associated to them.

Hansueli Loosli

Commercial apprenticeship; Swiss Certified Expert in Financial Accounting and Controlling

Career history

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

Mandates in listed companies

Mandate of the Coop Group: Chairman of the Board of Directors, Bell AG, Basel

Mandates in non-listed companies

Mandates of the Coop Group: Chairman of the Board of Directors, Coop Group Association, Basel; Chairman of the Board of Directors, Transgourmet Holding AG, Basel; Chairman of the Board of Directors, Coop Mineraloel AG, Allschwil. Other mandate: member of the Advisory Board, Deichmann SE, Essen

Other significant activities

–

Roland Abt
Doctorate in Business Administration (Dr. oec.)

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

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

Mandates in non-listed companies
Member of the Board of Directors, Raiffeisenbank, Zufikon; Chairman of the Board of Directors, Eisenbergwerk Gonzen AG, Sargans; member of the Board of Directors and since June 2019 Chairman of the Board of Aargau Verkehr AG (AVA), Aarau

Other significant activities
–

Alain Carrupt
Swiss school-leaving certificate in economics

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

Mandates
–

Other significant activities
–

Frank Esser

Graduate in Business Administration, Doctorate in Economics (Dr. rer. pol.)

Career history

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

Mandates in listed companies

Member of the Board of Directors of interXion Holding N.V., Amsterdam

Mandates in non-listed companies

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Other significant activities

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Barbara Frei

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

Career history

1998–2016 ABB Group in various managerial positions, including, in particular, 2008–2010 ABB s.r.o., Prague, Country Manager; 2010–2013 ABB S.p.A., Sesto San Giovanni (Italy), Country Manager and Regional Manager Mediterranean; November 2013–December 2015 Drives and Control Unit, Managing Director; 2016 Head of Strategic Portfolio Reviews for the Power Grids division; since December 2016 Schneider Electric, Paris: Chairman of the Executive Committee of Schneider Electric GmbH, Germany, in which capacity she was also Zone President Germany until June 2017; from July 2017–December 2018 Zone President Germany, Austria and Switzerland for the group Schneider Electric, Paris; since January 2019 Executive Vice President Europe Operations

Mandates in listed companies

Member of the Board of Directors, Swiss Prime Site, Olten

Mandates in non-listed companies

Mandate for Schneider Electric Group: CEO of ELSO GmbH until October 2018, of Merten GmbH until April 2019, of Schneider Electric GmbH until April 2019, of Schneider Electric Holding Germany GmbH until July 2019, of SE Real Estate GmbH until April 2019, of Schneider Electric "Austria" Ges.m.b.H until April 2019, and member of the Supervisory Board of Schneider Electric Sachsenwerk GmbH until April 2019; Chairman of the Board of Directors, Schneider Electric (Schweiz) AG, Ittigen until March 2019; Delegate of the Board of Directors, Feller AG, Horgen until June 2019; since February 2019 Chairman of Schneider Nordic Baltic A/S

Other significant activities

–

Sandra Lathion-Zweifel

Degree in law, attorney-at-law; Master of Laws from the University of Zurich and Columbia University, New York; trader's licence from SIX Swiss Exchange

Career history

2005–2010 lawyer for Mergers & Acquisitions, Lenz & Staehelin law firm, Zurich; 2010–2014 Head of Financial Products, Legal & Compliance, Credit Suisse AG, Zurich; 2014–2018 Head of the Institutions and Products section of the Asset Management division of the Swiss Financial Market Supervisory Authority (FINMA); 2018–June 2019 counsel for Banking & Finance, Lenz & Staehelin law firm, Geneva

Mandates in listed companies

Member of the Board of Directors, Banque Cantonale du Valais, Sion

Other significant activities

Member of the Advisory Board of the Capital Markets and Technology Association, Geneva

Anna Mossberg

Executive MBA for Growing Companies, Stanford Business School, Palo Alto, USA; Master of Science in Industrial Engineering and Management, Lulea University of Technology, Lulea, Sweden

Career history

1996–2010 Telia: in various roles, in particular Vice President and Head of Business & Product Management, Head of Internet, Consumer Segment, Director Data Services, Product & Services; 2010 Bahnhof AB, CEO; 2011 Stanley Securities AB, Senior Advisor; 2012–2014 Deutsche Telekom, Senior Vice President Strategy and Portfolio Management; 2015–March 2018 Google Ltd, Sweden, member of the Management Team

Mandates in listed companies

Member of the Board of Directors, Swedbank AB, Sweden; since May 2019, member of the Board of Directors, Schibsted ASA, Oslo

Other significant activities

–

Michael Rechsteiner

Master of Science in Mechanical Engineering, Zurich Federal Institute of Technology (ETH); Master of Business Administration, University of St. Gallen (HSG).

Career history

1990–2000 various roles at ABB Kraftwerke AG, most recently General Manager of ABB Power Generation, Kuala Lumpur; 2000–2002 Head of Power Plants, Vice President Project Execution, Alstom Power; 2003–2007 Chief Operating Officer, Sultex; 2007–2015 various roles at Alstom Power, most recently CEO and Senior Vice President; 2015–2017 General Electric (GE) Officer and Vice President of Global Product Lines at GE Power Services; since April 2017 regional managerial responsibility for GE Power Services Europe and CEO of GE Gas Power Europe

Mandates in non-listed companies

GE mandates: President of the Executive Board, General Electric (Switzerland) Gmbh, Baden, Switzerland; member of the Supervisory Board, GE Power Sp z.o.o., Warsaw, Poland

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

GE mandate: Board of Trustees of General Electric Switzerland Pension Fund

Other significant activities

Member of the Board of Swissmem

Renzo Simoni

Doctorate in Mechanical Engineering (Dr. sc. techn.), Zurich Federal Institute of Technology (ETH)

Career history

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

Mandates in non-listed companies

Member of the Board of Directors, Gruner AG, Basel; member of the Board of Directors, Rhätische Bahn AG; Chairman of the Board of the Psychiatric Hospital of the University of Zurich

Other significant activities

Member of the Advisory Committee of DB Stuttgart-Ulm GmbH (PSU) Project Company ("Stuttgart 21") of the Deutsche Bahn until November 2019

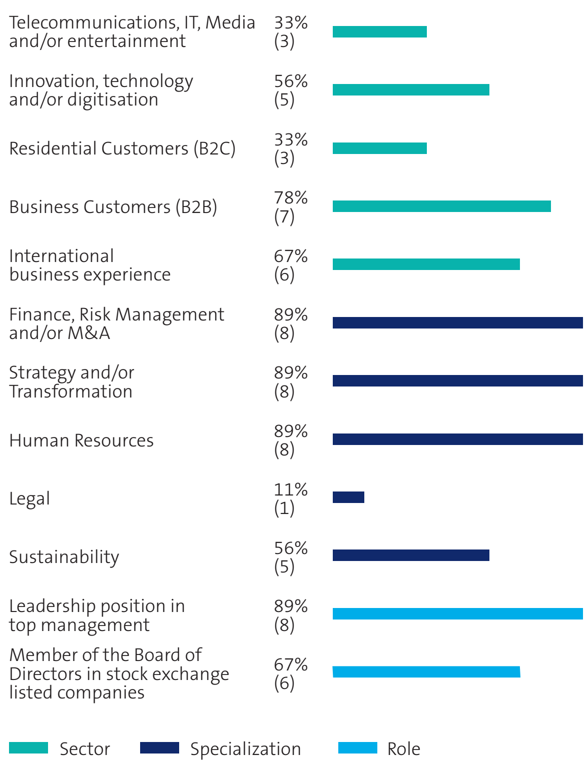
4.3 Composition of the Board of Directors

The Board of Directors regularly examines its composition and plans the appointments to the committee positions on an annual basis. The members of the Board of Directors possess comprehensive expertise in important areas and broad experience.

The following diagrams show breakdowns of the Board of Directors by competency, term of office and gender.

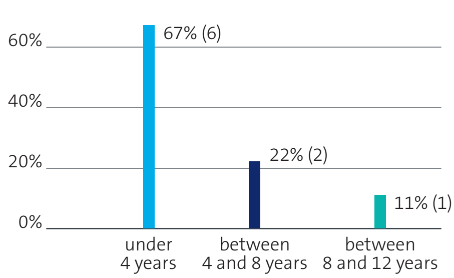
Board of Directors by career, experience, skills and knowledge

In % and (number of members) as of 31 December 2019



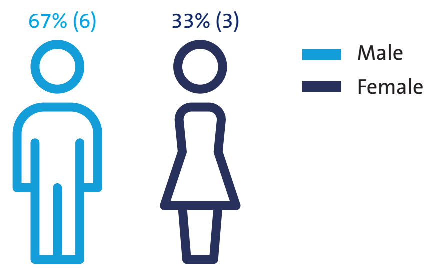
Board of Directors by length of term of office

In % and (number of members) as of 31 December 2019



Board of Directors by gender

In % and (number of members) as of 31 December 2019



4.4 Independence

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

See report **page 170**

4.5 Election and term of office

Under the terms of the Articles of Incorporation, the Board of Directors comprises between seven and nine members and, if necessary, the number can be increased temporarily. Under the Articles of Incorporation of Swisscom Ltd, the Swiss Confederation is entitled to appoint two representatives to the Board of Directors of Swisscom Ltd. At present, only one representative is appointed. Under the terms of the Telecommunications Enterprise Act (TEA), employees must be granted appropriate representation on the Board of Directors of Swisscom Ltd. The Articles of Incorporation also stipulate that the Board of Directors is to include two employee representatives and that employees are entitled to make proposals for their employee representatives. Alain Carrupt was nominated as employee representative by the syndicom trade union and Sandra Lathion-Zweifel was nominated as employee representative by the transfair staff association. The employee representatives are elected by the shareholders at the Annual General Meeting upon a motion proposed by the Board of Directors, the same as the other members of the Board of Directors are, with the exception of the representative of the Swiss Confederation, who is appointed by the Federal Council.

The Annual General Meeting elects the members and the Chairman of the Board of Directors as well as the members of the Compensation Committee individually for a term of one year. The term of office runs until the conclusion of the following Annual General Meeting. Re-election is permitted. If the office of the Chairman is vacant or the number of members of the Compensation Committee falls below the minimum number of three members, the Board of Directors nominates a chairman from among its members or appoints the missing member(s) of the Compensation Committee to serve until the conclusion of the next Annual General Meeting. Otherwise, the Board of Directors constitutes itself. The maximum term of office for members elected by the Annual General Meeting, as a rule, is a total of twelve years. This flexible arrangement makes it possible for shareholders to extend the maximum term of office in exceptional cases if special circumstances exist. Members who reach the age of 70 retire from the Board as of the date of the next Annual General Meeting. The maximum term of office and age limit for the representative of the Swiss Confederation are determined by the Federal Council.

4.6 Succession planning

The Board of Directors regularly examines whether its members' qualifications, abilities and experience are still aligned with the Board's needs and requirements. The Board commences the evaluation of potential new members early on so as to ensure that it has access to the expertise it requires, is well-diversified and can nominate new members as needed in the future. As a guide for the ad-hoc Nomination Committee, the Board of Directors formulates a requirements profile specifying the qualifications and experience that are desired. On the basis of this, the Nomination Committee evaluates potential candidates and makes recommendations to the Board of Directors regarding motions for the election of new Board members to be submitted to the Annual General Meeting. The Board of Directors submits a motion to the Annual General Meeting regarding the approval of new Board members.

4.7 Ongoing development and continuing education

The Board of Directors attaches great importance to the ongoing development and continuing education of the Board and its individual members. The Board of Directors and its individual committees assess themselves in terms of their performance and efficiency once a year in January. They assess the work of the respective body and the performance of the Board or Committee Chairman. Each body conducts a self-evaluation on the basis of a questionnaire. The self-assessment covers the issues of composition, organisation, work processes, responsibilities under the Organisational Rules and the priorities and goals for the reporting year. The Board of Directors and the Committees discuss the results of the survey and formulate goals and measures for the coming year. The Chairman also conducts a one-on-one annual discussion with each member in which possibilities for further individual development may be addressed.

Once a year, a one-day mandatory training course is held such as the one in January 2019. At least four times per year, the members of the Board of Directors also have the opportunity to explore the upcoming challenges facing the Group and business divisions in-depth as part of "company experience days". The majority of members of the Board of Directors regularly take advantage of these opportunities. In addition, all the members of the Board of Directors attend the Swisscom Group's annual management meeting whenever possible. New Board members are given a task-specific introduction to their duties. At a one-day introduction, they are provided with an overview of Group management and the current operational challenges. In addition, they are introduced to topics related to the Italian subsidiary Fastweb and attend task-related training courses.

4.8 Chairman of the Board of Directors

Hansueli Loosli has been a member of the Board of Directors since 2009 and Chairman of the Board since September 2011. The tasks and responsibilities of the Chairman are defined in the Organisational Rules. In the event that the Chairman of the Board of Directors is unavailable or there is a potential conflict of interest, the Vice-Chairman, Frank Esser, takes over the Chairman's tasks and responsibilities.

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

4.9 Internal organisation and modus operandi

The Board of Directors is responsible for the strategic and financial management of Swisscom and for monitoring the company's executive management. As the supreme governing body of the company, it has decision-making authority unless such authority is granted to the Annual General Meeting by virtue of law.

The Board of Directors is usually convened once per month by the Chairman (except in July and November) for a one-to-two-day meeting. Further meetings are convened as business requires. In the event that the Chairman is hindered, the meeting is convened by the Vice-Chairman. The Chairman sets the agenda. Any Board member may request the inclusion of further items on the agenda. The Board members receive the agenda and supporting documentation approximately ten days prior to the meetings, so that they can prepare. The CEO, the CFO and the Head of Group Strategy & Board Services always attend the Board meetings as well. At every Board of Directors' meeting, the Chairman of the Board, the CEO and the Chief Personnel Officer report on particular events, on the general course of business and major business transactions, as well as on any measures that have been implemented. To further ensure appropriate reporting to the members of the Board, the Board of Directors invites members of the Group Executive Board and senior employees of Swisscom as well as auditors and other internal and external experts, as necessary, to all its meetings as dictated by the specific issues being addressed. The Board of Directors did not call on any external consultants during the reporting year.

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

See www.swisscom.ch/basicprinciples

The following table gives an overview of the Board of Directors' meetings, conference calls and circular resolutions in 2019.

	Meetings	Conference calls	Circular resolutions
Total	13	1	2
Average duration (in hours)	06:53	00:35	–
Participation:			
Hansueli Loosli, Chairman	13	1	2
Roland Abt	13	1	2
Alain Carrupt	13	1	2
Frank Esser, Deputy Chairman	13	1	2
Barbara Frei	13	1	2
Sandra Lathion-Zweifel [1]	10	1	2
Anna Mossberg	13	1	2
Catherine Mühlemann [2]	3	–	–
Michael Rechsteiner [1]	10	1	2
Renzo Simoni	13	1	2

1 Elected to the Board of Directors as of 2 April 2019.

2 Resigned from the Board of Directors as of 2 April 2019.

4.10 Committees of the Board of Directors

The Board of Directors has delegated individual tasks to committees. The standing committees of the Board of Directors of Swisscom Ltd were constituted as follows as at 31 December 2019:

Board of Directors

Finance Committee
Frank Esser [1]
Alain Carrupt
Anna Mossberg
Michael Rechsteiner [2]
Hansueli Loosli

Audit Committee
Roland Abt [1]
Sandra Lathion-Zweifel [2]
Renzo Simoni
Hansueli Loosli

Compensation Committee
Barbara Frei [1]
Roland Abt
Frank Esser
Renzo Simoni
Hansueli Loosli [3]

1 Chairman of the Board Committee
2 Elected to the Board of Directors on 02 April
3 Without voting right

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

Finance Committee

The Finance Committee prepares information for the Board of Directors on corporate transactions, for example, in connection with setting up or dissolving significant Group companies, acquiring or disposing of significant shareholdings, and entering into or terminating strategic alliances. The Committee also acts in an advisory capacity on matters relating to major investments and divestments. The Finance Committee has the ultimate decision-making authority when it comes to issuing rules of procedure and directives in the areas of Mergers & Acquisitions and Corporate Venturing. Details of the Committee's activities and responsibilities are set out in the Finance Committee rules of procedure.

See www.swisscom.ch/basicprinciples

The Finance Committee is convened by the Chairman or at the request of a Committee member as often as business requires, but as a rule once per quarter for a half-day meeting. The CEO, the CFO and the Head of Group Strategy and Board Services always attend the meetings of the Finance Committee. In 2019, all the meetings were attended by other members of the Group Executive Board, members of the Management Boards of the strategic Group companies or project managers, depending on the agenda items. The Finance Committee did not call on any external consultants during the reporting year.

The following table gives an overview of the Finance Committee's composition, meetings, conference calls and circular resolutions in 2019.

	Meetings	Conference calls	Circular resolutions
Total	3	–	–
Average duration (in hours)	04:55	–	–
Participation:			
Frank Esser, Chairman	3	–	–
Alain Carrupt	2	–	–
Anna Mossberg	3	–	–
Catherine Mühlemann [1]	–	–	–
Michael Rechsteiner [2]	3	–	–
Hansueli Loosli	3	–	–

1 Resigned from the Board of Directors as of 2 April 2019.

2 Elected to the Board of Directors as of 2 April 2019.

Audit Committee

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

See www.swisscom.ch/basicprinciples

The Audit Committee is composed of four independent members. The Chairman and one other member of the Committee are experts in the financial field, and the majority of the remaining Committee members are experienced in finance and accounting. The Audit Committee is convened by the Chairman or at the request of a Committee member as often as business requires, but at least once per quarter and one additional time in December. The meetings usually last between three and six hours. The CEO, CFO, Head of Group Strategy & Board Services, Head of Accounting, Head of Internal Audit and the external auditors always attend the Audit Committee meetings. In 2019, the Board of Directors called upon other members of the Group Executive Board and Swisscom management to attend, depending on the agenda. The Audit Committee can also involve independent third parties such as lawyers, public accountants and tax experts as required. The Audit Committee did not call on any external consultants during the reporting year.

The following table gives an overview of the Audit Committee's composition, meetings, conference calls and circular resolutions in 2019.

	Meetings	Conference calls	Circular resolutions
Total	5	–	–
Average duration (in hours)	04:27	–	–
Participation:			
Roland Abt, Chairman [1]	5	–	–
Sandra Lathion-Zweifel [2]	4	–	–
Renzo Simoni	5	–	–
Hansueli Loosli [1]	5	–	–

1 Financial expert.

2 Elected to the Board of Directors as of 2 April 2019.

Compensation Committee

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

See report **page 96**

Nomination Committee

The Nomination Committee is formed on an ad-hoc basis for the purpose of preparing the groundwork for electing new members to the Board of Directors and the Group Executive Board when needed. The Committee is presided over by the Chairman and its composition is determined on a case-by-case basis. The Committee carries out its work based on a specific requirements profile defined by the Board of Directors outlining the qualifications and experience being sought and presents suitable candidates to the Board of Directors. It has no decision-making power. The Board of Directors appoints the members of the Group Executive Board and decides upon the motion to be submitted to the Annual General Meeting for the election and approval of members of the Board of Directors. The Nomination Committee is convened by the Chairman or at the request of a Committee member as often as business requires. In December 2019, the Board of Directors appointed a Nomination Committee composed of the following members: Hansueli Loosli (Chairman), Frank Esser, Anna Mossberg and Michael Rechsteiner. The Nomination Committee did not convene in the 2019 financial year.

4.11 Assignment of powers of authority

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

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

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

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

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

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

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

The Board of Directors is responsible for establishing and monitoring the Group-wide assurance functions of risk management, internal control system, compliance and internal audit and is briefed comprehensively on these matters at least once a year.

Risk management

The Board of Directors has set the objective of protecting the company's enterprise value through the implementation of Group-wide risk management. A corporate culture that promotes the conscious handling of risks facilitates the achievement of this objective. Accordingly, Swisscom has implemented a Group-wide, central risk management system that is based on ISO Standard 31000 and takes account of both external and internal events. Swisscom engages in level-appropriate, comprehensive reporting and maintains the appropriate documentation. Its objective is to identify, assess and address significant risks and opportunities in good time. To this end, the central Risk Management unit, which reports to both the CFO and Controlling, works closely with the Controlling and Strategy departments and other assurance functions and line functions. The risk management system is examined periodically by an external auditor. Swisscom assesses its risks in terms of the probability that they will occur and their quantitative and qualitative effects in the event that they do occur. It manages risks on the basis of a risk strategy. The risks are evaluated in terms of their impact on key performance indicators. Swisscom reviews and updates its risk profile on a quarterly basis. The Audit Committee and the Group Executive Board are provided a report on risks every quarter, as well as in-depth information in April and December on significant risks, their potential effects and the status of remedial measures. The Board of Directors is briefed on an annual basis. In urgent cases, the Chairman of the Audit Committee is informed without delay about any significant new risks. Significant risk factors are described in the Risks section of the Management Commentary.

See report pages 63-65

Internal control system and financial reporting

The internal control system (ICS) ensures the reliability of financial reporting with an appropriate degree of assurance. It acts to prevent, uncover and correct substantial errors in the consolidated financial statements, the financial statements of the Group companies and the remuneration report. The ICS encompasses the following internal control components: control environment, assessment of accounting risks, control activities, monitoring controls, information and communication. The Accounting unit, which is attached to Group Business Steering, and Internal Audit periodically monitor the functioning and effectiveness of the ICS. Significant shortcomings in the ICS identified during the monitoring activities are reported together with the corrective measures in a status report to the Audit Committee twice a year and to the Board of Directors on an annual basis. Should the ICS risk assessment change significantly, the Chairman of the Audit Committee is informed without delay. Corrective measures to remedy the shortcomings are monitored centrally. The Audit Committee assesses the performance and effectiveness of the ICS on the basis of the periodic reporting.

Compliance management

The Board of Directors has set the objective of safeguarding the Swisscom Group and its executive bodies and employees from legal sanctions, financial losses and reputational damage by ensuring Group-wide compliance. A corporate culture that promotes willingness to behave in a way that complies with the relevant regulations facilitates the achievement of this objective. The principles underlying this are laid down in the Code of Conduct approved by the Board of Directors. Swisscom has therefore implemented a Group-wide, central compliance system. Within the framework of this system, every year Group Compliance, a specialist unit of the Group legal department, applies a risk-based approach towards identifying areas of legal compliance that require monitoring by the central system. Within these areas of legal compliance, the business activities of the Group companies are reviewed periodically in a proactive manner in order to identify risks in good time and determine the required corrective measures. The employees affected are informed of the measures and their implementation is monitored. The decentralised Compliance organisational units independently monitor compliance with the Group regulations that affect them, and they report to Group Compliance. Once every year, Group Compliance reviews the appropriateness and effectiveness of the system. In certain areas, an annual audit of the implemented measures is also performed by external auditors (financial intermediation in accordance with the Money Laundering Act). Group Compliance reports to the Audit Committee and the Board of Directors once per annum on its activities and its risk assessments. Should there be significant changes in the risk assessment or if serious breaches are identified, the Chairman of the Audit Committee is informed without delay.

See www.swisscom.ch/basicprinciples

Internal auditing

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

Internal Audit is responsible for planning and performing audits throughout the Group in compliance with professional auditing standards and possesses maximum independence. It is under the direct control of the Chairman of the Board of Directors and provides reports to the Audit Committee. At an administrative level, Internal Audit provides reports to the Head of Group Strategy & Board Services.

Internal Audit liaises closely and exchanges information with the external auditors. The external auditors have unrestricted access to the audit reports and audit files of Internal Audit. Internal Audit closely coordinates audit planning with the external auditors. The integrated strategic audit plan, which includes the coordinated annual plan of both the internal and external auditors, is prepared annually on the basis of a risk analysis and presented to the Audit Committee for approval. Notwithstanding the above, the Audit Committee can commission special audits based on information received on the whistle-blowing platform operated by Internal Audit. This reporting procedure, approved by the Audit Committee, ensures that objections raised relating to external reporting, financial reporting and assurance functions can be submitted anonymously and handled confidentially. At its meetings, which are held at least quarterly, the Audit Committee is briefed on audit findings, the reports submitted to the whistle-blowing platform and the status of any corrective measures implemented. The Head of Internal Audit took part in all five meetings of the Audit Committee in 2019. He did not attend the meetings of the full Board of Directors.

Group Executive Board as of 1 January 2020.

5 Group Executive Board

5.1 Members of the Group Executive Board

In accordance with the Articles of Incorporation, the Executive Board shall comprise one or more members, who may not be members of the Board of Directors of Swisscom Ltd at the same time. Temporary exceptions are only permitted in exceptional cases. The Board of Directors has delegated responsibility for the overall executive management of Swisscom Ltd to the CEO. The CEO is entitled to delegate his powers to subordinates, mainly to other members of the Group Executive Board. The members of the Group Executive Board are appointed by the Board of Directors.

See report **pages 68-69**

An overview of the composition of the Group Executive Board as at 31 December 2019 is given in the table below.

Name	Nationality	Year of birth	Function	Appointed to the Group Executive Board as of
Urs Schaeppi [1]	Switzerland	1960	CEO Swisscom Ltd	March 2006
Mario Rossi	Switzerland	1960	CFO Swisscom Ltd	January 2013
Hans C. Werner	Switzerland	1960	CPO Swisscom Ltd	September 2011
Marc Werner [2]	Switzerland and France	1967	Head of Sales & Services	January 2014
Urs Lehner	Switzerland	1968	Head of Enterprise Customers [3]	June 2017
Christoph Aeschlimann	Switzerland	1977	Head of IT, Network & Infrastructure	February 2019
Dirk Wierzbitzki	Germany	1965	Head of Products & Marketing [4]	January 2016

1 Since November 2013 CEO.
2 Resigned from the Group Executive Board as of 31 January 2019.
3 New name of the function from 1 Januar 2020 Head of Business Customers.
4 From 1 Januar 2020 Head of Residential Customers.

Heinz Herren left the Group Executive Board on 31 January 2019. Christoph Aeschlimann took over as the new Head of IT, Network & Infrastructure on 1 February 2019.
See www.swisscom.ch/cgreport2018

Amendments as at 1 January 2020

Marc Werner, Head of Sales & Services, left the Group Executive Board on 31 December 2019. As of 1 January 2020, the Sales & Services (SAS) and Products & Marketing (PMK) divisions were merged into the new Residential Customers division, which is headed by Dirk Wierzbitzki. From 1 January 2020, the Group Executive Board will thus consist of six members. The Enterprise Customers division headed by Urs Lehner was renamed "Business Customers" as of 1 January 2020.

5.2 Education, professional activities and affiliations

Key details of the careers and qualifications of the members of the Group Executive Board are provided below along with a summary of the mandates they hold outside the Group and other significant activities. Pursuant to the Articles of Incorporation, the Group Executive Board members may perform no more than one additional mandate in listed companies and no more than two additional mandates in non-listed companies. In total, they may not perform more than two such additional mandates. These restrictions on the number of mandates do not apply to mandates performed by an Executive Board member by order of Swisscom or to mandates in interest groups, charitable associations, institutions and foundations or employee retirement benefit foundations.

The number of mandates held by order of Swisscom is limited to ten, while the number of mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations is limited to seven. Prior to accepting new mandates and other duties outside the Swisscom Group, the members of the Group Executive Board are obligated to obtain the approval of the Chairman of the Board of Directors. Details on the regulation of external mandates, in particular the definition of the term "mandate" and information on other mandates that do not fall under the aforementioned numerical restrictions for listed and non-listed companies, are set out in Article 8.3 of the Articles of Incorporation. None of the members of the Group Executive Board exceed the set limits for mandates. The members of the Group Executive Board perform most of their other significant activities by order of Swisscom.
See www.swisscom.ch/basicprinciples

The members of the Group Executive Board are required to order their personal and business affairs and take whatever measures necessary to ensure that conflicts of interest are avoided as far as possible. Should a conflict of interest nevertheless arise, the member concerned must inform the CEO immediately. The members of the Group Executive Board are obliged to abstain from negotiations in business which conflict with their own interests or with the interests of natural or legal persons closely associated to them.

Urs Schaeppi
Degree in Engineering (Dipl. Ing., Zurich Federal Institute of Technology (ETH)) and Business Administration (lic. oec., University of St. Gallen (HSG))

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

Mandates by order of Swisscom
Member of the Executive Board, Association Suisse des Télécommunications (asut), Berne; member of the Foundation Board, IMD International Institute for Management Development, Lausanne; until May 2019, member of the Foundation Council, Swiss Innovation Park Foundation, Berne; member of the Board of Directors, Admeira AG, Berne; member of the Board of Trustees of the Swiss Entrepreneurs Foundation

Other significant activities
Member of the Board of Directors, Swiss-American Chamber of Commerce, Zurich; member of the Executive Board, Glasfasernetz Schweiz, Berne; member of the Advisory Board of the Department of Economics of the University of Zurich; member of the Steering Committee of digitalswitzerland, Zurich (formerly Digital Zurich 2025); member of the Advisory Board on Digital Transformation for the Federal Department of the Environment, Transport, Energy and Communications (DETEC) and the Federal Department of Economic Affairs, Education and Research (EAER); since January 2019 member of the international Advisory Committee of the ZHAW School of Management and Law, Zurich

Mario Rossi
Commercial apprenticeship; Swiss Certified Public Accountant

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

Mandates by order of Swisscom
President of the Board of Trustees, comPlan, Berne; member of the Board of Directors, Belgacom International Carrier Services S.A., Brussels

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

Other significant activities
Member of the Sanctions Committee of SIX Swiss Exchange AG, Zurich; member of the Board of Directors of SwissHoldings, Berne

Hans C. Werner
Graduate in business management, PhD in business administration (Dr. oec.)

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

Mandates by order of Swisscom
Member of the Board of Trustees, comPlan, Berne

Mandate in non-listed company
Since September 2019, member of the Board of Directors, Kantonsspital Aarau AG

Other significant activities
Member of the Board, Swiss Employer's Association, Zurich; President of the Institute Council of the International Institute of Management in Technology (iimt) of the University of Fribourg

Marc Werner (resigned on 31.12.2019)
Technical apprenticeship with specialised secondary school diploma, Swiss Certified Marketing Executive

Career history
1997–2000 Minolta (Schweiz) AG, Head of Marketing and Sales and member of the Executive Management; 2000–2004 Bluewin AG, Head of Marketing & Sales, member of the Executive Board; 2005–2007 Swisscom Fixnet Ltd, Head of Marketing & Sales Residential Customers; 2008–2013 Swisscom (Switzerland) Ltd: 2008–2011 Head of Marketing & Sales Residential Customers and Deputy Head of Residential Customers, 2012–2013 Head of Customer Service Residential Customers and Deputy Head of Residential Customers; September 2013–December 2015 Swisscom, Head of Residential Customers division; 2016–2019 Swisscom, Head of Sales & Services and 2014–2019 member of the Swisscom Group Executive Board

Mandates by order of Swisscom
Member of the Board of Directors, Digital Festival AG; member of the Board of Trustees, "Stiftung für Marketing in der Unternehmensführung"

Other significant activities
Member of the Communications Council of KS/CS Communication Switzerland (formerly the Verband SW Schweizer Werbung), Zurich; until September 2019, member of the Executive Board of the SVC Swiss Venture Club

Urs Lehner
Degree in IT Engineering (UAS, University of Applied Sciences), Executive MBA in Business Engineering, University of St. Gallen (HSG)

Career history

1997–2013 Trivadis Group, most recently: 2004–2008 Solution Portfolio Manager, member of the Executive Board of Trivadis Group, 2008–2011 Chief Operating Officer (COO) of Trivadis Group, 2011–2013 member of the Board of Directors of Trivadis Holding AG; July 2011–June 2017 Swisscom (Switzerland) Ltd: July 2011–December 2013 Head of Marketing & Sales Corporate Business, 2014–2015 Head of Marketing & Sales Enterprise Customers, 2016–June 2017 Head of Sales & Services Enterprise Customers; since June 2017 Head of Enterprise Customers (renamed "Business Customers" in 2020) and member of the Swisscom Group Executive Board

Mandates

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Other significant activities

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Christoph Aeschlimann
Degree in computer science (Dipl. Ing.), École polytechnique fédérale de Lausanne (EPFL); MBA, McGill University (Canada)

Career history

2001–2004 Odyssey Asset Management Systems, Software Development Manager; 2006–2007 Zühlke Group, Business Unit Manager; 2007–2011 Odyssey Financial Technologies: 2007–2008 Area Services Manager, 2008–2011 Senior Account Manager EMEA; 2011–2012 BSB, Head of Switzerland and General Manager D-A-CH & CIS; 2012–2018 ERNI Group: 2012–2014 Business Area Manager, 2014–2017 Managing Director Switzerland, 2017–2018 CEO; since February 2019, Swisscom, Head of IT, Network & Infrastructure and member of the Swisscom Group Executive Board

Mandates

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Other significant activities

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Dirk Wierzbitzki
Degree in electrical engineering (Dipl. Ing.)

Career history

1994–2001 Mannesmann (now Vodafone Germany): various management roles in the area of product management; 2001–2010 Vodafone Group: 2001–2003 Director for Innovation Management, Vodafone Global Products and Services, 2003–2006 Director of Commercial Terminals, 2006–2008 Director of Consumer Internet Services and Platforms, 2008–2010 Director of Communications Services; 2010–2015 Swisscom (Switzerland) Ltd: member of Management Residential Customers, 2010–2012 Head of Customer Experience Design for Residential Customers, 2013–2015 Head of Fixed-network Business & TV for Residential Customers; since January 2016, Swisscom: until 2019 Head of Products & Marketing and since 2020 Head of Residential Customers; since 2016, member of the Swisscom Group Executive Board

Mandates by order of Swisscom

Member of the Board of Directors, SoftAtHome, Paris; member of the Board of Directors, Admeira AG, Berne, and until March 2019 member of the Board of Directors, Adtelier AG, Berne

Other significant activities

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5.3 Management agreements

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

6 Remuneration, shareholdings and loans

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

See report **page 96**

7 Shareholders' participation rights

7.1 Voting right restrictions and proxies

Each registered share entitles the holder to one vote. Voting rights can only be exercised if the shareholder is entered in the share register of Swisscom Ltd with voting rights. The Board of Directors may refuse to recognise an acquirer of shares as a shareholder or beneficial holder with voting rights if the latter's total holding, when the new shares are added to any voting shares already registered in its name, exceeds the limit of 5% of all registered shares entered in the commercial register. For the shares in excess of the limit, the acquirer is entered in the share register as a shareholder or beneficial holder without voting rights. This restriction on voting rights also applies to registered shares acquired through the exercise of subscription, option or conversion rights. The calculation of the percentage restriction is subject to the Group clause in accordance with Article 3.5.1 of the Articles of Incorporation.

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

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

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

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

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

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

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

7.2 Statutory quorum requirements

The Annual General Meeting of Shareholders of Swisscom Ltd adopts its resolutions and decides its elections by the absolute majority of valid votes cast. Abstentions are not deemed to be votes cast. In addition to the special quorum requirements under the Swiss Code of Obligations, a two-thirds majority of the voting shares represented is required in the following cases:

- introduction of restrictions on voting rights
- conversion of registered shares to bearer shares
- change in the Articles of Incorporation concerning special quorums for resolutions

7.3 Convocation of the Annual General Meeting and agenda items

The Board of Directors convenes the Annual General Meeting at least 20 calendar days prior to the date of the meeting by means of an announcement in the Swiss Commercial Gazette. The meeting can also be convened by registered or unregistered letter to all registered shareholders. One or more shareholders who together represent at least 10% of the share capital can demand in writing that an extraordinary general meeting be convened, stating the agenda item and the proposal or, in the case of elections, by stating the names of the proposed candidates.

The Board of Directors is responsible for defining the agenda. Shareholders representing shares with a par value of at least CHF 40,000 may request that an item be placed on the agenda. This request must be submitted in writing to the Board of Directors at least 45 days prior to the Annual General Meeting, stating the agenda item and the proposal (Article 5.4.3 of the Articles of Incorporation).

See www.swisscom.ch/basicprinciples

7.4 Representation at the Annual General Meeting

Shareholders may be represented at the Annual General Meeting by another shareholder with voting rights or by the independent proxy elected by the Annual General Meeting. The law firm Reber Rechtsanwälte, Zurich, was appointed as independent proxy for the period up until the conclusion of the General Annual Meeting in April 2020. Partnerships and legal entities may be represented by authorised signatories, while minors and wards may be represented by their legal representative, even if the representative is not a shareholder.

A power of attorney may be granted in writing or electronically via the shareholders' platform operated by Computershare Switzerland Ltd. Shareholders who are represented by a proxy may issue instructions for each agenda item and also for all unannounced agenda items and motions, stating whether they wish to vote for or against the motion or abstain. The independent proxy must cast the votes entrusted to him by shareholders according to their instructions. If the independent proxy receives no instructions, he shall abstain. Abstentions are not deemed to be votes cast (Article 5.7.4 of the Articles of Incorporation).

7.5 Entries in the share register

Shareholders entered in the share register with voting rights are entitled to vote at the Annual General Meeting. To ensure due procedure, the Board of Directors defines a cut-off date at its own discretion for determining voting entitlements, which is normally three business days before the respective Annual General Meeting. Entries in and deletions from the share register can be made at any time, regardless of the cut-off date. The cut-off date is announced with the invitation to the Annual General Meeting and also published in the financial calendar on the Swisscom website. Shareholders entered in the share register with voting rights as of 5 p.m. on 28 March 2019 were entitled to vote at the Annual General Meeting of 2 April 2019. Shareholders entered in the share register with voting rights as of 5 p.m. on 1 April 2020 are entitled to vote at the Annual General Meeting of 6 April 2020.

8 Change of control and defensive measures

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

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

See report page 96

9 Auditor

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

The statutory auditor is appointed annually by the Annual General Meeting following a proposal submitted by the Board of Directors. Re-election is permitted. The policies for appointing the statutory auditor have been set forth in a policy by the Audit Committee. A new invitation to tender is issued for the statutory auditor's mandate at least every 10 to 14 years. The statutory auditor's tenure is limited to 20 years. The Audit Committee steers the selection process, defines transparent selection criteria (audit firm, audit team, audit approach, acceptance of mandate, fees, overall impression). It submits two proposals for an audit firm accompanied by a substantiated recommendation to the Board of Directors. As stipulated by the Swiss Code of Obligations, the person who leads the audit may only perform the mandate for a maximum of seven years.

In 2018, the Board of Directors issued a new call for tenders for the audit mandate for Swisscom Ltd and its Group companies – with the exception of Fastweb S.p.A. At the Annual General Meeting on 2 April 2019, PricewaterhouseCoopers AG (PwC), Zurich, was elected as the new statutory auditors for the 2019 financial year. The Auditor-in-charge is Peter Kartscher. The statutory auditors mandate was previously performed by KPMG, Muri bei Bern, from 2004 to 2018.

9.2 Audit fees

The fees paid to PricewaterhouseCoopers (PwC) as auditors for the 2019 financial year amount to CHF 3,209 thousand.

9.3 Supplementary fees

The fees charged by PricewaterhouseCoopers (PwC) in 2019 for additional audit-related services amounted to CHF 718 thousand, and for other services CHF 229 thousand.

Audit-related services include audit services in connection with customer orders for IT outsourcing, IT audits, due diligence support in an M&A project, and audit services in the area of revenue assurance. Other services include consulting services for a performance management system and services in the area of the European General Data Protection Regulation (GDPR).

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

The Audit Committee verifies the qualifications and independence of the statutory auditors as a state-supervised auditing firm on behalf of the Board of Directors. It also assesses the performance and remuneration of the auditors. Assessment criteria are the competence and availability of the audit team, the audit process, and reporting and communication. It is also responsible for observing the statutory rotation principle for the Auditor-in-charge and for reviewing and issuing the new invitations to tender for the audit mandate. The Audit Committee approves the integrated strategic audit plan, which includes the annual audit plan of both the internal and external auditors, and the annual fee for the auditing services provided to the Group and Group companies. To help ensure independence, the Audit Committee has laid down principles for awarding additional services to the auditors, including a list of prohibited services. In order to ensure the independence of the auditors, additional service mandates must be approved by the Audit Committee where the fee exceeds CHF 300 thousand. The Audit Committee requires that the CFO reports to it quarterly and the auditors annually on current mandates being performed by the auditors, broken down according to audit services, audit-related services and non-audit services, and on their independence.

The statutory auditors, represented by the Auditor-in-charge and his deputy, usually attend all Audit Committee meetings. They inform the Committee in detail on the performance and results of their work, in particular regarding the annual financial statement audit. They further submit a written report annually to the Board of Directors and the Audit Committee on the conduct and results of the audit of the annual financial statements, as well as on their findings with regard to accounting and the internal control system. Finally, the Chairman of the Audit Committee liaises closely with the Auditor-in-charge beyond the meetings of the Committee and regularly reports to the Board of Directors. KPMG, the previous statutory auditors, attended the meeting held by the Audit Committee in February 2019 regarding the annual financial statements for 2018. The statutory auditors, PwC, took part in all five meetings of the Audit Committee in 2019. The Head of Internal Audit also attended all five meetings of the Audit Committee in 2019. Neither the auditor nor Internal Audit participated in the meetings of the full Board of Directors.

10 Information policy

Swisscom pursues an open, active information policy vis-à-vis shareholders, the general public and the capital markets. Shareholders are provided with notifications and announcements in accordance with Article 12 of the Articles of Incorporation, which are published in the Swiss Commercial Gazette. Swisscom publishes comprehensive, consistent and transparent financial information on a quarterly basis. Furthermore, it publishes an annual sustainability report in accordance with the Global Reporting Initiative (GRI) and an annual report including a management commentary, corporate governance report, remuneration report, consolidated financial statement and the financial statements of Swisscom Ltd. The interim reports and annual report are available on the Swisscom website under “Investors” or may be ordered directly from Swisscom. The Sustainability Report is available on the Swisscom website under “Company”.

See www.swisscom.ch/financialreports
See www.swisscom.ch/cr-report2019

Swisscom meets investors regularly throughout the year, presents its financial results at analysts’ meetings and road shows, attends selected conferences for financial analysts and investors, and keeps its shareholders and other interested parties continuously informed about its business through press releases.

Related presentations and the ad-hoc press releases published by Swisscom are available on the Swisscom website under “Investors”. It is possible to subscribe online to the ad-hoc press releases published by Swisscom.

See www.swisscom.ch/adhoc

The comprehensive minutes of the Annual General Meeting of 2 April 2019 and minutes from past meetings are available on the Swisscom website.

See www.swisscom.ch/generalmeeting

Those responsible for investor relations can be contacted via the website or by e-mail, telephone or post. The contact details and address of the head office may be found in the website publishing details.

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11 Financial calendar

- Annual General Meeting for the 2019 financial year: 6 April 2020, in Zürich Oerlikon
- 1st Quarter Interim Report: 30 April 2020
- Half-year Interim Report: 13 August 2020
- 3rd Quarter Interim Report: 29 October 2020
- Annual Report 2020: February 2021

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

See www.swisscom.ch/financialcalendar

Remuneration Report

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

1 Governance

1.1 General principles

The Remuneration Report is based on sections 3.5 and 5 of the annex to the Corporate Governance Directive issued by the SIX Swiss Exchange and Articles 13 to 16 of the Ordinance against Excessive Compensation in Listed Stock Companies (OaEC). Swisscom implements the requirements of the OaEC and complies with the recommendations of the Swiss Code of Best Practice for Corporate Governance 2014 issued by economiesuisse, the umbrella organisation representing Swiss business.

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

See www.swisscom.ch/basicprinciples

As in previous years, the Remuneration Report will be put to a consultative vote at the Annual General Meeting on 6 April 2020.

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

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

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

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

The decision-making powers are governed by the Articles of Incorporation, the Organisational Rules of the Board of Directors and the Regulations of the Compensation Committee.

See www.swisscom.ch/basicprinciples

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

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

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

1.3 Election, composition and modus operandi of the Compensation Committee

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

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

See www.swisscom.ch/basicprinciples

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

See report page 170

The following table gives an overview of the composition of the Committee, the Committee meetings, conference calls and circular resolutions in 2019.

	Meetings	Conference calls	Circular resolutions
Total	3	–	–
Average duration (in hours)	01:20	–	–
Participation:			
Barbara Frei, Chairwoman	3	–	–
Roland Abt	3	–	–
Frank Esser	3	–	–
Renzo Simoni [1]	3	–	–
Hansueli Loosli [2]	3	–	–

1 Representative of the Confederation.

2 Participation without voting rights.

2 Remuneration of the Board of Directors

2.1 Principles

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

See www.swisscom.ch/basicprinciples

The remuneration is made up of a Director's fee that varies in relation to the member's function, plus meeting attendance fees, social insurance contributions and any applicable fringe benefits. No variable performance-related emoluments are paid. The members of the Board of Directors are obligated to draw a portion of their fee in the form of equity shares and to comply with the requirements on minimum shareholdings, thus ensuring they directly participate financially in the performance of Swisscom's shares. The remuneration is normally reviewed every December for the following year for ongoing appropriateness. In December 2018, the Board of Directors assessed the appropriateness of the remuneration as part of a discretionary decision. The Board of Directors compared Swisscom's remuneration with that of other listed companies domiciled in Switzerland, which, like Swisscom, must fulfil Swiss and foreign legal requirements, including full personal liability. The Board of Directors took as a reference the remuneration paid by peers Cie Financière Richemont, Geberit, Givaudan, Lonza, SGS, Sika and Swatch Group. The Board of Directors opted not to adjust remuneration for the 2019 financial year. No external consultants were called on with regard to the structuring of remuneration.

2.2 Remuneration components

Director’s fee

The Director’s fee is made up of a basic emolument and functional allowances as compensation for the individual functions. The following net amounts are paid per year:

in CHF/net			
Base salary per member	110,000		
Functional allowances [1]		Chairmanship	Member
Presidium	255,000		
Vice presidium	20,000		
Representative of the Confederation	40,000		
Finance Committee		20,000	10,000
Audit Committee		50,000	10,000
Remuneration Committee		20,000	10,000

1 No functional allowance is paid for participation in ad-hoc committees appointed on a case-by-case basis.

Under the Management Incentive Plan, the members of the Board of Directors are obligated to draw 25% of their Director’s fee in the form of shares, with Swisscom adding a 50% top-up to the amount to be invested in shares. Thus, the Director’s fee (excluding meeting attendance fees, social insurance contributions and fringe benefits) is made up of a two-thirds cash portion and a one-third equity share portion. The amount of the share purchase obligation can vary in the case of members who join, leave or assume or give up a function during the year. Shares are allocated on the basis of their value accepted for tax purposes, rounded up to the next whole number of shares, and are subject to a blocking period of three years. This restriction on disposal also applies if members leave the company during the blocking period. The shares, which are allocated in April of the reporting year for the reporting year, are recorded at market value on the date of allocation. The share-based remuneration is augmented by a factor of 1.19 in order to take account of the difference between the tax value and the market value. In April 2019, a total of 1,409 shares were allocated to the members of the Board of Directors (prior year: 1,486 shares) with a tax value of CHF 411 per share (prior year: CHF 390). Their market value was CHF 489.50 (prior year: CHF 464) per share.

Meeting attendance fees

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

Social insurance contributions and fringe benefits

Swisscom pays the employee contributions to social insurance, particularly old-age and survivors’ insurance and unemployment insurance, for the members of the Board of Directors. The disclosed remuneration paid to the members of the Board of Directors includes the share of social insurance contributions payable by the employee. The share of contributions payable by Swisscom in its role as employer is disclosed separately and is also included in the total remuneration.

The disclosure of service-related and non-cash benefits and expenses relies on a tax-based point of view. Swisscom does not offer any significant service-related or non-cash benefits. Expenses are reimbursed on the basis of actual costs incurred. Accordingly, neither service-related and non-cash benefits nor out-of-pocket expenses are included in the reported remuneration.

2.3 Total remuneration

The total remuneration paid to the individual members of the Board of Directors for the 2019 and 2018 financial years is presented in the tables below, broken down into individual components. The lower amount of total remuneration for 2019 is attributable to the early resignation of one member of the Board of Directors as of 31 December 2018 and the fact that fewer meetings were held overall in 2019.

2019, in CHF thousand	Base salary and functional allowances: Cash remuneration	Base salary and functional allowances: Share-based payment	Meeting attendance fees	Employer contributions to social security	**Total 2019**
Hansueli Loosli	314	186	31	29	560
Roland Abt	144	85	23	14	266
Alain Carrupt	96	57	18	10	181
Frank Esser [1]	128	76	20	–	224
Barbara Frei	112	66	18	11	207
Sandra Lathion-Zweifel [2]	64	56	16	8	144
Anna Mossberg [3]	90	54	18	32	194
Catherine Mühlemann [4]	31	3	5	2	41
Michael Rechsteiner [2]	64	56	15	8	143
Renzo Simoni	136	80	22	14	252
Total remuneration to members of the Board of Directors	**1,179**	**719**	**186**	**128**	**2,212**

1 Frank Esser is liable to social insurance contributions in Germany. Neither employer nor employee contributions were included.
2 Elected to the Board of Directors as of 2 April 2019.
3 Anna Mossberg is liable to social insurance contributions in Sweden. No employee contributions were included.
4 Resigned from the Board of Directors as of 2 April 2019.

2018, in CHF thousand	Base salary and functional allowances: Cash remuneration	Base salary and functional allowances: Share-based payment	Meeting attendance fees	Employer contributions to social security	Total 2018
Hansueli Loosli	314	186	34	29	563
Roland Abt	127	85	26	14	252
Valérie Berset Bircher [1]	102	57	24	11	194
Alain Carrupt	96	57	19	10	182
Frank Esser	130	80	22	13	245
Barbara Frei	112	66	18	11	207
Anna Mossberg [2,3]	60	52	13	24	149
Catherine Mühlemann	96	57	19	10	182
Theophil Schlatter [4]	52	4	6	3	65
Renzo Simoni	136	80	22	14	252
Total remuneration to members of the Board of Directors	**1,225**	**724**	**203**	**139**	**2,291**

1 The cash remuneration (including meeting attendence fees) for the mandate as member of the Board of Directors of Worklink AG of CHF 6,500 is included.
2 Elected to the Board of Directors as of 4 April 2018.
3 Anna Mossberg is liable to social insurance contributions in Sweden. No employee contributions were included.
4 Resigned from the Board of Directors as of 4 April 2018.

The total remuneration paid to the members of the Board of Directors for the 2019 financial year is within the maximum total amount of CHF 2.5 million approved by the 2018 Annual General Meeting (AGM) for 2019.

2.4 Minimum shareholding requirement

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

2.5 Shareholdings of the members of the Board of Directors

As at 31 December 2018 and 2019, the members of the Board of Directors and/or related parties held blocked and non-blocked shares as shown in the table below. None of the individuals required to make notification holds voting shares exceeding 0.1% of the share capital.

number	**31.12.2019**	31.12.2018
Hansueli Loosli	3,474	3,113
Roland Abt	544	379
Valérie Berset Bircher [1]	–	329
Alain Carrupt	439	329
Frank Esser	798	642
Barbara Frei	1,047	919
Sandra Lathion-Zweifel [2]	114	–
Anna Mossberg	222	112
Catherine Mühlemann [3]	–	1,559
Michael Rechsteiner [2]	109	–
Renzo Simoni	480	324
Total shares held by the members of the Board of Directors	**7,227**	**7,706**

1 Resigned from the Board of Directors as of 31 December 2018.
2 Elected to the Board of Directors as of 2 April 2019.
3 Resigned from the Board of Directors as of 2 April 2019.

3 Remuneration of the Group Executive Board

3.1 Principles

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

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

The remuneration of the Group Executive Board is a balanced combination of fixed and variable salary components. The fixed component is made up of a base salary, fringe benefits (mainly the use of a company car) and pension fund benefits. The variable remuneration includes a performance-related component settled partly in cash and partly in shares.

The members of the Group Executive Board are required to hold a minimum shareholding, which strengthens their direct financial participation in the medium-term performance of the Swisscom share and thus aligns their interests with those of shareholders. To facilitate compliance with the minimum shareholding requirement, Group Executive Board members have the possibility of drawing up to 50% of the variable performance-related component of their salary in shares.

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

See www.swisscom.ch/basicprinciples

Remuneration system
Remuneration components and determining factors

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

The Compensation Committee decides at its discretion on the level of remuneration, taking into consideration the external market value of the function in question, the internal salary structure and individual performance.

For the purpose of assessing market values, Swisscom relies on cross-sector market comparisons with Swiss companies as well as international sector comparisons. These two comparative perspectives allow Swisscom to form an optimal overview of the relevant employment market for managerial positions. Swisscom did not consult any new comparative studies in the year under review, but relied on the previous years' studies by Willis Towers Watson. The comparison with the Swiss market covers major companies domiciled in Switzerland from various sectors, with the exception of the financial and pharmaceutical sectors. On average, these companies generate revenue of CHF 13.3 billion and employ 14,552 people. The international sector comparison covers telecommunications companies from eleven western European countries with median revenue of CHF 8.9 billion and median workforce of 18,800 employees. The evaluation of the two comparative studies takes into account the comparability of the extent of responsibility in terms of revenue, number of employees and international scope. No external consultants were called on with regard to the structuring of remuneration.

As a rule, the Compensation Committee reviews the individual remuneration paid to members of the Group Executive Board every three years of employment. Taking into account the benchmarks, the Board of Directors adjusted the salaries of two members of the Group Executive Board during the course of the reporting year in order to take the experience and performance of these members into account and to bring the salaries into line with standard market remuneration levels.

3.2 Remuneration components

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

Variable performance-related salary component
The members of the Group Executive Board are entitled to a variable performance-related salary component which represents 70% of the base salary if objectives are achieved in full (performance-related bonus). The amount of the performance-related component paid out depends on the extent to which the targets are achieved, as set by the Compensation Committee, taking into account the performance evaluation by the CEO. If targets are exceeded, up to 130% of the performance-related bonus may be paid. The maximum performance-related salary component is thus limited to 91% of the base salary. This ensures that the

performance-related salary component does not exceed the annual base salary, even taking account of the market value of the component paid in shares.

Targets for the variable performance-related salary component

The targets underlying the variable performance-related salary component are adopted annually in December for the following year by the Board of Directors following a proposal submitted by the Compensation Committee. The targets relevant to the reporting year were left unchanged from the previous year, in line with the Group's continuing corporate strategy. The targets are based on the Swisscom Group's budget figures for 2019.

The targets for the members of the Group Executive Board consist of financial as well as business transformation targets. The financial targets include net revenue, operating income before interest, taxes, depreciation and amortisation as a percentage of net revenue (EBITDA margin), and operating free cash flow proxy. The Group Executive Board members delegated by Swisscom to the Board of Directors of the Italian subsidiary Fastweb S.p.A. (Fastweb) are also measured on the basis of the Fastweb financial targets.

The business transformation targets are summarised under the Business Transformation Multiplier (BTM). They include the net promoter score for residential and business customers, which is a recognised indicator of customer loyalty, an availability coefficient, growth targets and net cost savings targets. Further information on customer satisfaction can be found in the Management Commentary.

See report **page 34-35**

The achievement of corporate objectives is calculated by multiplying the achievement of the financial targets with the achievement of the business transformation targets.

Determination of overall target achievement

As the decisive basis for the payment of the profit share

Financial performance factor

- Net revenue
- EBITDA margin
- Operating free cash flow proxy
- (Fastweb financial targets)

×

Business transformation multiplier

- Net promoter score
- Availability key figure
- Growth
- Net cost savings

=

Overall target achievement

(limited to 130%)

The target structure thus takes account of the following two strategic priorities of Swisscom: strengthening the core business by offering the best infrastructure, where the results achieved are rewarded, and focusing on future success, where realisation of new growth opportunities and the best customer experiences is rewarded in particular.

The following table illustrates the target structure for all Group Executive Board members in the year under review and shows the individual targets and their respective weighting.

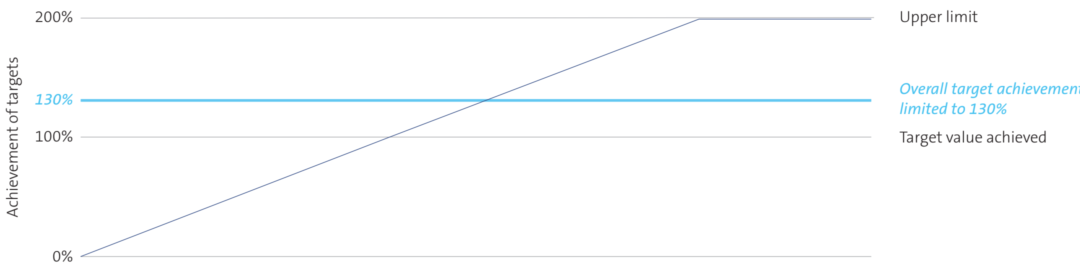
Target levels	Objectives	Weighting of targets level CEO	Weighting of targets level of other members of the Group Executive Board
Financial performance factor	Net revenue	24%	24–30%
	EBITDA margin	24%	24–30%
	Operating free cash flow proxy	32%	32–40%
	Financial objectives Fastweb	20%	0–20%
	Total finance target factor	**100%**	
Business transformations targets	Net promoter score	40%	40%
	Availability key indicator	20%	20%
	Growth	20%	20%
	Net cost savings	20%	20%
	Total business transformation multiplicator	**100%**	

Achievement of targets

The Compensation Committee determines the level of target achievement in the subsequent year once the consolidated financial statements become available. Its decision is based on an assessment of the extent to which targets have been met using a scale for the overachievement and underachievement of each target. The achievement of an individual target can vary from 0% to 200%.

Determination of achievement of targets

Per financial target



There is an upper limit of 200% for each target. An upper limit of 130% applies to the overall target achievement and thus to the payment of the target success share.

The overall achievement of targets governing the payment of the performance-related component is calculated according to the weighting of the individual targets. These targets consist of financial and business transformation targets, which are multiplied by one another as factors. An upper limit applies to the factor for the financial targets, and a lower and an upper limit apply to the factor for the business transformation targets. The overall achievement of targets is limited to a maximum of 130%. In determining the level of target achievement, the Compensation Committee can, under certain circumstances, exercise a degree of discretion in assessing the effective management performance, taking into account special factors such as fluctuations in exchange rates. Based on the overall achievement of targets, the Compensation Committee submits a proposal for the approval of the Board of Directors for the amount of the performance-related salary component to be paid to the Group Executive Board and the CEO.

In the year under review, some of the targets relevant to remuneration were not met. The resulting payment of the performance-related component is 90% of the target bonus for the CEO and for the other members of the Group Executive Board.

Payment of the variable performance-related salary component

The variable performance-related salary component for a given financial year is paid in April of the following year, with 25% being paid in the form of Swisscom shares, in accordance with the Management Incentive Plan. Group Executive Board members may opt to increase the share component up to a maximum of 50% of the total variable performance-related compensation. The remaining portion of the performance-related component is settled in cash. In the event of a departure from the Group Executive Board during the course of the year, the payment of the performance-related component for the current year is generally made in cash only. The decision as to what percentage of the variable performance-related salary component is to be drawn in the form of shares must be communicated prior to the end of the reporting year, but no later than in November following the publication of the third-quarter results. In the year under review, one member of the Group Executive Board opted for a higher share component. The shares are allocated on the basis of their tax value, rounded up to whole numbers of shares, and are subject to a three-year blocking period. This restriction on disposal also applies if the employment relationship is terminated during the blocking period. The share-based remuneration disclosed in the year under review is augmented by a factor of 1.19 in order to take account of the difference between the market value and the tax value. The market value is determined as of the date of allocation. The allocation of shares for the 2019 reporting year will be made in April 2020.

In April 2019, a total of 1,815 shares (prior year: 1,974 shares) with a tax value of CHF 411 (prior year: CHF 390) per share and a market value of CHF 489.50 (prior year: CHF 464) per share were allocated for the 2018 financial year to the members of the Group Executive Board.

Pension fund and fringe benefits

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

See report **pages 156-161**

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

3.3 Total remuneration

The following table shows the total remuneration paid to the members of the Group Executive Board for the 2018 and 2019 financial years, broken down into individual components and including the highest amount paid to one member. In the year under review, the variable performance-related salary component for members of the Group Executive Board (CHF 2,393 thousand in total) was around 66% of the base salary (CHF 3,606 thousand in total). The total remuneration paid to the highest-earning member of the Group Executive Board (CEO, Urs Schaeppi) decreased by 3.8% compared to the prior year. The decrease in total remuneration paid to the Group Executive Board and the CEO is primarily attributable to the lower variable remuneration as compared to the prior year and due to the change in the composition of the Group Executive Board.

In CHF thousand	**Total Group Executive Board 2019**	Total Group Executive Board 2018	**Thereof Urs Schaeppi 2019**	Thereof Urs Schaeppi 2018
Fixed base salary paid in cash	3,606	3,694	882	882
Variable performance-related remuneration paid in cash	1,636	1,874	417	459
Variable performance-related remuneration paid in shares [1]	757	886	165	182
Service-related and non-cash benefits	105	95	15	22
Employer contributions to social security [2]	539	575	132	137
Retirement benefits	873	892	148	147
Total remuneration to members of the Group Executive Board	**7,516**	**8,016**	**1,759**	**1,829**
Benefits paid following retirement from Group Executive Board [3]	–	605	–	–
Total remuneration paid to Group Executive Board, incl. benefits paid following retirement from Board	**7,516**	**8,621**	**1,759**	**1,829**

1 The shares are reported at market value and are blocked from sale for three years.
2 Employer contributions to social security (AHV, IV, EO and FAK, incl. administration costs, and daily sickness benefits and accident insurance) are included in the total remuneration.
3 Contractual compensation payments made during the notice period to a Group Executive Board member who resigned from Board during the financial year.

Total remuneration paid to the members of the Group Executive Board for the 2019 financial year is within the maximum total amount approved by the 2018 Annual General Meeting (AGM) for 2019 of CHF 9.7 million.

3.4 Minimum shareholding requirement

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

3.5 Shareholdings of the members of the Group Executive Board

Blocked and non-blocked shares held by members of the Group Executive Board and/or related parties as at 31 December 2018 and 2019 are shown in the table below. None of the individuals required to make notification holds voting shares exceeding 0.1% of the share capital.

number	**31.12.2019**	31.12.2018
Urs Schaeppi (CEO)	4,752	4,380
Mario Rossi	1,707	1,483
Hans C. Werner	1,440	1,259
Marc Werner	1,364	1,158
Urs Lehner	509	290
Christoph Aeschlimann [1]	–	–
Heinz Herren [2]	–	1,856
Dirk Wierzbitzki	969	604
Total shares held by the members of the Group Executive Board	**10,741**	**11,030**

1 Joined the Group Executive Board as of 1 February 2019.

2 Resigned from the Group Executive Board as of 31 January 2019.

3.6 Employment contracts

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

4 Other remuneration

4.1 Remuneration for additional services

Swisscom may pay remuneration to members of the Board of Directors for assignments in Group companies and assignments performed by order of Swisscom (Article 6.4 of the Articles of Incorporation). No such remuneration was paid in the year under review.

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

The members of the Group Executive Board are not entitled to separate remuneration for any directorships they hold either within or outside the Swisscom Group.

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

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

4.3 Loans and credits granted

Swisscom Ltd has no statutory basis for the granting of loans, credit facilities or pension benefits apart from the retirement benefits paid to the members of the Board of Directors and Group Executive Board.

In the 2019 financial year, Swisscom did not grant any collateral, loans, advances or credit facilities of any kind either to former or current members of the Board of Directors or related parties, or to former or current members of the Group Executive Board or related parties. There are therefore no corresponding receivables outstanding.

Report of the statutory auditor

to the General Meeting of Swisscom Ltd

Ittigen (Bern)

We have audited the remuneration report of Swisscom Ltd for the year ended 31 December 2019. The audit was limited to the information according to articles 14 - 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the sections 2.3, 2.5, 3.3, 3.5 and 4.1 to 4.3 on pages 96 to 106 of the remuneration report.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the remuneration report of Swisscom Ltd for the year ended 31 December 2019 complies with Swiss law and articles 14–16 of the Ordinance.

Other Matter

The remuneration report of Swisscom Ltd for the year ended 31 December 2018 was audited by another firm of auditors whose report, dated 6 February 2019, expressed an unmodified opinion.

PricewaterhouseCoopers AG

Peter Kartscher	Petra Schwick
Audit expert Auditor in charge	Audit expert

Zurich, 5 February 2020

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Consolidated Financial Statements

Consolidated Financial Statements

Notes to the consolidated financial statements

Consolidated statement of comprehensive income

In CHF million, except for per share amounts	Note	2019	2018
Income statement			
Net revenue	1.1	**11,453**	**11,714**
Direct costs	1.2	(2,815)	(2,954)
Personnel expense	1.2, 4.1	(2,800)	(2,815)
Other operating expense	1.2	(1,989)	(2,193)
Capitalised self-constructed assets and other income	1.2	509	461
Operating income before depreciation and amortisation		**4,358**	**4,213**
Depreciation and amortisation of property, plant and equipment and intangible assets	3.2, 3.3	(2,166)	(2,144)
Depreciation of right-of-use assets	2.3	(282)	–
Operating income		**1,910**	**2,069**
Financial income	2.4	33	28
Financial expense	2.4	(191)	(186)
Result of equity-accounted investees	5.3	(28)	5
Income before income taxes		**1,724**	**1,916**
Income tax expense	6.1	(55)	(395)
Net income		**1,669**	**1,521**
Other comprehensive income			
Actuarial gains and losses from defined benefit pension plans	2.1	146	(62)
Change in fair value of equity instruments	2.1	2	9
Items that will not be reclassified to income statement		**148**	**(53)**
Foreign currency translation adjustments of foreign subsidiaries	2.1	(55)	(40)
Change in cash flow hedges	2.1	7	6
Other comprehensive income from equity-accounted investees	2.1	2	1
Items that may be reclassified to income statement		**(46)**	**(33)**
Other comprehensive income		**102**	**(86)**
Comprehensive income			
Net income		1,669	1,521
Other comprehensive income		102	(86)
Comprehensive income		**1,771**	**1,435**
Share of net income and comprehensive income			
Equity holders of Swisscom Ltd		1,672	1,527
Non-controlling interests		(3)	(6)
Net income		**1,669**	**1,521**
Equity holders of Swisscom Ltd		1,774	1,441
Non-controlling interests		(3)	(6)
Comprehensive income		**1,771**	**1,435**
Earnings per share			
Basic and diluted earnings per share (in CHF)	2.1	**32.28**	**29.48**

Consolidated balance sheet

In CHF million	Note	31.12.2019	31.12.2018
Assets			
Cash and cash equivalents		328	474
Trade receivables	3.1	2,183	2,189
Other operating assets	3.1	1,156	1,243
Other financial assets		73	82
Current income tax assets	6.1	4	2
Total current assets		**3,744**	**3,990**
Property, plant and equipment	3.2	10,529	10,889
Intangible assets	3.3	1,842	1,860
Goodwill	3.4	5,163	5,167
Right-of-use assets	2.3	2,177	–
Equity-accounted investees	5.3	156	174
Other financial assets		484	339
Deferred tax assets	6.1	152	167
Total non-current assets		**20,503**	**18,596**
Total assets		**24,247**	**22,586**
Liabilities and equity			
Financial liabilities	2.2	1,411	1,340
Lease liabilities	2.3	232	21
Trade payables	3.1	1,614	1,658
Provisions	3.5	163	131
Other operating liabilities	3.1	1,182	1,127
Current income tax liabilities	6.1	174	250
Total current liabilities		**4,776**	**4,527**
Financial liabilities	2.2	6,049	6,443
Lease liabilities	2.3	1,795	363
Defined benefit obligations	4.3	1,058	1,196
Provisions	3.5	983	901
Deferred gain on sale and leaseback of real estate	2.3	122	134
Deferred tax liabilities	6.1	589	814
Total non-current liabilities		**10,596**	**9,851**
Total liabilities		**15,372**	**14,378**
Share capital		52	52
Capital reserves		136	136
Retained earnings	2.1	10,454	9,759
Foreign currency translation adjustments	2.1	(1,781)	(1,728)
Hedging reserve	2.1	11	4
Equity attributable to equity-holders of Swisscom Ltd		**8,872**	**8,223**
Non-controlling interests		3	(15)
Total equity		**8,875**	**8,208**
Total liabilities and equity		**24,247**	**22,586**

Consolidated statement of cash flows

In CHF million	Note	2019	2018
Net income		1,669	1,521
Income tax expense	6.1	55	395
Result of equity-accounted investees	5.3	28	(5)
Financial income	2.4	(33)	(28)
Financial expense	2.4	191	186
Depreciation and amortisation of property, plant and equipment and intangible assets	3.2, 3.3	2,166	2,144
Depreciation of right-of-use assets	2.3	282	–
Gain on sale of property, plant and equipment	1.2	(13)	(17)
Loss on disposal of property, plant and equipment		–	7
Expense for share-based payments		1	1
Revenue from finance lease		(101)	–
Change in deferred gain from the sale and leaseback of real estate	2.3	(12)	(12)
Change in operating assets and liabilities	3.1	100	(70)
Change in provisions	3.5	58	(57)
Change in defined benefit obligations	4.3	48	64
Interest received		25	24
Dividends received	5.3	18	18
Interest payments for financial liabilities	2.2	(88)	(133)
Interest payments for lease liabilities	2.3	(42)	(24)
Income taxes paid	6.1	(371)	(294)
Cash flow from operating activities		**3,981**	**3,720**
Purchase of property, plant and equipment and intangible assets	3.2, 3.3	(2,390)	(2,404)
Sale of property, plant and equipment and intangible assets		31	21
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5.2	(394)	(78)
Sale of subsidiaries net of cash and cash equivalents sold	5.2	(3)	–
Payments for equity-accounted investees	5.2	(15)	(35)
Proceeds from finance lease receivables		38	–
Purchase of other financial assets		(13)	(31)
Proceeds from other financial assets		52	32
Remaining cash flows from investing activities		(39)	–
Cash flow used in investing activities		**(2,733)**	**(2,495)**
Issuance of financial liabilities	2.2	417	1,451
Repayment of financial liabilities	2.2	(374)	(1,545)
Repayment of lease liabilities	2.3	(276)	(26)
Dividends paid to equity holders of Swisscom Ltd	2.1	(1,140)	(1,140)
Dividends paid to non-controlling interests		(1)	(1)
Acquisition of non-controlling interests		(1)	–
Other cash flows from financing activities		(15)	(9)
Cash flow used in financing activities		**(1,390)**	**(1,270)**
Net decrease in cash and cash equivalents		**(142)**	**(45)**
Cash and cash equivalents at 1 January		474	525
Foreign currency translation adjustments in respect of cash and cash equivalents		(4)	(6)
Cash and cash equivalents at 31 December		**328**	**474**

Consolidated statement of changes in equity

In CHF million	Share capital	Capital reserves	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Equity attributable to equity holders of Swisscom	Non-controlling interests	**Total equity**
Balance at 1 January 2018	**52**	**136**	**9,455**	**(1,689)**	**(2)**	**7,952**	**(11)**	**7,941**
Net income	–	–	1,527	–	–	1,527	(6)	1,521
Other comprehensive income	–	–	(53)	(39)	6	(86)	–	(86)
Comprehensive income	**–**	**–**	**1,474**	**(39)**	**6**	**1,441**	**(6)**	**1,435**
Dividends paid	–	–	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	–	–	(30)	–	–	(30)	3	(27)
Balance at 31 December 2018	**52**	**136**	**9,759**	**(1,728)**	**4**	**8,223**	**(15)**	**8,208**
Change in accounting policies [1]	–	–	22	–	–	22	–	22
Balance at 1 January 2019	**52**	**136**	**9,781**	**(1,728)**	**4**	**8,245**	**(15)**	**8,230**
Net income	–	–	1,672	–	–	1,672	(3)	1,669
Other comprehensive income	–	–	148	(53)	7	102	–	102
Comprehensive income	**–**	**–**	**1,820**	**(53)**	**7**	**1,774**	**(3)**	**1,771**
Dividends paid	–	–	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	–	–	(7)	–	–	(7)	22	15
Balance at 31 December 2019	**52**	**136**	**10,454**	**(1,781)**	**11**	**8,872**	**3**	**8,875**

1 See “General information and changes in accounting policies” in the notes to the consolidated financial statements.

Notes to the consolidated financial statements

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

General information and changes in accounting policies

General information

The Swisscom Group (hereinafter referred to as “Swisscom”) provides telecommunication services, and is active primarily in Switzerland and Italy. The consolidated financial statements as of and for the year ended 31 December 2019 comprise Swisscom Ltd, as parent company, and its subsidiaries. Swisscom Ltd is a limited-liability company incorporated in accordance with Swiss law under a private statute, and has its registered office in Ittigen (Berne). Its address is: Swisscom Ltd, Alte Tiefenaustrasse 6, 3048 Worblaufen. Swisscom is listed on the SIX Swiss Exchange. The number of issued shares is unchanged from the prior year and aggregates 51,801,943. The shares have a nominal value of CHF 1 and are fully paid-up. Each share entitles the holder to one vote. The majority shareholder of Swisscom Ltd remains, as in the prior year, the Swiss Confederation (“Confederation”). The Confederation is obligated by current law to hold the majority of the capital and voting rights. The Board of Directors of Swisscom has approved the issuance of these consolidated financial statements on 5 February 2020. As of this date, no material events after the reporting date have occurred. The consolidated financial statements will be submitted for approval to the Annual General Meeting of Shareholders of Swisscom Ltd, to be held on 6 April 2020.

Basis of preparation

The consolidated financial statements of Swisscom have been prepared in accordance with International Financial Reporting Standards (IFRS), and in compliance with the provisions of Swiss law. The reporting period covers twelve months. The consolidated financial statements are presented in Swiss francs (CHF), which corresponds to the functional currency of Swisscom Ltd. Unless otherwise noted, all amounts are stated in millions of Swiss francs. The consolidated financial statements are drawn up on the historical cost basis, unless a standard or interpretation prescribes another measurement basis for a particular caption, in which case this is explicitly stated in the accounting policies. Material accounting policies of relevance for an understanding of the consolidated financial statements are set out in the specific notes to the financial statements.

Significant judgements, estimates and assumptions in applying the accounting policies

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

Description	Further information
Leases	Note 2.3
Property, plant and equipment	Note 3.2
Intangible assets	Note 3.3
Goodwill	Note 3.4
Provisions for dismantlement and restoration costs	Note 3.5
Provision for regulatory and competition law procedures	Note 3.5
Defined benefit plans	Note 4.3

Amendments to International Financial Reporting Standards and Interpretations which are to be applied for the first time in the financial year

Standard	Name
IFRS 16	Leases
Amendments to IFRS 9	Prepayment features with negative compensation
Amendments to IFRS 9, IAS 39, IFRS 7	Interest Rate Benchmark Reform
Amendments to IAS 28	Long-term interests in associates and joint ventures
Amendments to IAS 19	Plan amendment, curtailment or settlement
IFRIC 23	Uncertainty over income tax treatments
Various	Amendments IFRS 2015–2017

As from 1 January 2019 onwards, Swisscom adopted various amendments to existing International Financial Reporting Standards (IFRS) and Interpretations, which, with the exception of the amendments below, have no material impact on the results or financial position of the Group. Further information regarding the changes to the IFRS which must be applied in 2020 or later are set out in Note 6.3.

IFRS 16 Leases

IFRS 16 replaces IAS 17, IFRIC 4 and SIC 27, and lays down the principles governing the recognition, measurement and disclosure of leases. IFRS 16 provides a single lessee accounting model. The differentiation between finance and operating leases required until now under IAS 17 is thus dropped in future for the lessee. The lessee recognises lease liabilities in its balance sheet for all future lease payments to be made, as well as a right-of-use asset for the underlying asset. In future, depreciation and interest expense will be recognised in the income statement instead of rental expense. This will lead to a material increase in operating income before depreciation and amortisation. In the statement of cash flows, the share of the lease payments representing repayment of the principal portion of the newly accounted leases will reduce cash flows from financing activities and no longer cash flows from operating activities, as previously. Interest payments will continue to be presented as cash flows from operating activities. The lessor will continue to differentiate between finance and operating leases for financial reporting purposes. In this regard, the accounting model foreseen under IFRS 16 does not materially differ from the previous provisions under IAS 17.

Swisscom has elected to apply the modified retrospective approach for the initial adoption of IFRS 16. For reasons of simplicity, a reassessment as to whether an existing contract dated 1 January 2019 constitutes or includes a lease was dispensed with. The payment obligations arising under operating leases disclosed in Note 2.3 of the 2018 Annual Report for the most part comprise lease payments from the rental of operation and office buildings, as well as of antenna sites. The net present value of the payment obligations arising from previous operating leases will be accounted for as lease liabilities. The corresponding right-of-use assets will be recognised in the amount of the lease liabilities. The reconciliation of payment obligations arising from operating leases as at 31 December 2018 for initial recognition as at 1 January 2019 is as follows:

In CHF million	
Obligations from operating leases as at 31 December 2018	1,298
Discounting	(60)
Carrying amount of finance lease liabilities as of 31 December 2018	384
Lease liabilities as of 1 January 2019	**1,622**

The lease liabilities were discounted using the incremental borrowing rate applicable as at 1 January 2019. The weighted average interest rate was 0.6%. The impact of the first-time adoption of IFRS 16 on the balance sheet as at 1 January 2019 was as follows:

In CHF million	31.12.2018	Application IFRS 16	**01.01.2019**
Property, plant and equipment	10,889	(464)	10,425
Intangible assets	1,860	(88)	1,772
Right-of-use assets	–	1,786	1,786
Other financial assets	421	78	499
Other assets	9,416	–	9,416
Total assets	**22,586**	**1,312**	**23,898**
Financial liabilities	7,783	78	7,861
Lease liabilities	384	1,238	1,622
Provisions	1,032	(4)	1,028
Miscellaneous liabilities	5,179	–	5,179
Total liabilities	**14,378**	**1,312**	**15,690**
Total equity	**8,208**	**–**	**8,208**
Total liabilities and equity	**22,586**	**1,312**	**23,898**

Based on the first adoption of IFRS 16 as of 1 January 2019, additional right-of-use assets and lease liabilities amounting to CHF 1,238 million were recognised. At initial application, the right-of-use assets were adjusted by provisions for onerous contracts amounting to CHF 4 million. The prior year's comparative figures were not restated. The adoption of IFRS 16 has no impact on equity as of 1 January 2019. With regard to the 2018 financial year, the application of IFRS 16 would have led to an increase in operating income before depreciation and amortisation (EBITDA) of some CHF 0.2 billion and to higher depreciation and amortisation, as well as interest expenses of a combined aggregate amount of some CHF 0.2 billion. In addition, other financial assets and financial liabilities totalling USD 79 million (CHF 78 million) which were previously not recorded will be recognised as a result of the discontinuation of SIC 27. The Italian subsidiary, Fastweb, procures various access services from other fixed-network operators for the use of connection cables to the end customer. A part of these access services is now classified as leases in accordance with IFRS 16. The value of the individual connection cable fulfils the criteria as an asset of low value. Swisscom will apply the low value exemption of IFRS 16 for these leases. Accordingly, no right-of-use assets and lease liabilities will be recognised for these access services, the costs of which will continue to be reported as operating expense.

IFRIC 23 "Uncertainty over Income Tax Treatments"

IFRIC 23 governs the recognition and measurement of deferred and current income taxes where there is uncertainty over their income tax treatment. Uncertainty in the context of income tax treatment exists when it is not clear whether the Group's income tax treatment will be accepted by the tax authorities. If it is probable that the Group's income tax treatment will not be accepted by the tax authorities, this uncertainty must be recorded at either the expected value or the most probable value. Swisscom has reviewed its tax position and, as at 1 January 2019, reduced its current income tax liabilities by CHF 22 million. The effect of applying IFRIC 23 for the first time was recorded directly to retained earnings.

Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"

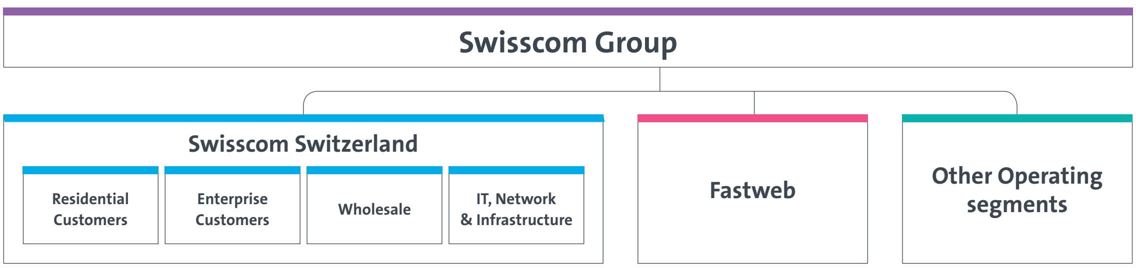
The amendments to IFRS 9, IAS 39 and IFRS 7 aim to mitigate the effects of the reform of reference interest rates (known as the IBOR reform) on financial reporting. The amendments should ensure that hedge accounting continues to exist or can be designated despite the uncertainties associated with the expected replacement of various reference interest rates. The amendments are mandatory for financial years beginning on or after 1 January 2020. Swisscom is exercising the option of early adoption and applying the amendments from 1 January 2019.

1 Operating performance

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

1.1 Segment information

General information



Segment	Activity
Residential Customers	The segment Residential Customers comprises connection fees for broadband and TV services, fixed-network and mobile-phone subscriptions as well as national and international telephone and data traffic for residential customers and customers from small and medium-sized enterprises. Furthermore, the segment includes the sale of merchandise.
Enterprise Customers	Enterprise Customers focuses on complete communication solutions for large business customers. Its product offering in the field of business ICT infrastructure covers the whole range of services from individual products to complete business solutions.
Wholesale	This segment incorporates the use of the Swisscom landline and mobile network by other telecommunications service providers and the use of external networks by Swisscom. In addition, Wholesale includes roaming by foreign operators whose customers use the Swisscom mobile network, as well as broadband services and regulated products related to the unbundling of the local loop for other telecommunication providers.
IT, Network & Infrastructure	The segment IT, Network & Infrastructure is responsible for the planning, operation and maintenance of Swisscom's network infrastructure and all IT systems. It is responsible for the development and production of standardised IT and network services in Switzerland. In addition, IT, Network & Infrastructure also includes the support functions Finances, Human Resources and Strategy for Swisscom Switzerland as well as the management of real estate and the vehicle fleet in Switzerland.
Fastweb	Fastweb is one of the largest providers of broadband services in Italy. Its product portfolio covers voice, data, broadband and TV services as well as video-on-demand for residential and corporate customers. In addition, Fastweb offers mobile phone services on the basis of an MVNO contract (as a virtual network operator). It also provides comprehensive network services and customised solutions.
Other Operating Segments	Other Operating Segments mainly comprises Digital Business and Participations. Digital Business mainly comprises Swisscom Directories Ltd (localsearch), which operates in the field of online directories and telephone directories. Participations mainly comprises the subsidiaries cablex Ltd and Swisscom Broadcast Ltd. The operations of cablex Ltd are in the building and maintenance of wired and wireless networks in Switzerland, primarily in the field of telecommunications. Swisscom Broadcast Ltd is the leading provider in Switzerland of broadcast services, of cross-platform retail media services, and of security communications.

Reporting is divided into the segments "Residential Customers", "Enterprise Customers", "Wholesale", and "IT, Network & Infrastructure", which are grouped under Swisscom Switzerland, as well as "Fastweb" and "Other Operating Segments". In addition, "Group Headquarters", which includes non-allocated costs, is disclosed separately in segment reporting. Various areas were transferred between the segments of Swisscom Switzerland as at 1 January 2019. The prior year's comparatives were restated accordingly.

Group Headquarters does not charge any management fees to other segments for its financial management services, nor does the IT, Network & Infrastructure segment charge any network costs to other segments. The remaining services between the segments are recharged at market prices. The results of the Residential Customers, Enterprise Customers and Wholesale segments thus correspond to a contribution margin before network costs.

Segment expense encompasses the direct and indirect costs, which include personnel expense, other operating costs less capitalised costs of self-constructed assets and other income. Pension cost includes ordinary employer contributions. The difference between the ordinary employer contributions and the pension cost as provided for under IAS 19 is reported in the column "Eliminations". In 2019, an expense of CHF 47 million is disclosed under "Eliminations" as a pension cost reconciliation item in accordance with IAS 19 (prior year: CHF 60 million).

Leases between the segments are not recognised in the balance sheet in accordance with IFRS 16. The reported lease expense of the segments in 2019 comprises depreciation and interest on leases excl. depreciation of indefeasible rights of use (IRU) of CHF 30 million and the accounting for the rental of buildings between segments. The lease expense of assets of low value is presented as direct costs. The lease expense of the segments in 2018 comprises the expense for operating and finance leases in accordance with IAS 17 and the accounting for the rental of buildings between segments. The reconciliation of the indirect costs of the segments to the consolidated values is reported in the column "Eliminations". In 2018, an expense of CHF 207 million is disclosed under "Eliminations" as an indirect cost reconciliation item.

Capital expenditure consists of the purchase of property, plant and equipment and intangible assets and payments for indefeasible rights of use (IRU). In general, IRUs are paid in full at the beginning of the use and are classified as leases under IFRS 16. From an economic point of view, IRU payments will be considered as capital expenditure in the segment information. In 2019, capital expenditure includes IRU payments of CHF 48 million (prior year: none).

Swisscom Switzerland sells some mobile handsets on a subsidised basis in a bundled offering with a mobile communications contract. As a result of the reallocation of revenue over the pre-delivered components (mobile handset), revenue is recognised earlier than the date of invoicing. This results in contract assets deriving from this contract being recognised. In the segment reporting of Swisscom Switzerland, the recognition and dissolution of these contract assets is reported as other revenue. The amounts invoiced are reported under revenue from telecommunications services or merchandise.

Segment information 2019

2019, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	Total
Residential customers	5,609	1,228	–	–	–	6,837
Corporate customers	2,232	958	509	–	–	3,699
Wholesale customers	643	274	–	–	–	917
Net revenue from external customers	**8,484**	**2,460**	**509**	**–**	**–**	**11,453**
Net revenue from other segments	79	8	420	1	(508)	–
Net revenue	**8,563**	**2,468**	**929**	**1**	**(508)**	**11,453**
Direct costs	(1,897)	(888)	(63)	–	33	(2,815)
Indirect costs [1]	(3,175)	(746)	(678)	(73)	392	(4,280)
Segment result before depreciation and amortisation	**3,491**	**834**	**188**	**(72)**	**(83)**	**4,358**
Lease expense	(226)	(56)	(11)	(2)	1	(294)
Depreciation	(1,515)	(623)	(63)	–	5	(2,196)
Segment result	**1,750**	**155**	**114**	**(74)**	**(77)**	**1,868**
Interest expense on lease liabilities						42
Operating income						**1,910**
Financial income and financial expense, net						(158)
Result of equity-accounted investees						(28)
Income before income taxes						**1,724**
Income tax expense						(55)
Net income						**1,669**
Segment result before depreciation and amortisation	3,491	834	188	(72)	(83)	4,358
Capital expenditure	(1,761)	(667)	(47)	–	37	(2,438)
Lease expense	(226)	(56)	(11)	(2)	1	(294)
Operating free cash flow proxy	**1,504**	**111**	**130**	**(74)**	**(45)**	**1,626**

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

Segment information Swisscom Switzerland 2019

2019, in CHF million	Residential Customers	Enterprise Customers	Whole-sale	IT, Network & Infrastructure	Elimi-nation	Total Swisscom Switzerland
Fixed-line	2,527	520	–	–	–	3,047
Mobile	2,486	399	–	–	–	2,885
Telecom services	**5,013**	**919**	**–**	**–**	**–**	**5,932**
Solution business	–	1,021	–	–	–	1,021
Merchandise	560	248	–	–	–	808
Wholesale	–	–	643	–	–	643
Revenue other	36	21	–	23	–	80
Net revenue from external customers	**5,609**	**2,209**	**643**	**23**	**–**	**8,484**
Net revenue from other segments	82	103	325	62	(493)	79
Net revenue	**5,691**	**2,312**	**968**	**85**	**(493)**	**8,563**
Direct costs	(1,293)	(786)	(427)	(11)	620	(1,897)
Indirect costs [1]	(983)	(821)	(16)	(1,228)	(127)	(3,175)
Segment result before depreciation and amortisation	**3,415**	**705**	**525**	**(1,154)**	**–**	**3,491**
Lease expense	(51)	(28)	(1)	(146)	–	(226)
Depreciation	(99)	(74)	–	(1,342)	–	(1,515)
Segment result	**3,265**	**603**	**524**	**(2,642)**	**–**	**1,750**
Capital expenditure	(29)	(37)	–	(1,695)	–	(1,761)

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

Segment information 2018

2018, in CHF million, restated	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	Total
Residential customers	5,843	1,210	–	–	–	7,053
Corporate customers	2,326	900	560	1	–	3,787
Wholesale customers	566	308	–	–	–	874
Net revenue from external customers	**8,735**	**2,418**	**560**	**1**	**–**	**11,714**
Net revenue from other segments	71	8	349	1	(429)	–
Net revenue	**8,806**	**2,426**	**909**	**2**	**(429)**	**11,714**
Direct costs	(1,971)	(935)	(59)	–	11	(2,954)
Indirect costs [1]	(3,259)	(688)	(653)	(78)	131	(4,547)
Segment result before depreciation and amortisation	**3,576**	**803**	**197**	**(76)**	**(287)**	**4,213**
Lease expense	(221)	(26)	(13)	(2)	262	–
Depreciation	(1,471)	(587)	(59)	–	(27)	(2,144)
Segment result	**1,884**	**190**	**125**	**(78)**	**(52)**	**2,069**
Financial income and financial expense, net						(158)
Result of equity-accounted investees						5
Income before income taxes						**1,916**
Income tax expense						(395)
Net income						**1,521**
Segment result before depreciation and amortisation	3,576	803	197	(76)	(287)	4,213
Capital expenditure	(1,620)	(757)	(46)	–	19	(2,404)
Lease expense	(221)	(26)	(13)	(2)	262	–
Operating free cash flow proxy	**1,735**	**20**	**138**	**(78)**	**(6)**	**1,809**

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

Segment information Swisscom Switzerland 2018

2018, in CHF million, restated	Residential Customers	Enterprise Customers	Whole-sale	IT, Network & Infrastructure	Elimi-nation	Total Swisscom Switzerland
Fixed-line	2,573	580	–	–	–	3,153
Mobile	2,618	451	–	–	–	3,069
Telecom services	**5,191**	**1,031**	**–**	**–**	**–**	**6,222**
Solution business	–	1,027	–	–	–	1,027
Merchandise	494	224	–	–	–	718
Wholesale	–	–	566	–	–	566
Revenue other	158	24	–	20	–	202
Net revenue from external customers	**5,843**	**2,306**	**566**	**20**	**–**	**8,735**
Net revenue from other segments	81	102	328	59	(499)	71
Net revenue	**5,924**	**2,408**	**894**	**79**	**(499)**	**8,806**
Direct costs	(1,411)	(757)	(430)	(11)	638	(1,971)
Indirect costs [1]	(1,050)	(847)	(17)	(1,206)	(139)	(3,259)
Segment result before depreciation and amortisation	**3,463**	**804**	**447**	**(1,138)**	**–**	**3,576**
Lease expense	(51)	(34)	(1)	(136)	1	(221)
Depreciation	(138)	(69)	–	(1,263)	(1)	(1,471)
Segment result	**3,274**	**701**	**446**	**(2,537)**	**–**	**1,884**
Capital expenditure	(43)	(40)	–	(1,537)	–	(1,620)

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

Disclosure by geographical regions

In CHF million	**2019** Net revenue	**2019** Non-current assets	2018 Net revenue	2018 Non-current assets
Switzerland	8,969	15,759	9,274	14,440
Italy	2,460	4,041	2,418	3,581
Other countries	24	67	22	69
Not allocated	–	636	–	506
Total	**11,453**	**20,503**	**11,714**	**18,596**

Disclosure by products and services

In CHF million	**2019**	2018
Telecom services	8,012	8,227
Solution business	1,021	1,027
Merchandise	899	790
Wholesale	916	873
Revenue other	605	797
Total net revenue	**11,453**	**11,714**

Accounting policies

Telecommunication services

Telecommunication services encompass mobile and fixed-network services both in Switzerland and abroad. Mobile-phone services comprise the basic charges; in addition, they include the domestic and international cellular traffic relating to calls made by Swisscom customers within Switzerland and abroad. Swisscom offers subscriptions with a monthly flat-rate fee, the revenue for which is recognised on a straight-line basis over the minimum term of the contract. Depending on the type of subscription, revenue is recognised on the basis of the minutes used. The minimum contract term is generally 12 or 24 months. If a mobile handset is sold as part of a bundled offering with a mobile-phone contract, it is considered as a multi-element contract. Multi-element transactions are grouped into portfolios for revenue accounting. The transaction price for multi-element contracts is allocated to each identified performance obligation on the basis of relative stand-alone selling prices. In this process, the stand-alone selling price of each component is considered in relation to the sum of the stand-alone selling prices of all performance obligations under the contract. The stand-alone selling prices of mobile handsets and subscriptions correspond to Swisscom's list price and the minimum contract term. Non-refundable connection fees which do not constitute a separate performance obligation are considered as part of the total transaction price and allocated to the separate performance obligations arising under the customer contract on a pro rata basis. In the event that there is no minimum contract term, the revenue is recognised at the time of connection.

Fixed-network services principally comprise the basic charges for fixed telephony, broadband and TV connections, as well as the domestic and international telephony traffic of individuals and corporate customers. In addition, Swisscom makes bundled offerings comprising broadband and TV connections with an optional fixed-line telephony connection. These subscription fees are flat rate. The minimum contract term is twelve months. Revenues are recognised on a straight-line basis over the term of the contract. Revenue for telephone calls is recognised at the time when the calls are made.

Solutions

The service area of communications and IT solutions principally comprise advisory services and the implementation, maintenance and operation of communication infrastructures. Furthermore, the area includes applications and services, as well as the integration, operation and maintenance of data networks and outsourcing services. Revenue from customer-specific orders is recognised using a measure of progress method, which is measured on the basis of the relationship of the costs incurred to total anticipated costs. Revenue arising on long-term outsourcing contracts is recognised as a function of performance to date provided to the customer. The duration of these contracts is generally between three and seven years. Transition projects in connection with an outsourcing contract are not recorded as separate performance obligations. Maintenance revenues are recognised on a straight-line basis over the term of the maintenance contracts.

Sales of merchandise

Mobile handsets, fixed-line devices and miscellaneous supplies are recognised as revenue at the time of delivery or provision of the service. Swisscom sells routers and TV boxes to be used for services provided by Swisscom. As these are only compatible with the Swisscom network and cannot be used for networks of other telecommunication service providers, they are not recorded as separate performance obligations. Revenue is deferred and recognised over the minimum contract term of the related broadband or TV subscription.

Wholesale

The services principally comprise leased lines and the use of the Swisscom fixed network by other telecommunication service providers (roaming). Leased-line charges are recognised as revenue on a straight-line basis over the terms of the contract. Roaming services are recognised as revenue on the basis of the call minutes or at contractually agreed charges as of the time of providing the service. Roaming fees charged to other telecommunication service providers are reported on a gross basis.

1.2 Operating expenses

Direct costs

In CHF million	2019	2018
Customer premises equipment and merchandise	1,095	1,175
Services purchased	642	607
Costs to obtain a contract	327	345
Costs to fulfill a contract	16	31
Network access costs of swiss subsidiaries	366	368
Network access costs of foreign subsidiaries	369	428
Total direct costs	**2,815**	**2,954**

Indirect costs

In CHF million	2019	2018
Salary and social security expenses	2,679	2,752
Other personnel expense	121	63
Total personnel expense [1]	**2,800**	**2,815**
Information technology cost	262	284
Maintenance expense	314	334
Rental expense	–	207
Energy costs	116	118
Advertising and selling expenses	223	230
Consultancy expenses and freelance workforce	149	176
Administration expense	101	100
Allowances for receivables and contract assets	82	74
Miscellaneous operating expenses	742	670
Total other operating expense	**1,989**	**2,193**
Capitalised self-constructed tangible and intangible assets	(344)	(331)
Own work for capitalized contract costs	(66)	(49)
Gain on sale of property, plant and equipment	(13)	(17)
Miscellaneous income	(86)	(64)
Total capitalised self-constructed assets and other income	**(509)**	**(461)**
Total indirect costs	**4,280**	**4,547**

1 See Note 4.1.

Capitalised self-constructed tangible and intangible assets include personnel costs for the manufacturing of technical installations, the construction of network infrastructure and the development of software for internal use.

Accounting policies

Costs to obtain a contract

Swisscom pays commissions to dealers for the acquisition and retention of mobile-phone customers. The commission payable is dependent on the type of subscription. Costs to obtain a contract are deferred and amortised over the related revenue-recognition period. In addition, the handset subsidies granted to the customer at the same time as a Swisscom mobile-phone subscription is entered into are reimbursed to the dealer. These costs are deferred and amortised on a straight-line basis over the contract term as the costs of obtaining a contract. The amortisation period corresponds to the related revenue-recognition period. See Note 1.1.

Costs to fulfil a contract

In connection with a broadband or TV subscription, the customer must purchase a router or TV box in order that the customer can use the services of Swisscom. Routers and TV boxes may be used exclusively for services provided by Swisscom. The cost of routers and TV boxes are reported as costs to fulfil a contract and amortised over the minimum term of the contract. The set-up costs incurred to transfer and integrate outsourcing transactions with corporate customers are deferred and amortised against income on a straight-line basis over the duration of the operating contract. The amortisation period corresponds to the related revenue-recognition period. See Note 1.1.

2 Capital and financial risk management

Set out below are the procedures and guidelines governing the active management of equity and the financial risks to which Swisscom is exposed. Swisscom strives to achieve a robust equity basis, which enables it to guarantee its ability to continue as a going concern and to offer investors an appropriate return based on the risks assumed.

2.1 Capital management and equity

Net debt ratio incl. lease liabilities/EBITDA

Swisscom has a single A credit rating with rating agencies Standard & Poor's and Moody's. Swisscom aims to maintain this single A credit rating. An important quantitative criterion for the credit rating and the assessment and control of the financial situation by the management is the ratio of net debt including lease liabilities to EBITDA (operating result before depreciation and amortisation). In accordance with Swisscom's definition, net debt is composed of financial liabilities less cash and cash equivalents, current financial assets, derivative financial instruments held to hedge financial liabilities and other non-current financial assets directly related to non-current financial liabilities (certificates of deposit and U.S. treasury bond strips). The ratio of net debt including lease liabilities to EBTDA is as follows:

In CHF million	31.12.2019	01.01.2019
Net debt	6,758	7,009
Lease liabilities	2,027	1,622 [1]
Net debt incl. lease liabilities	**8,785**	**8,631**
Operating income before depreciation and amortisation (EBITDA)	4,358	4,420 [2]
Ratio of net debt incl. lease liabilities/EBITDA	**2.0**	**2.0**

1 Incl. effect of the initial application of IFRS 16.

2 Excl. operating lease expense of CHF 207 million in accordance with IAS 17.

Equity ratio

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

In CHF million	31.12.2019	01.01.2019
Equity	8,875	8,230
Total assets	24,247	23,898 [1]
Equity ratio in %	**36.6**	**34.4**

1 Incl. effect of the initial application of IFRS 16.

Dividend policy

Swisscom pursues a dividend policy with a stable dividend, taking into account its financial situation and cash flow generation. Distributable reserves are not determined on the basis of the equity as reported in the consolidated financial statements but rather on the basis of equity as reported in the statutory financial statements of the parent company, Swisscom Ltd. As at 31 December 2019, Swisscom Ltd's distributable reserves amounted to CHF 6,697 million. The dividend is proposed by the Board of Directors and must be approved by the Annual General Meeting of Shareholders. Treasury shares are not entitled to a dividend. Swisscom Ltd paid the following dividends in 2018 and 2019:

In CHF million, except where indicated	2019	2018
Number of registered shares eligible for dividend (in millions of shares)	51.802	51.801
Ordinary dividend per share (in CHF)	22.00	22.00
Dividends paid	**1,140**	**1,140**

The Board of Directors will propose to the Annual General Meeting of Shareholders of Swisscom Ltd on 6 April 2020 the payment of an unchanged dividend of CHF 22 per share for the 2019 financial year. This equates to an aggregate dividend distribution of CHF 1,140 million. The expected dividend payment date is 14 April 2020.

Earnings per share

In CHF million, except where indicated	2019	2018
Share of net income attributable to equity holders of Swisscom Ltd	1,672	1,527
Weighted average number of shares outstanding (number)	51,801,540	51,801,182
Basic and diluted earnings per share (in CHF)	**32.28**	**29.48**

Supplementary information on equity

Development of retained earnings and other reserves as well as comprehensive income 2019

In CHF million	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Equity holders of Swisscom	Non-controlling interests	Total
Balance at 31 December 2018	**9,759**	**(1,728)**	**4**	**8,035**	**(15)**	**8,020**
Change in accounting policies [1]	22	–	–	22	–	22
Balance at 1 January 2019, adjusted	**9,781**	**(1,728)**	**4**	**8,057**	**(15)**	**8,042**
Net income	**1,672**	**–**	**–**	**1,672**	**(3)**	**1,669**
Actuarial gains and losses from defined benefit pension plans	193	–	–	193	–	193
Change in fair value of equity instruments	2	–	–	2	–	2
Income tax expense	(47)	–	–	(47)	–	(47)
Items that will not be reclassified to income statement	**148**	**–**	**–**	**148**	**–**	**148**
Foreign currency translation adjustments of foreign subsidiaries	–	(59)	–	(59)	–	(59)
Fair value losses of cash flow hedges transferred to income statement	–	–	8	8	–	8
Equity-accounted investees	–	2	–	2	–	2
Income tax expense	–	4	(1)	3	–	3
Items that may be reclassified to income statement	**–**	**(53)**	**7**	**(46)**	**–**	**(46)**
Other comprehensive income	**148**	**(53)**	**7**	**102**	**–**	**102**
Comprehensive income	**1,820**	**(53)**	**7**	**1,774**	**(3)**	**1,771**
Dividends paid	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	(7)	–	–	(7)	22	15
Balance at 31 December 2019	**10,454**	**(1,781)**	**11**	**8,684**	**3**	**8,687**

1 See “General information and changes in accounting policies” in the notes to the consolidated financial statements.

Development of retained earnings and other reserves as well as comprehensive income 2018

In CHF million	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Equity holders of Swisscom	Non-controlling interests	Total
Balance at 1 January 2018	**9,455**	**(1,689)**	**(2)**	**7,764**	**(11)**	**7,753**
Net income	**1,527**	**–**	**–**	**1,527**	**(6)**	**1,521**
Actuarial gains and losses from defined benefit pension plans	(78)	–	–	(78)	–	(78)
Change in fair value of equity instruments	10	–	–	10	–	10
Income tax expense	15	–	–	15	–	15
Items that will not be reclassified to income statement	**(53)**	**–**	**–**	**(53)**	**–**	**(53)**
Foreign currency translation adjustments of foreign subsidiaries	–	(41)	–	(41)	–	(41)
Fair value losses of cash flow hedges transferred to income statement	–	–	6	6	–	6
Equity-accounted investees	–	1	–	1	–	1
Income tax expense	–	1	–	1	–	1
Items that may be reclassified to income statement	**–**	**(39)**	**6**	**(33)**	**–**	**(33)**
Other comprehensive income	**(53)**	**(39)**	**6**	**(86)**	**–**	**(86)**
Comprehensive income	**1,474**	**(39)**	**6**	**1,441**	**(6)**	**1,435**
Dividends paid	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	(30)	–	–	(30)	3	(27)
Balance at 31 December 2018	**9,759**	**(1,728)**	**4**	**8,035**	**(15)**	**8,020**

2.2 Financial liabilities

In CHF million	2019	2018
Balance at 1 January	**7,783**	**7,824**
Change in accounting policies [1]	78	–
Balance at 1 January, adjusted	**7,861**	**7,824**
Issuance of bank loans	2	564
Issuance of debenture bonds	405	885
Issuance of other financial liabilities	10	2
Issuance of financial liabilities	**417**	**1,451**
Repayment of bank loans	(95)	(69)
Repayment of debenture bonds	–	(1,385)
Repayment of private placements	(278)	(72)
Repayment of other financial liabilities	(1)	(19)
Repayment of financial liabilities	**(374)**	**(1,545)**
Interest expense	73	114
Interest payments	(88)	(133)
Foreign currency translation adjustments	(146)	(117)
Change in fair value	30	(7)
Accrual of deferred purchase price margins from business combinations	9	158
Expenses for deferred consideration arising on business combinations [2]	(369)	(18)
Other changes	47	56
Balance at 31 December	**7,460**	**7,783**
Bank loans	1,080	1,233
Debenture bonds	5,915	5,554
Private placements	151	426
Derivative financial instruments [3]	84	54
Other financial liabilities	230	516
Total financial liabilities	**7,460**	**7,783**
Thereof current financial liabilities	1,411	1,340
Thereof non-current financial liabilities	6,049	6,443

1 See “General information and changes in accounting policies” in the notes to the consolidated financial statements.
2 Reported in the cash flow statement as cash flow used in investing activities. See Note 5.2.
3 See Note 2.5.

Credit lines

Swisscom has two confirmed lines of credit from banks each amounting to CHF 1,000 million, maturing in 2022 and 2024 respectively. As of 31 December 2019, none of these lines of credit had been drawn down, as in the prior year.

Bank loans

In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	Carrying amount 31.12.2019	Carrying amount 31.12.2018
Bank loans in EUR [1]	2018–2019	500	0.01%	–0.66% [4]	–	563
Bank loans in EUR [1]	2019–2020	460	0.00%	–0.35% [4]	499	–
Bank loans in EUR [1, 3]	2013–2020	60	Euribor +0.386%	0.00%	65	135
Bank loans in EUR [2]	2015–2020	200	0.76%	–0.58% [5]	219	229
Bank loans in EUR [2, 3]	2017–2024	150	0.67%	0.67%	163	169
Bank loans in USD [2]	2009–2028	56	8.30%	4.62%	72	74
Bank loans in USD [2]	2009–2028	49	7.65%	4.63%	62	63
Total bank loans					**1,080**	**1,233**

1 Variable interest-bearing.
2 Fixed interest-bearing.
3 Designated for hedge accounting of net investments in foreign operations.
4 After hedging with currency swap.
5 After hedging with currency swap and taking hedge accounting into consideration.

On 31 December 2019, Swisscom took on short-term bank loans on a weekly and monthly basis for EUR 460 million (CHF 499 million) (prior year EUR 500 million, CHF 563 million). The funds received were used to repay existing debts. Bank loans to the value of EUR 510 million (CHF 553 million) may become due for immediate repayment if the shareholding of the Confederation in the capital of Swisscom falls below one third, or if another shareholder can exercise control over Swisscom.

Debenture bonds

In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	Carrying amount 31.12.2019	Carrying amount 31.12.2018
Debenture bond in EUR (ISIN: XS0972165848) [1]	2013–2020	500	2.00%	2.22%	544	564
Debenture bond in EUR (ISIN: XS1051076922) [1]	2014–2021	500	1.88%	2.06%	544	564
Debenture bond in CHF (ISIN: CH0114695379)	2010–2022	500	2.63%	2.81%	502	501
Debenture bond in CHF (ISIN: CH0268988174)	2015–2023	250	0.25%	–0.43% [3]	256	255
Debenture bond in CHF (ISIN: CH0188335365)	2012–2024	500	1.75%	1.77%	504	504
Debenture bond in EUR (ISIN: XS1288894691) [1]	2015–2025	500	1.75%	–0.21% [4]	575	584
Debenture bond in CHF (ISIN: CH0247776138)	2014–2026	200	1.50%	1.47%	202	202
Debenture bond in EUR (ISIN: XS1803247557)	2018–2026	500	1.13%	1.25%	539	560
Debenture bond in CHF (ISIN: CH0344583783)	2016–2027	200	0.38%	–0.39% [3]	206	199
Debenture bond in CHF (ISIN: CH0362748359)	2017–2027	350	0.38%	0.39%	351	351
Debenture bond in CHF (ISIN: CH0317921663)	2016–2028	200	0.38%	0.30%	202	202
Debenture bond in CHF (ISIN: CH0437180935)	2018–2028	150	0.75%	0.72%	151	151
Debenture bond in CHF (ISIN: CH0254147504)	2014–2029	160	1.50%	1.47%	161	161
Debenture bond in CHF (ISIN: CH0419040982)	2019–2029	200	0.50%	0.43%	202	–
Debenture bond in CHF (ISIN: CH0336352775)	2016–2032	300	0.13%	0.14%	299	299
Debenture bond in CHF (ISIN: CH0373476164)	2017/ 2019–2033	230	0.75%	0.66%	233	151
Debenture bond in CHF (ISIN: CH0268988182) [2]	2015/ 2018–2035	300	1.00%	0.22% [3]	319	306
Debenture bond in CHF (ISIN: CH0494734335)	2019–2044	125	0.00%	0.00%	125	–
Total debenture bonds					**5,915**	**5,554**

1 Designated for hedge accounting of net investments in foreign operations.
2 Thereof CHF 150 million designated for fair value hedge accounting.
3 After hedging with interest rate swap.
4 After hedging with currency swap and taking hedge accounting into consideration.

In the first quarter of 2019, Swisscom issued a debenture bond for CHF 200 million. It has a coupon of 0.5% and matures in 2029. In the second quarter of 2019, a debenture bond taken out in 2017 to the value of CHF 80 million was topped up. It has a coupon of 0.75% and matures in 2033. In addition, in August 2019 Swisscom issued a debenture bond for CHF 125 million. It has a coupon of 0% and matures in 2044. The funds received were used to repay existing loans.

In 2018, Swisscom issued three debenture bonds of an aggregate nominal amount of CHF 885 million. The funds received were used to repay existing debt. In the third quarter of 2018, Swisscom repaid a debenture bond of a nominal amount of CHF 1.4 billion upon maturity.

Private placements

In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	Carrying amount 31.12.2019	Carrying amount 31.12.2018
Private placements in CHF	2007–2019	278	Variable	1.25%	–	276
Private placements in CHF	2016–2031	150	0.56%	0.56%	151	150
Total private placements					**151**	**426**

In the fourth quarter of 2019, Swisscom repaid a private placement of CHF 278 million upon maturity. The outstanding private placements may become due for immediate repayment if the shareholding of the Confederation in the capital of Swisscom falls below 35% or if another shareholder can exercise control over Swisscom.

Other financial liabilities

As of December 31, 2019, the carrying amount of other financial liabilities was CHF 230 million (prior year CHF 516 million), consisting primarily of deferred purchase price payments from business combinations and U.S. treasury bond strips. Repayment of other financial liabilities in 2019 includes the purchase price of CHF 240 million paid to Tamedia for the acquisition of the outstanding share of 31% in Swisscom Directories Ltd. See Note 5.2.

2.3 Leases

Swisscom applied IFRS 16 "Leases" as at 1 January 2019, and elected to apply the modified retrospective approach for the first-time application. With this approach, right-of-use assets and lease liabilities were recognised in the same amount. For further information, see in Note "General information and changes in accounting policies".

Lessee

The Swisscom leases comprise the rental of operation and office buildings, antenna sites, and network infrastructure in particular. In addition, indefeasible rights of use (IRU) are classified as leases under IFRS 16. In general, IRUs are paid in full at the beginning of use. The Italian subsidiary, Fastweb, procures various access services from other fixed-network operators for the use of connection cables to the end customer. Swisscom will apply the low value exemption of IFRS 16 for these leases. Accordingly, no right-of-use assets and lease liabilities will be recognised for these access services, the costs of which will be reported as direct costs. There are no material lease commitments arising from leases that began after the balance sheet date.

Swisscom concluded two agreements in 2001 for the sale of real estate. At the same time, it entered into long-term agreements to lease back part of the real estate sold which, in part, qualify as finance leases. The gain realised on real estate classified as finance leases was deferred. As of 31 December 2019, the carrying amount of the deferred gains was CHF 122 million (prior year: CHF 134 million). The deferred gains are released to other income over the term of the individual leases.

Rights-of-use assets

In CHF million	Land and buildings	Technical installations	Other right-of-use assets	Total
At cost				
Balance at 31 December 2018	**–**	**–**	**–**	**–**
Change in accounting policies [1]	1,236	–	2	1,238
Reclassifications [1]	582	624	–	1,206
Balance at 1 January 2019, adjusted	**1,818**	**624**	**2**	**2,444**
Additions	262	430	6	698
Disposals	(72)	(17)	–	(89)
Foreign currency translation adjustments	(9)	(31)	–	(40)
Balance at 31 December 2019	**1,999**	**1,006**	**8**	**3,013**
Accumulated depreciation and impairment losses				
Balance at 31 December 2018	**–**	**–**	**–**	**–**
Change in accounting policies [1]	(4)	–	–	(4)
Reclassifications [1]	(242)	(412)	–	(654)
Balance at 1 January 2019, adjusted	**(246)**	**(412)**	**–**	**(658)**
Depreciation	(219)	(62)	(1)	(282)
Disposals	72	17	–	89
Foreign currency translation adjustments	–	15	–	15
Balance at 31 December 2019	**(393)**	**(442)**	**(1)**	**(836)**
Net carrying amount				
Net carrying amount at 31 December 2019	**1,606**	**564**	**7**	**2,177**
Net carrying amount at 1 January 2019	**1,572**	**212**	**2**	**1,786**

1 See "General information and changes in accounting policies" in the notes to the consolidated financial statements.

Lease liabilities

In CHF million	2019
Balance at 1 January	**384**
Change in accounting policies [1]	1,238
Balance at 1 January, adjusted	**1,622**
Additions	698
Interest expense	42
Payments	(318)
Foreign currency translation adjustments	(17)
Balance at 31 December	**2,027**
Land and buildings	1,642
Technical installations	377
Other leases	8
Total lease liabilities [2]	**2,027**
Thereof current lease liabilities	232
Thereof non-current lease liabilities	1,795

1 See "General information and changes in accounting policies" in the notes to the consolidated financial statements.

2 Note 2.5 shows the maturity analysis for lease liabilities.

Income and expenses arising from leases

In CHF million	2019
Revenue	
Income from leases excluding subleases	184
Income from subleases	7
Other income	
Deferred gain on sale and leaseback of real estate	12
Financial income	
Interest income on finance lease	1
Direct costs	
Expense from leases of low value assets	(135)
Depreciation	
Depreciation of right-of-use assets	(282)
Financial expense	
Interest expense on lease liabilities	(42)

Lessor

Swisscom supplies other providers of telecommunications services with access lines for use, which classify either as finance or operating lease. At the same time, Swisscom leases space in operations and offices buildings and at antenna sites, which is classified as an operating lease. Future lease payments in respect of receivables from finance leases break down as follows as at 31 December 2019.

In CHF million	31.12.2019
Within 1 year	8
Between 1 and 2 years	11
Between 2 and 3 years	7
Between 3 and 4 years	3
Between 4 and 5 years	2
After 5 years	12
Total future payments from finance leases	**43**
Future interest revenue	(1)
Total receivables from finance leases	**42**

Future lease payments in respect of operating leases are as follows as at 31 December 2019:

In CHF million	31.12.2019
Within 1 year	57
Between 1 and 2 years	38
Between 2 and 3 years	34
Between 3 and 4 years	33
Between 4 and 5 years	33
After 5 years	14
Total future payments from operating leases	**209**

Significant judgements or estimates

When determining the terms of leases, management considers all facts and circumstances that provide an economic incentive to exercise renewal options or not exercise termination options. Renewal and termination options are only included in the contract term where there is sufficient certainty that they will be exercised. This assessment is reviewed in the event of a material occurrence or change in circumstances that may affect the previous assessment, where this is within the lessee's control.

Accounting policies

Financial liabilities

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

The following paragraphs describe the accounting policies valid as from 1 January 2019. The amendments to the previous accounting policies are described in the note “Amendments to International Financial Reporting Standards and Interpretations which are to be applied for the first time in the financial year”.

Leases

A lease is a contract or part of a contract that transfers the right to control the use of an identifiable asset for an agreed period of time in return for payment. In particular, the Swisscom leases comprise the rental of operation and office buildings, antenna sites, as well as network infrastructure and indefeasible rights of use (IRU). As a lessee, for each lease Swisscom recognises a lease liability for future lease payments and a right-of-use asset as at the time when the leased asset becomes available to Swisscom. The lease payments are divided into a repayment component and an interest component. The interest component is recognised as an interest expense over the lease term computed on the basis of the effective interest method. The right-of-use asset is depreciated on a straight-line basis over the shorter of the useful life and the lease term. As a lessor, Swisscom has to distinguish between finance and operating leases. A lease is recorded as a finance lease whenever essentially all of the risks and rewards incidental to ownership of the asset are transferred. Unless implicitly specified in the lease, the interest rate used to measure the rights of use and lease liabilities is the incremental borrowing rate. In the area of network access services, for selected leases Swisscom applies the exemptions regarding the separation of lease and non-lease components. The non-lease components are accounted for in accordance with other standards. Swisscom procures various access services from other network operators for the use of connection cables to the end customer. Under IFRS 16, part of these access services is classified as a lease. The value of the individual connection cable fulfils the criteria as an asset of low value. Swisscom applies the low value asset exemption for these leases. Accordingly, no right-of-use assets and lease liabilities will be recognised for these access services, the costs of which will continue to be reported as operating expense. The exemption for short-term leases is not applied. A number of leases for the rental of operation and office buildings include renewal and termination options which are taken into account in the initial measurement by category of building. Rental contracts of antenna sites have an initial lease term of 10 to 15 years. In general, these rental contracts include renewal and mutual termination options. For these leases, it’s not reasonable certain that all renewal options will be exercised. Accordingly, no renewal options are taken into account in the initial measurement of lease contracts of antenna sites. It is not possible to estimate the amount of additional undiscounted payments which are currently not included in the lease liabilities. This due to Swisscom’s planning horizon of a maximum of five years and technological developments.

2.4 Financial result

In CHF million	2019	2018
Interest income on financial assets	11	10
Change in fair value of interest rate swaps [1]	–	6
Capitalised borrowing costs	3	4
Other financial income	19	8
Total financial income	**33**	**28**
Interest expense on financial liabilities	(73)	(114)
Interest expense on lease liabilities	(42)	(24)
Interest expense on defined benefit obligations [2]	(8)	(6)
Foreign exchange losses	(12)	(6)
Change in fair value of interest rate swaps [1]	(23)	–
Present-value adjustments on provisions [3]	(8)	(8)
Other financial expense	(25)	(28)
Total financial expense	**(191)**	**(186)**
Financial income and financial expense, net	**(158)**	**(158)**
Interest expense on lease liabilities	(42)	(24)
Net interest expense for financial assets and liabilities	(62)	(104)

1 See Note 2.5.
2 See Note 4.3.
3 See Note 3.5.

2.5 Financial risk management

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

Risk	Source	Risk mitigation
Currency risks	Swisscom is exposed to foreign exchange changes which can impact the Group's cash flows, financial result and equity.	• Reduction in cash flow volatility by use of forward currency contracts/swaps and currency swaps and designation for hedge accounting (transaction risk) • Reduction in translation risk by foreign currency financing and designation for hedge accounting • Hedging of curreny risk of foreign currency financing by use of currency swaps
Interest rate risk	Interest-rate risks result from changes in interest rates which can negatively impact cash flows and the financial situation of Swisscom.	• Use of interest rate swaps to manage fixed/variable share of financial debt
Credit risks from operating business activities and financial transactions	Through its operating business activities and derivative financial instruments and financial investments, Swisscom is exposed to the risk of default of a counterparty.	• Guideline establishing minimum requirements for counterparties • Designated counterparty limits • Employment of netting agreements foreseen under ISDA (International Swaps and Derivatives Association) • Use of collateral agreements
Liquidity risk	Prudent liquidity management involves the holding of adequate reserves of cash and cash equivalents, negotiable securities as well as the possibility of obtaining confirmed lines of credit.	• Procedures and principles to ensure adequate liquidity • Two guaranteed bank credit lines each of CHF 1,000 million

Foreign exchange risks

As regards financial instruments, the following currency risks and hedging contracts existed for foreign currencies as of 31 December 2018 and 2019:

	31.12.2019		31.12.2018	
In CHF million	EUR	USD	EUR	USD
Cash and cash equivalents	48	6	44	9
Trade receivables	8	9	4	7
Other financial assets	49	309	69	227
Financial liabilities	(3,151)	(234)	(3,443)	(144)
Trade payables	(34)	(35)	(34)	(47)
Net exposure at carrying amounts	**(3,080)**	**55**	**(3,360)**	**52**
Net exposure to forecasted cash flows in the next 12 months	41	(358)	(64)	(423)
Net exposure before hedges	**(3,039)**	**(303)**	**(3,424)**	**(371)**
Forward currency contracts	–	358	–	430
Foreign currency swaps	527	(44)	635	(62)
Currency swaps	760	–	789	–
Hedges	**1,287**	**314**	**1,424**	**368**
Net exposure	**(1,752)**	**11**	**(2,000)**	**(3)**

In addition, as of 31 December 2019, Swisscom had outstanding financial liabilities with a nominal value totalling EUR 1,710 million (CHF 1,855 million, prior year EUR 1,770 million, CHF 1,995 million), which is designated for hedge accounting of net investments in foreign operations. In 2019, income of CHF 72 million (prior year: income of CHF 85 million) arising from the measurement of financial liabilities was recognised in other comprehensive income in the position of foreign currency translation of foreign Group companies. As of 31 December 2019, the cumulative positive amount of foreign currency translation differences in equity totals CHF 234 million.

Foreign currency sensitivity analysis

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

In CHF million	Income impact on balance sheet items	Hedges for balance sheet items	Planned cash flows	Hedges for planned cash flows
31.12.2019				
EUR volatility 4.67%	144	(60)	(2)	–
USD volatility 6.01%	(3)	3	22	(22)
31.12.2018				
EUR volatility 6.28%	211	(89)	4	–
USD volatility 7.68%	(4)	5	32	(33)

The volatility of the balance sheet positions and scheduled cash flows is partially offset by the volatility of the related hedging contracts.

Interest rate risks

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

In CHF million	31.12.2019	31.12.2018
Fixed interest-bearing financial liabilities	6,589	6,497
Variable interest-bearing financial liabilities	646	1,053
Total interest-bearing financial liabilities	**7,235**	**7,550**
Fixed interest-bearing financial assets	(250)	(139)
Variable interest-bearing financial assets	(414)	(556)
Total interest-bearing financial assets	**(664)**	**(695)**
Total interest-bearing financial assets and liabilities, net	**6,571**	**6,855**
Variable interest-bearing	232	497
Variable through interest rate swaps	1,335	1,364
Variable interest-bearing, net	**1,567**	**1,861**
Fixed interest-bearing	6,339	6,358
Variable through interest rate swaps	(1,335)	(1,364)
Fixed interest-bearing, net	**5,004**	**4,994**
Total interest-bearing financial assets and liabilities, net	**6,571**	**6,855**

Interest rate sensitivity analysis

A shift in interest rates by 100 basis points has no material impact on the income statement and equity as of 31 December 2018 and 2019.

Credit risks

Credit risks from financial transactions

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

In CHF million	31.12.2019	31.12.2018
Cash and cash equivalents	328	474
Financial assets at amortised cost	390	259
Derivative financial instruments	84	82
Other assets valued at fair value	1	2
Total carrying amount of financial assets	**803**	**817**

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

In CHF million	31.12.2019	31.12.2018
AAA	31	35
AA– to AA+	421	453
A– to A+	168	212
BBB– to BBB+	63	56
Without rating	120	61
Total	**803**	**817**

Financial risks from operating activities

Credit risks on trade receivables, contract assets and other receivables arise from the Group's operating activities. Credit risks from other receivables are insignificant. As an initial step, Swisscom divides the credit risks from operating activities between Swisscom Switzerland and Fastweb. Default risks are principally impacted by the individual attributes of the customers. The default risk is further influenced by the default risk of customer groups and industry sectors. Swisscom possesses a receivables management system as an aid to minimise default losses. New customers are reviewed for their credit-worthiness, and maximum payment targets are set for customer groups. As regards their credit-worthiness, customers are divided into groups for the purposes of monitoring default risk. In the process a differentiation is made between individual and business customers, among other things. In addition, the ageing structure of the receivables is taken into account, as well as the industry segment in which a business customer is active.

The split of trade receivables and contract assets by operating segment may be analysed as follows:

In CHF million	**31.12.2019**	31.12.2018
Notional amount		
Residential Customers	1,069	1,140
Enterprise Customers	436	481
Wholesale	173	149
IT, Network & Infrastructure	26	25
Swisscom Switzerland	**1,704**	**1,795**
Fastweb	658	696
Other Operating Segments	187	176
Total notional amount	**2,549**	**2,667**
Allowances for doubtful debts		
Residential Customers	(56)	(51)
Enterprise Customers	(2)	(3)
Wholesale	(1)	(1)
IT, Network & Infrastructure	(1)	(2)
Swisscom Switzerland	**(60)**	**(57)**
Fastweb	(69)	(87)
Other Operating Segments	(15)	(13)
Total allowances for doubtful debts	**(144)**	**(157)**
Total notional amount less allowances for doubtful debts	**2,405**	**2,510**

As of 31 December 2019, the maturities of trade receivables and contract assets as well as any applicable related valuation allowances may be analysed as follows:

			31.12.2019
In CHF million	**Rate**	**Par value**	**Allowance**
Not due	0.64%	1,729	(11)
Past due up to 3 months	4.79%	585	(28)
Past due 4 to 6 months	26.15%	65	(17)
Past due 7 to 12 months	42.67%	75	(32)
Past due over 1 year	58.95%	95	(56)
Total	**5.65%**	**2,549**	**(144)**

As of 31 December 2018, the maturities of trade receivables and contract assets as well as any applicable related valuation allowances may be analysed as follows:

In CHF million	Rate	Par value	Allowance
			31.12.2018
Not overdue	0.51%	1,974	(10)
Past due up to 3 months	6.15%	439	(27)
Past due 4 to 6 months	24.36%	78	(19)
Past due 7 to 12 months	35.48%	93	(33)
Past due over 1 year	81.93%	83	(68)
Total	**5.89%**	**2,667**	**(157)**

Movements in valuation allowances for trade receivables and contract assets may be analysed as follows:

In CHF million	2019	2018
Balance at 1 January	**157**	**225**
Additions to allowances	85	81
Write-off of irrecoverable receivables subject to allowance	(92)	(138)
Release of unused allowances	(3)	(7)
Foreign currency translation adjustments	(3)	(4)
Balance at 31 December	**144**	**157**

Liquidity risk
Contractual maturities including estimated interest payable

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
31.12.2019						
Bank loans	1,080	1,133	790	7	184	152
Debenture bonds	5,915	6,095	617	607	1,385	3,486
Private placements	151	160	1	1	2	156
Derivative financial instruments	84	82	18	3	11	50
Other financial liabilities	230	230	39	94	13	84
Lease liabilities	2,027	2,727	282	246	566	1,633
Trade payables	1,614	1,614	1,595	10	9	–
Total	**11,101**	**12,041**	**3,342**	**968**	**2,170**	**5,561**

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
31.12.2018						
Bank loans	1,233	1,295	641	302	22	330
Debenture bonds	5,554	5,960	75	638	1,470	3,777
Private placements	426	438	278	1	2	157
Derivative financial instruments	54	58	9	3	12	34
Other financial liabilities	516	516	394	90	32	–
Lease liabilities	384	775	45	39	98	593
Trade payables	1,658	1,658	1,610	21	27	–
Total	**9,825**	**10,700**	**3,052**	**1,094**	**1,663**	**4,891**

Derivative financial instruments

In CHF million	Contract value 31.12.2019	Contract value 31.12.2018	Positive fair value 31.12.2019	Positive fair value 31.12.2018	Negative fair value 31.12.2019	Negative fair value 31.12.2018
Interest rate swaps in CHF	575	575	30	11	–	(1)
Currency swaps in EUR	760	789	53	70	–	–
Total fair value hedges	**1,335**	**1,364**	**83**	**81**	**–**	**(1)**
Forward currency contracts in USD	147	202	–	–	(4)	(2)
Total cash flow hedges	**147**	**202**	**–**	**–**	**(4)**	**(2)**
Interest rate swaps in CHF	200	200	–	–	(70)	(48)
Currency swaps in USD	45	62	1	1	–	–
Currency swaps in EUR	527	635	–	–	(5)	(1)
Forward currency contracts in USD	211	221	–	–	(5)	(2)
Total other derivative financial instruments	**983**	**1,118**	**1**	**1**	**(80)**	**(51)**
Total derivative financial instruments	**2,465**	**2,684**	**84**	**82**	**(84)**	**(54)**
Thereof current derivative financial instruments			11	1	(14)	(5)
Thereof non-current derivative financial instruments			73	81	(70)	(49)

Swisscom has entered into interest rate and foreign currency swaps, designated as fair value hedges, in order to hedge interest rate and foreign currency risks of fixed interest-bearing finance denominated in CHF and EUR. Derivative financial instruments contain currency swaps, designated as cash flow hedges, in order to hedge future purchases of goods and services in USD. Furthermore, derivative financial instruments include interest rate swaps which are not designated for hedge accounting purposes. In addition, derivative financial instruments exclusively comprise forward foreign currency transactions and foreign currency swaps in EUR and USD which serve to hedge future transactions in connection with financing or the operating business activities of Swisscom, and which were not designated for hedge accounting purposes. Swisscom does not enter into derivative financial instruments for speculative purposes.

The fair value hedge transactions of CHF 575 million and EUR 500 million designated by Swisscom will be affected by the Interest Rate Benchmark Reform (known as the IBOR Reform). In Switzerland, the changeover from the reference interest rate LIBOR to SARON is being pursued. In the EUR zone, the EURIBOR was recently reformed and EONIA is to be replaced by the ESTR. Swisscom is closely following developments relating to the changeover of reference interest rates, and will contact the counterparties in due course to ensure that the changeover can be completed on individual contracts. By adopting the modifications early, Swisscom is guaranteeing that hedge accounting continues to exist or can be designated despite the uncertainties associated with the expected replacement of the reference interest rates in CHF and EUR.

Derivative financial instruments

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

Valuation category and fair value of financial instruments

Estimation of fair values

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

- **Level 1:** exchange-quoted prices in active markets for identical assets or liabilities;
- **Level 2:** other factors which are observable on markets for assets and liabilities, either directly or indirectly;
- **Level 3:** factors that are not based on observable market data.

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

Valuation categories and fair value of financial instruments

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

In CHF million	Carrying amount	Fair Value	31.12.2019 Level
Other financial assets			
Term deposits	7	7	2
Certificates of deposit	142	160	2
Listed debt instruments	139	134	1
Loans	102	102	2
At amortised cost	**390**	**403**	
Equity instruments valued at fair value	82	82	3
Fair value through other comprehensive income	**82**	**82**	
Loans	1	1	2
Derivative financial instruments	84	84	2
Fair value through profit or loss	**85**	**85**	
Total other financial assets	**557**	**570**	
Financial liabilities			
Bank loans	1,080	1,111	2
Debenture bonds	5,915	6,194	1
Private placements	151	159	2
Derivative financial instruments	84	84	2
Other financial liabilities	230	230	2
Total financial liabilities	**7,460**	**7,778**	

In CHF million	Carrying amount	Fair Value	31.12.2018 Level
Other financial assets			
Term deposits	7	7	2
Certificates of deposit	145	157	2
Quoted debt instruments	63	63	1
Loans	44	44	2
At amortised cost	**259**	**271**	
Equity instruments valued at fair value	6	6	1
Equity instruments valued at fair value	72	72	3
At fair value through other comprehensive income	**78**	**78**	
Loans	2	2	2
Derivative financial instruments	82	82	2
Fair value through profit or loss	**84**	**84**	
Total other financial assets	**421**	**433**	
Financial liabilities			
Bank loans	1,233	1,250	2
Debenture bonds	5,554	5,719	1
Private placements	426	426	2
Derivative financial instruments	54	54	2
Other financial liabilities	516	516	2
Total financial liabilities	**7,783**	**7,965**	

Financial assets amounting to CHF 281 million (prior year: CHF 208 million) are not freely available, as they serve as security for liabilities.

3 Operating assets and liabilities

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

3.1 Operating net working capital

Movements in operating assets and liabilities

In CHF million	31.12.2018	Operational changes	Other changes [1]	**31.12.2019**
Financial year 2019				
Trade receivables	2,189	18	(24)	2,183
Other operating assets	1,243	(64)	(23)	1,156
Trade payables	(1,658)	15	29	(1,614)
Other operating liabilities	(1,127)	(69)	14	(1,182)
Total operating assets and liabilities, net	**647**	**(100)**	**(4)**	**543**

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

In CHF million	31.12.2017	Operational changes	Other changes [1]	31.12.2018
Financial year 2018				
Trade receivables	2,389	(139)	(61)	2,189
Other operating assets	729	84	430	1,243
Trade payables	(1,753)	50	45	(1,658)
Other operating liabilities	(1,165)	75	(37)	(1,127)
Total operating assets and liabilities, net	**200**	**70**	**377**	**647**

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

Trade receivables

In CHF million	**31.12.2019**	31.12.2018
Billed revenue	2,238	2,231
Accrued revenue	88	113
Allowances	(143)	(155)
Total trade receivables [1]	**2,183**	**2,189**

1 Credit risks. See Note 2.5.

Other operating assets and liabilities

In CHF million	31.12.2019	31.12.2018
Other operating assets		
Contract assets	222	321
Contract costs	262	274
Other receivables	74	52
Inventories	125	154
Prepaid expenses	338	316
Advance payments made	71	35
Value-added taxes receivable	31	46
Other non-financial assets	33	45
Total other operating assets	**1,156**	**1,243**
Other operating liabilities		
Contract liabilities	672	620
Accruals for variable performance-related bonus	145	163
Value-added taxes payable	93	85
Accruals for annual holiday, overtime	47	61
Liabilities from collection activities	12	14
Advance payments received	6	11
Miscellaneous liabilities	207	173
Total other operating liabilities	**1,182**	**1,127**

Contract assets and liabilities

In CHF million	31.12.2019	31.12.2018
Contract assets		
Swisscom Switzerland	162	258
Fastweb	–	9
Other	60	54
Total contract assets	**222**	**321**
Contract liabilities		
Swisscom Switzerland	456	427
Fastweb	127	113
Other	89	80
Total contract liabilities	**672**	**620**

Contract assets of Swisscom Switzerland primarily include deferrals arising in connection with the sale of bundled offerings in the mobile-phone area. In part, mobile handsets are sold, together with a mobile-phone contract, on a subsidised basis in the bundled offering. As a result of the allocation of revenue over the pre-delivered components (mobile handset), revenues are recognised earlier than the invoicing thereof. This results in contract assets deriving from this business being recognised. Contractual liabilities largely cover deferrals from payments for prepaid cards and prepaid Swisscom Switzerland subscription fees. In 2019, an amount of CHF 209 million was recorded as revenue which had been recognised as a contract liability as of 1 January 2019. Swisscom avails itself of the rules of IFRS 15.121 regarding the disclosure of the transaction price allocated to the performance obligation that are unsatisfied. The exemption is not applied in the case of mobile-phone contracts with the sale of a subsidised mobile handset and a minimum contract term. These contracts incorporate revenue of CHF 559 million (2020: CHF 482 million; 2021: CHF 77 million). The decrease in the reported transaction price from CHF 961 million to CHF 559 million is due to the introduction of the SIM-Only tariff in March 2019.

Contract costs

Contract costs include deferred costs to obtain a contract as well as costs to fulfil a contract, which may be analysed as follows:

In CHF million	31.12.2019	31.12.2018
Costs to obtain a contract		
Commissions to dealers for customer acquisition and retention	38	38
Commissions to dealers for handset subsidies	28	63
Swisscom Switzerland	**66**	**101**
Fastweb	24	24
Other	47	48
Total costs to obtain a contract	**137**	**173**
Costs to fulfill a contract		
Router and TV boxes	36	33
Initial costs from outsourcing contracts	89	68
Total costs to fulfill a contract	**125**	**101**
Total contract costs	**262**	**274**

Accounting policies

Operating assets and liabilities

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

Trade receivables

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

3.2 Property, plant and equipment

In CHF million	Technical installations	Land, buildings and leasehold improvements	Other installations	Advances made and assets under construction	Total
Cost of acquisition					
Balance at 31 December 2017	**28,175**	**2,696**	**4,273**	**364**	**35,508**
Additions	1,368	2	242	196	1,808
Disposals	(1,586)	(99)	(167)	–	(1,852)
Adjustment to dismantlement and restoration costs	(1)	–	4	–	3
Reclassifications	99	(3)	160	(202)	54
Business combinations	10	–	–	–	10
Foreign currency translation adjustments	(192)	(4)	–	(1)	(197)
Balance at 31 December 2018	**27,873**	**2,592**	**4,512**	**357**	**35,334**
Reclassifications [1]	(560)	(445)	(64)	–	(1,069)
Balance at 1 January 2019, adjusted	**27,313**	**2,147**	**4,448**	**357**	**34,265**
Additions	1,122	2	201	362	1,687
Disposals	(459)	(479)	(124)	–	(1,062)
Adjustment to dismantlement and restoration costs	28	–	19	–	47
Reclassifications	141	17	73	(234)	(3)
Sales of subsidiaries	(4)	–	(3)	–	(7)
Foreign currency translation adjustments	(186)	(3)	–	(1)	(190)
Balance at 31 December 2019	**27,955**	**1,684**	**4,614**	**484**	**34,737**
Accumulated depreciation and impairment losses					
Balance at 31 December 2017	**(19,880)**	**(2,040)**	**(2,891)**	**–**	**(24,811)**
Depreciation	(1,165)	(35)	(319)	–	(1,519)
Disposals	1,584	31	163	–	1,778
Reclassifications	56	9	(66)	–	(1)
Foreign currency translation adjustments	107	1	–	–	108
Balance at 31 December 2018	**(19,298)**	**(2,034)**	**(3,113)**	**–**	**(24,445)**
Reclassifications [1]	377	193	35	–	605
Balance at 1 January 2019, adjusted	**(18,921)**	**(1,841)**	**(3,078)**	**–**	**(23,840)**
Depreciation	(1,195)	(18)	(306)	–	(1,519)
Impairment losses	(1)	(1)	(8)	–	(10)
Disposals	459	470	119	–	1,048
Sales of subsidiaries	4	–	2	–	6
Reclassifications	–	(1)	1	–	–
Foreign currency translation adjustments	106	1	–	–	107
Balance at 31 December 2019	**(19,548)**	**(1,390)**	**(3,270)**	**–**	**(24,208)**
Net carrying amount					
Net carrying amount at 31 December 2019	**8,407**	**294**	**1,344**	**484**	**10,529**
Net carrying amount at 31 December 2018	**8,575**	**558**	**1,399**	**357**	**10,889**
Net carrying amount at 31 December 2017	**8,295**	**656**	**1,382**	**364**	**10,697**

1 See "General information and changes in accounting policies" in the notes to the consolidated financial statements.

Commitments for future capital expenditures

Firm contractual commitments for future capital investments in property, plant and equipment as of 31 December 2019 aggregated CHF 809 million (prior year: CHF 914 million).

Non-cash investing and financing transactions

As a result of changes in the assumptions made in estimating the provisions for dismantlement and restoration costs, an increase therein of CHF 47 million (prior year: CHF 3 million) was recognised in property, plant and equipment with no impact on the income statement. See Note 3.5.

Significant judgements or estimates

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

Accounting policies

Property, plant and equipment is recognised at historical cost less depreciation and impairment losses. In addition to historical cost and the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, purchase or manufacturing cost also includes the estimated costs for dismantling and restoring the site. Borrowing costs are capitalised insofar as they are directly attributable to the acquisition or production of a qualifying asset. Costs of replacement, renewal or renovation of property, plant and equipment are capitalised as replacement investments if a future inflow of economic benefits is probable and costs can be measured reliably. The carrying amount of the parts replaced is de-recognised. Depreciation is calculated using the straight-line method except for land, which is not depreciated. The estimated useful lives for the main categories of property, plant and equipment are:

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

1 Technical installations.

Whenever significant parts of an item of property, plant and equipment comprise individual components with differing useful lives, each component is depreciated separately. The process for estimating useful estimated lives takes into account the expected use by the company, the expected wear and tear, technological developments, as well as empirical values with comparable assets. Leasehold improvements and installations in leased premises are depreciated on a straight-line basis over the shorter of their estimated useful lives and the remaining minimum lease term. The impact from adjusting useful economic lives and residual values is recognised on a prospective basis. The useful life of copper cables was reviewed following the adjustment of the network expansion strategy. As a result of the review, the useful life of copper cables was adjusted from 30 to 15 years. In line with IAS 8, the change was applied prospectively from 1 January 2019. The impact on depreciation in 2019 was CHF 25 million. Whenever indications exist that the value of an asset may be impaired, the recoverable amount of the asset is determined. If the recoverable amount of the asset, which is the greater of the fair value less costs to sell and the value in use, is less than its carrying amount, the carrying amount is written down to the recoverable amount. The carrying amount of an item of property, plant and equipment is de-recognised upon disposal or whenever no future economic benefits are expected from its use. Gains and losses arising on the disposal of property, plant and equipment are recognised as other income or other operating expenses.

3.3 Intangible assets

In CHF million	Purchased software	Internally generated software	Licenses	Brands and customer relations	Other intangible assets	Total
Cost of acquisition						
Balance at 31 December 2017	**2,428**	**1,427**	**413**	**560**	**636**	**5,464**
Additions	220	174	62	–	125	581
Disposals	(577)	(351)	(6)	(70)	(142)	(1,146)
Reclassifications	46	98	–	–	(208)	(64)
Business combinations	–	–	243	–	3	246
Sales of subsidiaries	(22)	(5)	–	–	–	(27)
Foreign currency translation adjustments	(56)	(6)	(2)	(11)	(3)	(78)
Balance at 31 December 2018	**2,039**	**1,337**	**710**	**479**	**411**	**4,976**
Reclassifications [1]	–	–	–	–	(137)	(137)
Balance at 1 January 2019, adjusted	**2,039**	**1,337**	**710**	**479**	**274**	**4,839**
Additions	179	133	251	–	143	706
Disposals	(57)	(139)	(2)	(11)	(17)	(226)
Reclassifications	39	78	–	–	(107)	10
Business combinations	4	5	–	13	–	22
Sales of subsidiaries	(2)	(2)	–	(9)	(9)	(22)
Foreign currency translation adjustments	(59)	(8)	(10)	(11)	–	(88)
Balance at 31 December 2019	**2,143**	**1,404**	**949**	**461**	**284**	**5,241**
Accumulated amortisation and impairment losses						
Balance at 31 December 2017	**(1,949)**	**(895)**	**(150)**	**(421)**	**(291)**	**(3,706)**
Amortisation	(244)	(289)	(31)	(35)	(22)	(621)
Impairment losses	(3)	(1)	–	–	–	(4)
Disposals	576	349	6	70	125	1,126
Sales of subsidiaries	13	3	–	–	–	16
Reclassifications	–	3	–	–	7	10
Foreign currency translation adjustments	46	5	–	10	2	63
Balance at 31 December 2018	**(1,561)**	**(825)**	**(175)**	**(376)**	**(179)**	**(3,116)**
Reclassifications [1]	–	–	–	–	49	49
Balance at 1 January 2019, adjusted	**(1,561)**	**(825)**	**(175)**	**(376)**	**(130)**	**(3,067)**
Amortisation	(243)	(274)	(74)	(32)	(13)	(636)
Impairment losses	–	(1)	–	–	–	(1)
Disposals	57	139	2	11	17	226
Sales of subsidiaries	1	2	–	7	5	15
Foreign currency translation adjustments	50	4	1	9	–	64
Balance at 31 December 2019	**(1,696)**	**(955)**	**(246)**	**(381)**	**(121)**	**(3,399)**
Net carrying amount						
Net carrying amount at 31 December 2019	**447**	**449**	**703**	**80**	**163**	**1,842**
Net carrying amount at 31 December 2018	**478**	**512**	**535**	**103**	**232**	**1,860**
Net carrying amount at 31 December 2017	**479**	**532**	**263**	**139**	**345**	**1,758**

1 See "General information and changes in accounting policies" in the notes to the consolidated financial statements.

As of 31 December 2019, other intangible assets include advance payments made and uncompleted development projects of CHF 149 million (prior year: CHF 125 million).

At the request of ComCom, the Federal Office of Communications (OFCOM) put all of the frequencies available for mobile communications up for auction. The auction took place from 29 January to 7 February 2019. Swisscom secured 45% of the frequencies auctioned by all bidders for the fifth generation of mobile technology and for previous generations for CHF 196 million. The frequencies were allocated in April 2019 and will remain with Swisscom until 2034.

Commitments for future capital expenditures

As of 31 December 2019, firm contractual commitments for future capital investments in intangible assets aggregated CHF 62 million (prior year: CHF 91 million).

Significant judgements or estimates

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

Accounting policies

Mobile-phone licences, self-developed software as well as other intangible assets are recorded at historical cost less accumulated amortisation. Intangible assets resulting from business combinations, such as brands and customer relationships, are recognised at cost, which equates to fair market value as of the date of acquisition, less accumulated amortisation. Mobile-phone licences are amortised based on the term of the licence. It begins as soon as the related network is ready for operation, unless other information is at hand which would suggest the need to modify the useful lives. The impact from adjusting useful economic lives and residual values is recognised on a prospective basis. Amortisation is computed on a straight-line basis over the following estimated useful economic lives:

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

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

3.4 Goodwill

Goodwill is allocated to the cash generating units of Swisscom based upon their business activities. Goodwill arising in a business combination is allocated to each cash generating unit which can derive synergies from the business combination. The goodwill allocated to the cash generating units may be analysed as follows:

In CHF million	Residential Customers Swisscom Switzerland	Enterprise Customers Swisscom Switzerland	Fastweb	Other cash-generating units [1]	Total
At cost					
Balance at 31 December 2017	**3,277**	**932**	**2,070**	**422**	**6,701**
Additions	–	–	3	–	3
Sales of subsidiaries	–	–	–	(23)	(23)
Foreign currency translation adjustments	–	–	(76)	–	(76)
Balance at 31 December 2018	**3,277**	**932**	**1,997**	**399**	**6,605**
Additions	–	16	–	4	20
Sales of subsidiaries	–	(3)	–	–	(3)
Foreign currency translation adjustments	–	–	(75)	–	(75)
Balance at 31 December 2019	**3,277**	**945**	**1,922**	**403**	**6,547**
Accumulated impairment losses					
Balance at 31 December 2017	**–**	**–**	**(1,492)**	**(23)**	**(1,515)**
Sales of subsidiaries	–	–	–	23	23
Foreign currency translation adjustments	–	–	54	–	54
Balance at 31 December 2018	**–**	**–**	**(1,438)**	**–**	**(1,438)**
Foreign currency translation adjustments	–	–	54	–	54
Balance at 31 December 2019	**–**	**–**	**(1,384)**	**–**	**(1,384)**
Net carrying amount					
Net carrying amount at 31 December 2019	**3,277**	**945**	**538**	**403**	**5,163**
Net carrying amount at 31 December 2018	**3,277**	**932**	**559**	**399**	**5,167**
Net carrying amount at 31 December 2017	**3,277**	**932**	**578**	**399**	**5,186**

1 Comprises the cash-generating units Wholesale Swisscom Switzerland and Swisscom Directories.

Impairment testing

In the fourth quarter of 2019 and after the completion of business planning, individual goodwill amounts were subjected to an impairment test. The recoverable amount of a cash-generating unit is determined based on its value in use, applying the discounted cash flow (DCF) method. The projected free cash flows are estimated on the basis of the business plans approved by management. As a rule, the business plans cover a three-year period. A planning horizon of five years is used for the Fastweb impairment test. For the free cash flows extending beyond the detailed planning period, a terminal value was computed by capitalising the normalised cash flows using a steady long-term growth rate. The growth rate applied is that customarily assumed for the country or market. The projected cash flows and management assumptions are corroborated by external sources of information. The discount rate is derived from the Capital Asset Pricing Model (CAPM). This latter comprises the weighted value of own equity and external borrowing costs. For the risk-free interest rate which forms the basis of the discount rate, the yield from Swiss government bonds is taken (abroad: Germany) with a duration of ten years and a zero-interest rate, subject to a minimum interest rate of 1.5% (Switzerland) and 2.0% (abroad). For cash-generating units abroad, a risk premium for the country risk is then added.

Discount rates and long-term growth rates

Cash-generating unit	WACC pre-tax 2019	WACC post-tax 2019	Long-term growth rate 2019	WACC pre-tax 2018	WACC post-tax 2018	Long-term growth rate 2018
Residential Customers Swisscom Switzerland	4.91%	3.93%	0%	5.54%	4.42%	0%
Enterprise Customers Swisscom Switzerland	4.84%	3.93%	0%	5.52%	4.42%	0%
Fastweb	7.71%	5.87%	0.7%	8.34%	6.42%	1.0%
Other cash-generating units	4.86–7.33%	3.93–5.86%	0%	5.55–11.67%	4.42–9.16%	0%

Results and sensitivity of impairment tests

Residential Customers and Enterprise Customers Swisscom Switzerland

As of the measurement date, the recoverable amount at all cash-generating units, based on their value in use, is higher than the carrying amount relevant for the impairment test. Swisscom believes none of the anticipated changes in key assumptions which can rationally be expected would cause the carrying amount of the cash-generating units to exceed the recoverable amount.

Fastweb

As of the date of the impairment test, no impairment of goodwill resulted. The recoverable amount exceeded the carrying amount by EUR 1,471 million (CHF 1,618 million). In the prior year, the difference amounted to EUR 1,178 million (CHF 1,343 million). The following changes in material assumptions would lead to a situation where the value in use would equate to the carrying amount:

	Assumptions 2019	Sensitivity 2019	Assumptions 2018	Sensitivity 2018
Average annual growth rate till 2024 with the same EBITDA margin as in the business plan	5.8%	3.2%	6.2%	4.0%
Normalised EBITDA margin	34%	30%	33%	29%
Normalised capital expenditure rate	20%	24%	21%	25%
Post-tax discount rate	5.87%	8.01%	6.42%	8.43%
Long-term growth rate	0.7%	–2.1%	1.0%	–1.6%

Significant judgements or estimates

The allocation of goodwill to the cash-generating units as well as the computation of the recoverable amount is subject to the judgement of Management. This encompasses the estimation of future cash flows, the determination of the discounting rate, and the growth rate on the basis of historic data and current forecasts.

Accounting policies

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

3.5 Provisions and contingent liabilities

Provisions

In CHF million	Dismantlement and restoration costs	Regulatory and competition law proceedings	Termination benefits [1]	Others	Total
Balance at 31 December 2018 [2]	**635**	**166**	**69**	**162**	**1,032**
Change in accounting policies	–	–	–	(4)	(4)
Balance as at 1 January 2019	**635**	**166**	**69**	**158**	**1,028**
Additions to provisions	–	40	62	55	157
Adjustments recorded under property, plant and equipment	47	–	–	–	47
Present-value adjustments	7	–	–	1	8
Release of unused provisions	(2)	–	(6)	(12)	(20)
Use of provisions	(7)	–	(34)	(32)	(73)
Foreign currency translation adjustments	–	–	–	(1)	(1)
Balance at 31 December 2019	**680**	**206**	**91**	**169**	**1,146**
Thereof current provisions	–	–	86	77	163
Thereof non-current provisions	680	206	5	92	983

1 See Note 4.1.

2 See "General information and changes in accounting policies" in the notes to the consolidated financial statements.

Provisions for dismantling and restoration costs

The provisions are computed by reference to estimates of future anticipated dismantling costs and are discounted using an average interest rate of 0.72% (prior year: 1.16%). The effect of using different interest rates amounted to CHF 64 million (prior year: CHF 3 million). The cost index used for computing the dismantling costs was amended, resulting in an impact of CHF 25 million. In 2019, as a result of reassessments, adjustments totalling CHF 47 million (prior year: CHF 3 million) were recognised under property, plant and equipment, with no impact on the income statement, and an expense of CHF 2 million (prior year CHF 1 million) recorded in the income statement. The non-current portion of the provisions is expected to be settled after 2021. An increase of estimated costs by 10% would result in an increase of CHF 65 million in the amount of the provision. A delay of another ten years in the timing of the dismantling would lead to a reduction of CHF 8 million in the provisions.

Provisions for regulatory and competition law proceedings

In accordance with the revised Telecommunications Act, Swisscom provides access services (incl. interconnection) to other telecommunication service providers in Switzerland. In previous years, several telecommunication service providers demanded that the Federal Communications Commission (ComCom) reduce the prices charged to them by Swisscom. In February 2019, ComCom issued its decision on the disputed access prices for 2013 to 2016. Swisscom has lodged an appeal against this decision with the Federal Administrative Court. The price-setting procedure for 2017 and beyond is still pending, and has been suspended by OFCOM until the Federal Administrative Court issues its decision on the complaints regarding the access procedure for 2013 to 2016. In 2009, the Competition Commission (COMCO) imposed a fine of CHF 220 million on Swisscom for abuse of a market-dominant position in the area of ADSL services during the period through to the end of 2007. Swisscom lodged an appeal against the ruling with the Federal Administrative Court. In September 2015, the Federal Administrative Court upheld the COMCO decision in principle, and reduced the fine imposed on Swisscom by COMCO from CHF 220 million to CHF 186 million. As a result of the decision, Swisscom recognised a provision of CHF 186 million in the third quarter of 2015. Swisscom does not consider the penalty to be justified and has lodged an appeal with the Federal Supreme Court. It paid the fine of CHF 186 million at the beginning of 2016, as no suspensive effect was granted. On 9 December 2019, the Federal Supreme Court dismissed Swisscom's appeal in the last instance and confirmed the sanction of CHF 186 million. As a result of the legally binding decision on abuse of a market-dominant position, claims could be asserted against Swisscom under civil law. On the basis of legal opinions, Swisscom has recognised provisions for regulatory and competition law proceedings. Any payments to be made will depend upon the date on which legally-binding decrees and decisions are issued, and could probably occur within five years.

Other provisions

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

Contingent liabilities for regulatory and competition law proceedings

In accordance with the revised Telecommunications Act, Swisscom provides access services (incl. interconnection) to other telecommunication service providers in Switzerland. In previous years, several telecommunication service providers demanded the Federal Communications Commission (ComCom) reduce the prices charged to them by Swisscom. The legally binding definition of the prices for the years 2013 and thereafter is still outstanding. The Competition Commission (COMCO) is also conducting several proceedings against Swisscom. In the event that a legally enforceable finding of market abuse is reached, COMCO can sanction Swisscom. In addition, claims under civil law might be asserted against Swisscom. In April 2013, COMCO opened an investigation against Swisscom under the Federal Cartel Act concerning the broadcasting of live sporting events on pay TV. In May 2016, COMCO imposed a penalty of CHF 72 million on Swisscom in these proceedings. In November 2015, in its investigation as to the invitation to tender for the corporate network of the Swiss Post in 2008, COMCO reached the conclusion that Swisscom has a dominant position on the market for broadband access for business clients. As a result of this conduct, which was judged to be unlawful under competition law, COMCO imposed a penalty of CHF 8 million. Swisscom has challenged COMCO's rulings concerning live sports broadcasts on pay TV, as well as the invitation to tender for the corporate network of Swiss Post in the Federal Administrative Court, as it considers that it has conducted itself in a lawful manner. From a current perspective, Swisscom considers the levying of sanctions in the court of last appeal as not probable, which is why no provisions have been recognised in the consolidated financial statements as of and for the year ended 31 December 2019, as in prior years. In view of the previous proceedings conducted by COMCO, further proceedings against Swisscom might be initiated.

Significant judgements or estimates

The provisions for dismantling and restoration costs relate to the dismantling of telecommunication installations and transmitter stations, as well as the restoration to its original state of land held by third party owners. The level of the provisions is determined to a significant degree by the estimation of future dismantling and restoration costs, as well as the timing of dismantlement. The provisions and contingent liabilities for regulatory and antitrust proceedings relate to proceedings in connection with regulated access services provided by Swisscom and proceedings initiated by the COMCO. The legal and accounting assessment of these proceedings is associated with significant uncertainties in estimation and scope for discretion with regard to the probability of occurrence and the amount of a possible cash outflow. The provisions established in this way constitute the best possible estimate of the liability. Possible liabilities whose occurrence as of the balance-sheet date cannot be assessed, or liabilities for which the level cannot be reliably estimated, are disclosed as contingent liabilities.

Accounting policies

Provisions are recognised whenever a legal or constructive obligation arising from past events, the outflow of resources to settle the liability is probable, and the amount of the liability can be estimated reliably. Provisions are discounted if the effect is material.

Provisions for dismantling and restoration costs

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

Provisions for termination benefits

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

4 Employees

Swisscom currently employs around 19,300 people, of which around 16,600 are in Switzerland. This section contains information on employee headcount and personnel expense, the compensation paid to key management personnel, as well as retirement-benefit obligations.

4.1 Employee headcount and personnel expense

Employee headcount

In full-time equivalent	31.12.2019	31.12.2018	Change
Residential Customers	5,009	5,293	–5.4%
Enterprise Customers	4,426	4,422	0.1%
Wholesale	85	83	2.4%
IT, Network & Infrastructure	4,459	4,650	–4.1%
Swisscom Switzerland	**13,979**	**14,448**	**–3.2%**
Fastweb	2,456	2,484	–1.1%
Other Operating Segments	2,685	2,679	0.2%
Group Headquarters	197	234	–15.8%
Total headcount	**19,317**	**19,845**	**–2.7%**
Thereof Switzerland	16,628	17,147	–3.0%
Thereof foreign countries	2,689	2,698	–0.3%
Average number of employees	19,561	20,083	–2.6%

Personnel expense

In CHF million	2019	2018
Salary and wage costs	2,093	2,145
Social security expenses	249	250
Expense of defined benefit plans [1]	326	346
Expense of defined contribution plans	10	10
Expense for share-based payments	1	1
Termination benefits	56	(2)
Other personnel expense	65	65
Total personnel expense	**2,800**	**2,815**
Thereof Switzerland	2,569	2,591
Thereof foreign countries	231	224

1 See Note 4.3.

Termination benefits

Swisscom supports employees affected by restructuring through a social plan. In addition to other benefits, the social plan benefits include continued salary payments beyond the contractual notice period for a maximum period of time, which depends on the seniority and age of the employee concerned. Under certain conditions, older employees affected by job cuts may transfer to the subsidiary Worklink AG at reduced guaranteed continued salary payments. Worklink AG aims to place participants with third parties for temporary work assignments, whereby the participants are paid a share of the turnover as a wage supplement. The net expense for personnel reduction amounts to CHF 56 million. This is comprised of additions to provisions of CHF 62 million, minus the release of unused provisions to the value of CHF 6 million. These personnel downsizing measures are connected with Swisscom's aim of reducing the cost base by a further CHF 100 million per year between 2020 and 2022. The efficiency improvement measures will primarily be achieved through a simplification of work processes, the use of more cost-effective systems, and a reduction of positions offered in declining business sectors.

4.2 Key management compensation

In CHF thousand	2019	2018
Current compensation	1,365	1,428
Share-based payments	719	724
Social security contributions	128	139
Total compensation to members of the Board of Directors	**2,212**	**2,291**
Current compensation	5,347	5,663
Share-based payments	757	886
Benefits paid following retirement from Group Executive Board	–	605
Pension contributions	873	892
Social security contributions	539	575
Total compensation to members of the Group Executive Board	**7,516**	**8,621**
Total compensation to members of the Board of Directors and of the Group Executive Board	**9,728**	**10,912**

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

4.3 Post-employment benefits

Pension plans

comPlan

The majority of employees in Switzerland are insured under the Swisscom pension plan against the risks of old age, death and disability. The pension plan is implemented by the comPlan foundation. The supreme governing body of the pension fund is the Foundation Council, which is made up of an equal number of representatives from the employees and the employer. The pension fund rules, together with the legal provisions concerning occupational pension plans, constitute the formal regulatory framework of the pension plan. Individual retirement savings accounts are maintained for each beneficiary, which savings contributions varying with age are credited to as well as any interest which accrues. The rate of interest to be applied to the retirement savings accounts is set each year by the Foundation Council, having regard to the financial situation of the pension fund. The amounts credited to the individual savings accounts are funded by savings contributions from both the employer and employees. In addition, the employer pays risk contributions to fund death and disability benefits.

The standard retirement age is 65. Employees are entitled to early retirement with a reduced old-age pension. The amount of the old-age pension is the result of multiplying the individual retirement savings account at the time of retirement by a conversion rate set out in the pension-fund rules. The retirement benefits can also be paid out in the form of a capital payment either in full or in part. In case of early retirement, the employer also finances an OASI bridging pension until the standard retirement age. The amount of disability pensions is determined as a percentage of the insured salary and is independent of the number of years of service.

The formal regulatory framework contains various provisions concerning risk sharing between the beneficiaries and the employer. In the event of a funding shortfall, computed in accordance with Swiss accounting standards for pension funds (Swiss GAAP ARR 26), the Foundation Council lays down measures which shall lead to the elimination of this funding deficit and the restoration of financial equilibrium within a timeframe of five to seven years. Such measures may include a reduced or zero interest rate on retirement savings accounts, a reduction in future benefits, the levying of restructuring contributions or a combination of these measures. Should a structural funding shortfall exist as a result of insufficient current interest-induced funding, the top priority is to remedy this situation by adapting future benefits. The employer's restructuring contributions must, at a minimum, be equal to the sum of employee restructuring contributions. Under the formal regulatory framework, the employer has no legal obligation to pay additional contributions to eliminate more than 50% of a funding shortfall. In the case of Swisscom, a de facto obligation exists over and above the legal minimum obligation to pay additional or restructuring contributions in the case of funding shortfalls and structural funding deficits, which derives from customary company-specific practice in the past. The upper limit of the employer's share of future benefit costs within the meaning of IAS 19.87(c) is assumed to be at the level of the de facto obligation.

In accordance with the Swiss accounting standards (Swiss GAAP ARR 26) which are relevant for the pension fund, as at 31 December 2019 comPlan had a technical coverage ratio of 110% (prior year: 103%). The main reasons for the difference compared with IFRS are the use of a higher discount rate, as well as a differing actuarial measurement method with the deferred recognition of the costs of future retirement benefits.

Other pension plans

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

Pension cost

In CHF million	comPlan	Other plans	2019	comPlan	Other plans	2018
Current service cost	305	3	308	339	2	341
Plan amendments	14	–	14	–	–	–
Administration expense	3	1	4	4	1	5
Total recognised in personnel expense	**322**	**4**	**326**	**343**	**3**	**346**
Interest expense on net defined benefit obligations	8	–	8	6	–	6
Total recognised in financial expense	**8**	**–**	**8**	**6**	**–**	**6**
Total expense of defined benefit plans recognised in income statement	**330**	**4**	**334**	**349**	**3**	**352**

In CHF million	comPlan	Other plans	2019	comPlan	Other plans	2018
Actuarial gains and losses from						
Change of the demographical assumptions	–	–	–	(82)	–	(82)
Change of the financial assumptions	990	–	990	(233)	–	(233)
Experience adjustments to defined benefit obligations	7	1	8	29	(1)	28
Change in share of employee contribution (risk sharing)	(52)	–	(52)	(13)	–	(13)
Return on plan assets excluding the part recognised in financial result	(1,139)	–	(1,139)	379	(1)	378
Total (income) expense of defined benefit plans recognised in other comprehensive income	**(194)**	**1**	**(193)**	**80**	**(2)**	**78**

Status of pension plans

In CHF million	comPlan	Other plans	2019	comPlan	Other plans	2018
Defined benefit obligations						
Balance at 1 January	**11,633**	**35**	**11,668**	**11,894**	**35**	**11,929**
Current service cost	305	3	308	339	2	341
Interest cost on defined benefit obligations	102	–	102	84	–	84
Employee contributions	186	–	186	189	–	189
Benefits paid	(520)	–	(520)	(575)	–	(575)
Actuarial losses (gains)	945	1	946	(299)	(1)	(300)
Business combinations	(1)	–	(1)	–	1	1
Plan amendments	14	–	14	–	–	–
Foreign currency translation adjustments	–	(1)	(1)	–	(1)	(1)
Transfer of pension plans to comPlan	–	–	–	1	(1)	–
Balance at 31 December	**12,664**	**38**	**12,702**	**11,633**	**35**	**11,668**
Plan assets						
Balance at 1 January	**10,457**	**15**	**10,472**	**10,864**	**17**	**10,881**
Interest income on plan assets	94	–	94	78	–	78
Employer contributions	274	5	279	278	4	282
Employee contributions	186	–	186	189	–	189
Benefits paid	(520)	–	(520)	(575)	–	(575)
Return (expense) on plan assets excluding the part recognised in financial result	1,139	–	1,139	(379)	1	(378)
Administration expense	(3)	(1)	(4)	(4)	(1)	(5)
Business combinations	–	(2)	(2)	–	–	–
Transfer of pension plans to comPlan	–	–	–	6	(6)	–
Balance at 31 December	**11,627**	**17**	**11,644**	**10,457**	**15**	**10,472**
Net defined benefit obligations						
Net defined benefit obligations recognised at 31 December	**1,037**	**21**	**1,058**	**1,176**	**20**	**1,196**

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

In CHF million	comPlan	Other plans	2019	comPlan	Other plans	2018
Balance at 1 January	**1,176**	**20**	**1,196**	**1,030**	**18**	**1,048**
Pension cost, net	330	4	334	349	3	352
Employer contributions and benefits paid	(274)	(5)	(279)	(278)	(4)	(282)
Business combinations	(1)	2	1	–	1	1
(Income) expense of defined benefit plans, recognised in other comprehensive income	(194)	1	(193)	80	(2)	78
Foreign currency translation adjustments	–	(1)	(1)	–	(1)	(1)
Transfer of pension plans to comPlan	–	–	–	(5)	5	–
Balance at 31 December	**1,037**	**21**	**1,058**	**1,176**	**20**	**1,196**

The weighted average run time of the cash value of the defined benefit obligations is 17 years (prior year 16 years).

Breakdown of pension plan assets
comPlan

Category	Investment strategy	31.12.2019 Quoted	31.12.2019 Not quoted	31.12.2019 Total	31.12.2018 Quoted	31.12.2018 Not quoted	31.12.2018 Total
Government bonds Switzerland	5.0%	1.2%	3.4%	4.6%	1.7%	3.6%	5.3%
Corporate bonds Switzerland	6.0%	5.7%	0.0%	5.7%	6.1%	0.0%	6.1%
Government bonds developed markets, World	7.0%	5.7%	0.0%	5.7%	7.2%	0.0%	7.2%
Corporate bonds developed markets, World	10.0%	9.7%	0.0%	9.7%	10.3%	0.0%	10.3%
Government bonds emerging markets, World	8.0%	8.0%	0.0%	8.0%	8.1%	0.0%	8.1%
Private debt	6.0%	0.0%	5.7%	5.7%	0.0%	6.3%	6.3%
Third-party debt instruments	**42.0%**	**30.3%**	**9.1%**	**39.4%**	**33.4%**	**9.9%**	**43.3%**
Equity shares Switzerland	6.0%	6.4%	0.0%	6.4%	5.4%	0.0%	5.4%
Equity shares developed markets, World	12.0%	12.9%	0.0%	12.9%	11.2%	0.0%	11.2%
Equity shares emerging markets, World	7.0%	7.3%	0.0%	7.3%	7.0%	0.0%	7.0%
Equity instruments	**25.0%**	**26.6%**	**0.0%**	**26.6%**	**23.6%**	**0.0%**	**23.6%**
Real estate Switzerland	13.0%	6.9%	6.1%	13.0%	7.0%	6.0%	13.0%
Real estate World	7.0%	1.2%	5.3%	6.5%	1.4%	4.8%	6.2%
Real estate	**20.0%**	**8.1%**	**11.4%**	**19.5%**	**8.4%**	**10.8%**	**19.2%**
Commodities	4.0%	1.8%	2.2%	4.0%	1.9%	2.0%	3.9%
Private markets	8.0%	0.0%	9.8%	9.8%	0.0%	9.6%	9.6%
Cash and cash equivalents and other investments	1.0%	0.0%	0.7%	0.7%	0.0%	0.4%	0.4%
Cash and cash equivalents and alternative investments	**13.0%**	**1.8%**	**12.7%**	**14.5%**	**1.9%**	**12.0%**	**13.9%**
Total plan assets	**100.0%**	**66.8%**	**33.2%**	**100.0%**	**67.3%**	**32.7%**	**100.0%**

The Foundation Council determines the investment strategy and tactical bandwidths within the framework of the legal provisions. Within its terms of reference, the Investment Commission undertakes the asset allocation, and is the central steering, coordination and monitoring body for the management of the pension plan assets. The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance, and thus of generating income on a long-term basis to meet all financial obligations. This is achieved through a broad diversification of risks over various investment categories, markets, currencies and industry segments in both developed and emerging markets. The interest rate duration of interest-bearing assets is 7.24 years (prior year: 5.98 years), and the average rating of these assets is A– (unchanged from prior year). Within the overall portfolio, all foreign currency positions are hedged against the Swiss franc following a currency strategy to the extent necessary to meet a pre-determined ratio of 85% (CHF or CHF-hedged). Following this investment strategy, comPlan expects its results prepared in accordance with Swiss GAAP ARR to show a target value for the value fluctuation reserve of 17.8% of total assets (based on the 2020 financial year).

Additional information on plan assets
As at 31 December 2019, plan assets include Swisscom Ltd shares and bonds with a fair value of CHF 10 million (prior year CHF 6 million). The effective income from plan assets was CHF 1,233 million in 2019 (prior year CHF –299 million). In 2020, Swisscom expects to make payments to the pension funds for statutory employee contributions totalling CHF 281 million.

Assumptions underlying actuarial computations

	2019		2018	
Assumptions	**comPlan**	**Other plans**	comPlan	Other plans
Discount rate at 31 December	0.22%	0.77%	0.86%	1.57%
Expected rate of salary increases	1.08%	–	1.08%	–
Expected rate of pension increases	–	–	–	–
Interest on old age savings accounts	0.37%	–	0.86%	–
Share of employee contribution to funding shortfall	40%	–	40%	–
Life expectancy at age of 65 – men (number of years)	22.30	22.30	22.20	22.20
Life expectancy at age of 65 – women (number of years)	24.10	24.10	24.00	24.00

The discount rate is based upon CHF-denominated corporate bonds with an AA rating of domestic and foreign issuers and listed on the Swiss Exchange SIX. The development of salaries corresponds to the historical average of recent years. No future pension increases are anticipated, as comPlan has insufficient fluctuation reserves available under pension law. The lower limit is the statutory minimum interest rate on BVG retirement savings accounts. The interest rate used to compute interest accruing on the individual retirement savings is assumed to be the discount rate. Life-expectancy assumptions are arrived at through a projection of future mortality improvements in accordance with the Continuous Mortality Investigation Model (CMI), based on improvements in mortality observed in Switzerland in the past. A future long-term mortality improvement rate of 1.75% is assumed.

The risk-sharing attributes contained in the formal regulatory framework relating to the handling of funding shortfalls were taken into account in the financial assumptions in two steps. As a first step, it is assumed that a gradual lowering of future pensions by 8.80% (prior year: 4.31%) over a period of ten years will take place in order to close the interest-induced structural funding gap. This is based upon a projection of the future conversion rate using a mixed rate for the mandatory and extra-mandatory portions. The conversion rate in the mandatory portion applies the current legal conversion rate. In the extra-mandatory portion, the conversion rate is computed with a discount rate of 0.22%. As a second step, the present value of the remaining funding gap between the regulatory contributions and the benefits adjusted in the first step is shared between the employer and the employees. The legal and de-facto obligation of the employer to pay additional contributions is unchanged and assumed to be limited to 60% of the funding gap. This is based on the legal and regulatory provisions concerning the elimination of funding shortfalls as well as the measures actually decided upon by the Foundation Council and the employer in the past. Based on an assumption of a limited employer contribution to the funding shortfall, there is a reduction in defined benefit obligations of CHF 530 million (prior year CHF 482 million) which corresponds to the assumed employer contributions. The change of the employee share is recognised in other comprehensive income.

Sensitivity analysis comPlan
Sensitivity analysis 2019

	Defined benefit obligations		**Current service cost** [1]	
In CHF million	**Increase assumption**	**Decrease assumption**	**Increase assumption**	**Decrease assumption**
Discount rate (change +/–0.5%)	(598)	698	(37)	44
Expected rate of salary increases (change +/–0.5%)	42	(40)	6	(6)
Expected rate of pension increases (change +0.5%; –0.0%)	578	–	28	–
Interest on old age savings accounts (change +0.5%; –0.0%)	25	–	7	–
Share of employee contribution to funding shortfall (change +/–10%)	133	(133)	–	–
Life expectancy at age of 65 (change +/–0.5 year)	143	(144)	5	(5)

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

Sensitivity analysis 2018

In CHF million	Defined benefit obligations: Increase assumption	Defined benefit obligations: Decrease assumption	Current service cost [1]: Increase assumption	Current service cost [1]: Decrease assumption
Discount rate (change +/–0.5%)	(516)	601	(33)	40
Expected rate of salary increases (change +/–0.5%)	38	(36)	6	(5)
Expected rate of pension increases (change +0.5%; –0.0%)	501	–	25	–
Interest on old age savings accounts (change +/–0.5%)	20	(17)	7	(6)
Share of employee contribution to funding shortfall (change +/–10%)	(120)	120	–	–
Life expectancy at age of 65 (change +/–0.5 year)	119	(120)	4	(4)

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

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

Significant judgements or estimates

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

Accounting policies

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

5 Scope of consolidation

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

5.1 Group structure

Swisscom Ltd is the parent company of the Group and predominantly holds direct majority shareholdings in Swisscom (Switzerland) Ltd, Swisscom Broadcast Ltd and Swisscom Directories Ltd. Fastweb S.p.A. (Fastweb) is held indirectly via Swisscom (Switzerland) Ltd as well as an intermediate company in Italy. Swisscom Re Ltd in Liechtenstein is the Group's in-house reinsurance company.

5.2 Changes in the scope of consolidation

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

In CHF million	2019	2018
Expenses for business combinations net of cash and cash equivalents acquired	(25)	(60)
Expenses for deferred consideration arising on business combinations	(369)	(18)
Sale of subsidiaries minus disposal of currency	(3)	–
Expenses for shareholdings accounted for using the equity method	(15)	(35)
Acquisition of non-controlling interests	(1)	–
Total cash flow from the purchase and sale of shareholdings, net	**(413)**	**(113)**

Acquisition of fixed-wireless division as well as mobile frequencies from Tiscali

At the end of July 2018, the Italian subsidiary Fastweb signed an agreement to purchase the fixed-wireless division and a 3.5 GHz frequency spectrum from Tiscali in order to enhance its mobile communication and convergence business on a long-term and sustainable basis. The transaction is valued at EUR 185 million (CHF 208 million) and was completed on 16 November 2018. The transaction qualifies as a business combination in accordance with IFRS 3. The business combination was recognised on a provisional basis in the consolidated financial statements as of and for the year ended 31 December 2018, since not all necessary information for the purchase price allocation was available at the date of preparation of the consolidated financial statements. The definitive allocation of the acquisition cost to net assets can be summarised as follows:

In CHF million	2018
Property, plant and equipment	10
Intangible assets	243
Other current liabilities	(48)
Identified assets and liabilities/acquisition costs	**205**
Goodwill	3
At cost	**208**
Deferred payment of purchase price	(152)
Total cash outflow	**56**

No transaction costs arose in connection with the acquisition. The deferred residual acquisition price was settled through a cash payment of EUR 80 million (CHF 90 million) in 2019 and the provision of services for an amount of EUR 55 million (CHF 62 million). The impact of the business combination on Swisscom's net revenue and net income in 2018 is not material.

Exercise of call option to acquire remaining shares in Swisscom Directories Ltd

In December 2018, Swisscom exercised its call option to acquire the outstanding 31% share in Swisscom Directories Ltd for a purchase price of CHF 240 million. Swisscom had previously held a 69% share in the share capital of Swisscom Directories Ltd, the remaining shares being held by Tamedia. Swisscom had granted Tamedia a put option, and Tamedia had granted Swisscom a call option for Tamedia's 31% shareholding. The put and call options could be exercised as from mid-2018, respectively. Settlement thereof was made in January 2019. As a result of exercising the call option, the other financial liabilities previously recorded by Swisscom in the consolidated financial statements as of 31 December 2018 were increased by CHF 14 million with no effect on income. See Note 2.2.

Other non-material acquisitions and disposal of subsidiaries

The other acquisitions and disposals of subsidiaries in 2019 are not individually material. They include the acquisitions of United Security Provider AG and Ajila AG as well as the disposal of Datasport Ltd, plus the loss of control in tiko Energy Solutions Ltd.

Accounting policies

Consolidation

Subsidiaries are all companies over which Swisscom Ltd has the effective ability to control the financial and business policies. Control is generally assumed where Swisscom Ltd directly or indirectly holds the majority of the voting rights or potential voting rights of the company. Companies acquired and sold are included in consolidation from the date on which they are acquired and deconsolidated from the date they are disposed of, respectively. Intragroup balances and transactions, income and expenses, shareholdings and dividends as well as unrealised gains and losses are fully eliminated. Non-controlling interests in subsidiaries are reported within equity in the consolidated balance sheet, but separately from equity attributable to the shareholders of Swisscom Ltd. The non-controlling interests in net income or loss are shown in the consolidated income statement as a component of the consolidated net income or loss. Changes in shareholdings of subsidiary companies are reported as transactions within equity insofar as control existed previously and continues to exist. Put options granted to owners of non-controlling interests are disclosed as financial liabilities. The balance sheet date for all consolidated subsidiaries is 31 December. There are no material restrictions on the transfer of funds from the subsidiaries to the parent company.
Shareholdings over which Swisscom exercises significant influence but does not have control are accounted for using the equity method. A significant influence is generally assumed to exist whenever between 20% and 50% of the voting rights are held.

Business combinations

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

5.3 Equity-accounted investees

In CHF million	2019	2018
Balance at 1 January	**174**	**152**
Additions	27	35
Disposals	–	(4)
Dividends	(18)	(18)
Share of net results	4	11
Share of other comprehensive income	2	1
Impairment losses	(32)	–
Dilutive gains	3	–
Foreign currency translation adjustments	(4)	(3)
Balance at 31 December	**156**	**174**

In 2019, an aggregate amount of CHF –28 million (prior year: CHF 5 million) was recognised as the attributable share of net results in equity-accounted investees. The profits for the prior year include impairment losses to the value of CHF 6 million from loans which were considered net investments in equity-accounted investees.

Selected key performance indicators for equity-accounted investees

In CHF million	2019	2018
Income statement		
Net revenue	1,786	1,814
Operating expense	(1,706)	(1,756)
Operating income	80	57
Net income	**54**	**30**
Other comprehensive income	**8**	**7**
Balance sheet at 31 December		
Current assets	1,008	1,089
Non-current assets	1,268	1,084
Current liabilities	(1,148)	(1,021)
Non-current liabilities	(512)	(549)
Equity	**616**	**603**

5.4 Group companies

Group companies in Switzerland

Registered name	Registered office	Part of capital and voting right in %	Currency	Share capital in million	Segment [4]
Switzerland					
Admeira Ltd [1,3]	Berne	50	CHF	0.3	OTH
Ad Unit Ltd. [2]	Zurich	100	CHF	0.1	OTH
Ajila AG [2]	Sursee	60	CHF	0.1	OTH
autoSense Ltd [2,3]	Zurich	33	CHF	0.3	OTH
Billag Ltd [1]	Fribourg	100	CHF	0.1	OTH
cablex Ltd [2]	Muri bei Bern	100	CHF	5.0	OTH
Credit Exchange Ltd [2,3]	Zurich	25	CHF	0.1	OTH
CT Cinetrade Ltd [1]	Zurich	100	CHF	0.5	SCS
Custodigit Ltd [2]	Zurich	75	CHF	1.0	OTH
daura Ltd [2,3]	Zurich	29	CHF	0.2	OTH
ecmt AG [2,3]	Embrach	20	CHF	0.1	OTH
finnova ltd bankware [2,3]	Lenzburg	9	CHF	0.5	SCS
Global IP Action Ltd [2]	Freienbach	79	CHF	0.2	OTH
itnetX (Switzerland) AG [2]	Rümlang	100	CHF	0.1	SCS
kitag kino-theater Ltd [2]	Zurich	100	CHF	1.0	SCS
Medgate Ltd [2,3]	Basel	40	CHF	0.7	SCS
Medgate Technologies Ltd [2,3]	Basel	40	CHF	0.1	SCS
Mila AG [2]	Zurich	100	CHF	0.4	SCS
Mona Lisa Capital AG [2]	Ittigen	100	CHF	5.0	OTH
SEC consult (Switzerland) Ltd [2,3]	Zurich	47	CHF	0.1	OTH
SmartLife Care Ltd [2,3]	Wangen	48	CHF	0.2	OTH
Swisscom Blockchain Ltd [2]	Zurich	97	CHF	0.1	SCS
Swisscom Broadcast Ltd [1]	Berne	100	CHF	25.0	OTH
Swisscom Digital Technology SA [1]	Geneva	75	CHF	0.1	SCS
Swisscom Directories Ltd [1]	Zurich	100	CHF	2.2	OTH
Swisscom eHealth Invest GmbH [2]	Ittigen	100	CHF	1.4	GHQ
Swisscom Health AG [2]	Ittigen	100	CHF	0.1	SCS
Swisscom Real Estate Ltd [1]	Ittigen	100	CHF	100.0	SCS
Swisscom IT Services Finance Custom Solutions Ltd [2]	Olten	100	CHF	0.1	SCS
Swisscom (Switzerland) Ltd [1]	Ittigen	100	CHF	1,000.0	SCS
Swisscom Services Ltd [2]	Ittigen	100	CHF	0.1	SCS
Swisscom Ventures Ltd [2]	Ittigen	100	CHF	2.0	GHQ
SwissSign Group Ltd [2,3]	Opfikon	10	CHF	12.5	OTH
Teleclub AG [2]	Zurich	100	CHF	1.2	SCS
Teleclub Programm AG [2,3]	Zurich	33	CHF	0.6	SCS
tiko Energy Solutions SA [2,3]	Ittigen	29	CHF	13.3	OTH
United Security Provider Ltd [2]	Berne	100	CHF	0.5	SCS
Worklink AG [1]	Berne	100	CHF	0.5	GHQ

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

Group companies in other countries

Registered name	Registered office	Part of capital and voting right in %	Currency	Share capital in million	Segment [4]
Belgium					
Belgacom International Carrier Services Ltd [2,3]	Brussels	22	EUR	1.5	SCS
Germany					
Mila Europe GmbH [2]	Berlin	100	EUR	–	SCS
Swisscom Telco GmbH [2]	Leipzig	100	EUR	–	GHQ
France					
local.fr SA [2]	Bourg-en-Bresse	81	EUR	1.0	OTH
SoftAtHome SA [2,3]	Colombes	10	EUR	6.5	SCS
Great Britain					
Ajila UK Ltd [2]	London	60	GBP	–	OTH
Italy					
Fastweb S.p.A. [2]	Milan	100	EUR	41.3	FWB
Fastweb Air S.r.l. [2]	Milan	100	EUR	–	FWB
Flash Fiber S.r.l. [2,3]	Milan	20	EUR	–	FWB
Swisscom Italia S.r.l. [2]	Milan	100	EUR	505.8	GHQ
Liechtenstein					
Swisscom Re Ltd [1]	Vaduz	100	CHF	5.0	GHQ
Luxembourg					
DTF GP S.A.R.L [2]	Luxembourg	100	EUR	–	OTH
Digital Transformation Fund Initial Limited Partner SCSp [2]	Luxembourg	100	EUR	–	OTH
Netherlands					
Swisscom DevOps Center B.V. [2]	Rotterdam	100	EUR	–	SCS
NGT International B.V. [2]	Capelle a/d IJssel	100	EUR	–	OTH
Austria					
Swisscom IT Services Finance SE [2]	Vienna	100	EUR	3.3	SCS
Singapore					
Swisscom IT Services Finance Pte Ltd [2]	Singapore	100	SGD	0.1	SCS
USA					
Swisscom Cloud Lab Ltd [2]	Delaware	100	USD	–	SCS

1 Participation directly held by Swisscom Ltd.
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4 SCS = Swisscom Switzerland, FWB = Fastweb, OTH = Other, GHQ = Group Headquarters (unallocated costs).

6 Other disclosures

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

6.1 Income taxes

Income tax expense

In CHF million	2019	2018
Current income tax expense	332	337
Adjustments recognised for current tax of prior periods	(16)	1
Deferred income tax (income) expense	(261)	57
Total income tax expense recognised in income statement	**55**	**395**
Thereof Switzerland	28	335
Thereof foreign countries	27	60

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

In CHF million	2019	2018
Foreign currency translation adjustments of foreign subsidiaries	(4)	(1)
Actuarial gains and losses from defined benefit pension plans	47	(16)
Change to the fair value of equity instruments	–	1
Change in cash flow hedges	1	–
Total income tax expense recognised in other comprehensive income	**44**	**(16)**

Analysis of income taxes

The applicable income tax rate which serves to prepare the following analysis of income tax expense is the weighted average income tax rate calculated on the basis of the Group's operating subsidiaries in Switzerland. The applicable income-tax rate is 20.0% (prior year: 20.4%). The decline in the applicable income tax rate can be attributed to a a reduction in the tax rates in various Swiss cantons.

In CHF million	2019	2018
Income before income taxes in Switzerland	1,598	1,732
Income before income taxes foreign countries	126	184
Income before income taxes	**1,724**	**1,916**
Applicable income tax rate	20.0%	20.4%
Income tax expense at the applicable income tax rate	**345**	**391**
Reconciliation to reported income tax expense		
Effect from result of shareholdings accounted for using the equity method	6	(1)
Effect of changes in tax law in Switzerland	(269)	–
Effect of use of different income tax rates in Switzerland	–	(8)
Effect of use of different income tax rates in foreign countries	2	22
Effect of non-recognition of tax loss carry-forwards	8	9
Effect of recognition and offset of tax loss carry-forwards not recognised in prior years	–	(3)
Effect of exclusively tax-deductible expenses and income	(21)	(16)
Effect of income tax of prior periods	(16)	1
Total income tax expense	**55**	**395**
Effective income tax rate	3.2%	20.6%

As at 1 January 2020, various legislative changes concerning company taxation will come into force. A core element is the abolition of various tax privileges for companies, such as the privileged taxation of the profits of holding companies. In return, most of the cantons will reduce the corporate income tax rates. Temporary transitional regulations additionally dampen the financial impact. Changes in the law, reductions in tax rates and transitional rules led to positive tax effects of CHF 269 million in the Swisscom consolidated financial statements for 2019. These tax effects are the result in part of the revaluation of existing deferred tax liabilities based on modified tax rates and in part to other adjustments to the evaluation in line with the transitional rule on ordinary profit taxation on the holding company for new deferred tax credit.

Current income tax assets and liabilities

In CHF million	**2019**	2018
Current income tax liabilities at 1 January, net	**248**	**203**
Change in accounting policies [1]	(22)	–
Balance at 1 January, net and adjusted	**226**	**203**
Recognised in income statement	316	338
Recognised in other comprehensive income	(1)	1
Income taxes paid in Switzerland	(357)	(277)
Income taxes paid in foreign countries	(14)	(17)
Current income tax liabilities at 31 December, net	**170**	**248**
Thereof current income tax assets	(4)	(2)
Thereof current income tax liabilities	174	250
Thereof Switzerland	170	218
Thereof foreign countries	–	30

1 See “General information and changes in accounting policies” in the notes to the consolidated financial statements.

Deferred income tax assets and liabilities

	31.12.2019			31.12.2018		
In CHF million	**Assets**	**Liabilities**	**Net amount**	Assets	Liabilities	Net amount
Property, plant and equipment	44	(643)	(599)	37	(669)	(632)
Intangible assets	12	(67)	(55)	–	(303)	(303)
Provisions	92	(85)	7	103	(69)	34
Defined benefit obligations	178	–	178	216	–	216
Tax loss carry-forwards	40	–	40	51	–	51
Other	112	(120)	(8)	135	(148)	(13)
Total tax assets (tax liabilities)	**478**	**(915)**	**(437)**	**542**	**(1,189)**	**(647)**
Thereof deferred tax assets			152			167
Thereof deferred tax liabilities			(589)			(814)
Thereof Switzerland			(442)			(673)
Thereof foreign countries			5			26

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

In CHF million	**31.12.2019**	31.12.2018
Expiring within 1 year	4	1
Expiring within 2 to 7 years	123	136
No expiration	18	16
Total unrecognised tax loss carry-forwards	**145**	**153**
Thereof Switzerland	128	137
Thereof foreign countries	17	16

Other disclosures

No deferred tax liabilities (prior year: none) were recognised on the undistributed earnings of subsidiaries as of 31 December 2019. Temporary differences of subsidiaries and equity-accounted investees, on which no deferred income taxes are recognised as of 31 December 2019, amounted to CHF 3,117 million (prior year: CHF 1,829 million). The uncertain tax positions in connection with tax assessments from previous years did not change significantly in 2019.

Accounting policies

Income taxes encompass all current and deferred taxes which are based on income. Taxes which are not based on income, such as taxes on real estate and on capital, are recorded as other operating expenses. Deferred taxes are computed using the balance sheet liability method, whereby as a general rule deferred taxes are recognised on all temporary differences. Temporary differences arise from differences between the carrying amount of a balance sheet position in the consolidated financial statements and its value as reported for tax purposes, which will reverse in future periods. Deferred tax assets are only recognised as assets to the extent that it is probable that they can be offset against future taxable income. Income tax liabilities on undistributed profits of Group companies are only recognised if the distribution of profits is to be made in the foreseeable future. If it is probable that the tax authority will accept the chosen tax treatment, the tax amount in the consolidated financial statements is the same as that entered in the tax return submitted. If this is not probable, however, the amounts will be different. The uncertainty is taken into account in the measurement, which requires a best-possible estimate of the expected cash outflow. If there are few possible outcomes, the most likely outcome is used to determine the tax liability. If there are a large number of possible tax consequences, an expected value is determined on the basis of a probability calculation. Current and deferred tax assets and liabilities are offset whenever they relate to the same taxing authority and taxable entity.

6.2 Related parties

Majority shareholder and equity-accounted investees

Majority shareholder

Pursuant to the Swiss Federal Telecommunication Enterprises Act (TEA), the Swiss Confederation ("the Confederation") is obligated to hold a majority of the share capital and voting rights of Swisscom. On 31 December 2019, the Confederation, as majority shareholder, continued to hold 51.0% of the issued shares of Swisscom Ltd. Any reduction of the Confederation's holding below a majority shareholding would require a change in law, which would need to be voted upon by the Swiss Parliament and would also be subject to the right of optional referendum by Swiss voters. As the majority shareholder, the Confederation has the power to control the decisions of the annual general meetings of shareholders which are taken by the absolute majority of validly cast votes. This relates primarily to resolutions concerning dividend distributions and the election of the members of the Board of Directors. Swisscom supplies telecommunication services to, and also procures services from, the Confederation. The Confederation comprises the various ministries and administrative bodies of the Confederation and the other companies controlled by the Confederation (primarily the Swiss Post, Swiss Federal Railways, RUAG and Skyguide). All transactions are conducted on the basis of normal customer/supplier relationships and on conditions applicable to unrelated third parties. In addition, financing transactions are entered into with the Swiss Post under market conditions.

Equity-accounted investees

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

Transactions and balances

In CHF million	Income	Expense	Receivables	Liabilities
Financial year 2019				
Confederation	193	97	221	161
Equity-accounted investees	89	113	30	11
Total 2019/Balance at 31 December 2019	**282**	**210**	**251**	**172**

In CHF million	Income	Expense	Receivables	Liabilities
Financial year 2018				
Confederation	241	114	281	166
Equity-accounted investees	133	90	43	7
Total 2018/Balance at 31 December 2018	**374**	**204**	**324**	**173**

Occupational pension schemes and compensation payable to individuals in key positions

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

6.3 Other accounting policies

Foreign currency translation

Foreign currency transactions which are not denominated in the functional currency are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Monetary items as of the balance sheet date are translated into the functional currency at the exchange rate prevailing at the balance sheet date, and non-monetary items are translated using the exchange rate on the date of the transaction. Translation differences are recognised in the income statement. Assets and liabilities of subsidiaries and equity-accounted investees reporting in a different functional currency are translated at the exchange rates prevailing on the balance sheet date, whereas the income statement and the cash flow statement are translated at the average exchange rate. Translation differences arising from the translation of net assets and income statements are recorded in other comprehensive income.

Significant foreign currency translation rates

	Closing rate			Average rate	
Currency	**31.12.2019**	31.12.2018	31.12.2017	**2019**	2018
1 EUR	1.085	1.127	1.170	1.113	1.153
1 USD	0.966	0.984	0.976	0.992	0.977

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

The following Standards and Interpretations published up to the end of 2019 are mandatory for annual periods beginning on or after 1 January 2020:

Standard	Name	Effective from
Amendments to IFRS 3	Definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8	Definition of material	1 January 2020
–	Amendments to references to conceptual framework in IFRS Standards	1 January 2020
IFRS 17	Insurance contracts	1 January 2021
Amendments to IFRS 10 and IAS 28	Sale or deposit of assets between an investor and an associated company or joint venture	still open

Swisscom will review its financial reporting for the impact of those new and amended standards which take effect on or after 1 January 2020, and for which Swisscom did not choose to adopt early. At present, Swisscom anticipates no material impact on consolidated financial statements.

Report of the statutory auditor

to the General Meeting of Swisscom AG

Ittigen (Bern)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Swisscom AG and its subsidiaries (the Group), which comprise the consolidated statement of comprehensive income for the year ended 31 December 2019, the consolidated balance sheet as at 31 December 2019, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 110 to 171) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

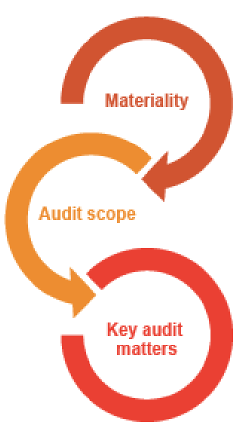
Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality for the consolidated financial statements: CHF 86 million

We conducted full scope audit work at three Group companies in two countries. These Group companies represent 94% of the Group's revenue. In addition, specified procedures were performed on selected balance sheet and income statement line items for four additional Group companies located in Switzerland.

As key audit matters, the following areas of focus were identified:

- Impairment of Fastweb goodwill
- Revenue recognition – Solutions business with Enterprise Customers
- Capitalisation and impairment of technical installations and intangible assets
- Assessment of litigation arising from regulatory and competition law proceedings

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Context of our 2019 audit

We have audited the consolidated financial statements for the first time for the financial year 2019. During initial audits, additional procedures are performed in connection with the opening balance sheet. In performing these procedures, we paid particular attention to matters that could have a material effect on the financial statements for the period under review. Further, during our audit, we considered whether the accounting policies used in the opening balances had been applied appropriately and consistently in the financial statements for the period under audit.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 86 million
How we determined it	5% of income before income taxes
Rationale for the materiality benchmark applied	We chose income before income taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 2.4 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of three operating segments (Swisscom Switzerland, Fastweb, Other Operating Segments) and operates mainly in Switzerland and Italy. Swisscom (Schweiz) AG generates most of the revenue. Another significant company we identified is Fastweb S.p.A. (Fastweb).

The audits of Swisscom (Schweiz) AG and Swisscom AG were led by the Group audit team. The audit of Fastweb was performed by the PwC component auditor in Italy, to whom we provided instructions and with whom we are in regular contact to discuss the treatment of transactions that are material to the consolidated financial statements as well as questions regarding valuation and disclosure. In addition, we participate in important discussions with Fastweb's management. The audit of these three companies addresses the major part of the consolidated financial statements.

In addition, for some subsidiaries, we identified balance sheet and income statement line items, which were covered by component auditors to address specific risks. The audit procedures they performed were centrally controlled and monitored by us.

Group-wide topics, such as treasury, taxes, investments (including goodwill) or the implementation of new accounting requirements were addressed by the Group audit team.

Key audit matters

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

Impairment of Fastweb goodwill

Key audit matter	How our audit addressed the key audit matter
The impairment testing of goodwill relating to Fastweb was deemed a key audit matter for the following reasons: • As at 31 December 2019, the goodwill relating to the Fastweb operating segment amounted to CHF 538 million (2018: CHF 559 million), which is a significant amount. • In performing the annual impairment test of the Fastweb goodwill management has considerable scope for judgement regarding expected future cash flows, the discount rate (WACC) used and forecast growth. Please refer to note 3.4 'Goodwill' (page 150) in the notes to the consolidated financial statements.	During our audit, we assessed whether a correct valuation method was used, the calculation was coherent and the assumptions made were appropriate. In particular, we challenged the input data and assumptions related to the underlying cash flows and the future growth rates, based on written statements from local management and Group management. In addition, we compared the results of the year under review with the forecasts made in the previous year in order to assess the appropriateness of the previous year's assumptions. With regard to the discount rate used, we analysed together with our own valuation specialists how it was derived and compared it with our own calculation. We also examined whether the information on impairment testing in the notes to the consolidated financial statements was disclosed correctly and whether the sensitivity analyses presented indicate appropriately the risks of impairment. We consider the valuation method and the assumptions used by management to test for the impairment of the Fastweb goodwill to be appropriate.

Revenue recognition – Solutions business with Enterprise Customers

Key audit matter	How our audit addressed the key audit matter
For the 2019 financial year, Swisscom reports net revenue of CHF 11,453 million (2018: CHF 11,714 million). Of this amount, CHF 1,021 million (2018: CHF 1,027 million) is generated by the Solutions business with Enterprise Customers. The Solutions business with Enterprise Customers comprises integrated communications solutions (e.g. IT outsourcing) for large enterprises in Switzerland. We consider revenue recognition in the Solutions business with Enterprise Customers to be a key audit matter for the following reasons: • The specific projects within the Solutions business are based on complex individual contracts that may include multiple performance obligations. The accounting treatment of these contracts requires management to estimate the expected transaction price and the timing of revenue recognition. • The projects typically last between three and seven years. In its assessment of a loss-free valuation of the projects, management has significant scope for judgement in its assessment of the future costs of each project. Please refer to note 1.1 'Segment information' (page 117) in the notes to the consolidated financial statements.	We assessed the design and effectiveness of the controls implemented to ensure the correct recognition of revenue in the Solutions business with Enterprise Customers. Further, we performed analytical audit procedures. On the basis of internal and external reports, we defined our expectations and critically assessed deviations from them. For a sample of contracts entered into in the 2019 financial year, we assessed the accounting treatment applied by Swisscom. We also assessed whether management's estimate of the expected transaction price and the timing of revenue recognition relating to specific performance obligations is appropriate. To address the significant scope for judgement when assessing future costs in order to minimise losses on projects, we performed the following audit procedures: • We gained an understanding of the process implemented by management to assess future developments in the Solutions business and critically assessed that process. • We discussed with Swisscom their expectations regarding the future development of individual projects and critically assessed those expectations on the basis of current developments. • Using a sample of projects, we compared Swisscom's forecasts from the previous year with actual developments in the financial year under audit and analysed any deviations. Finally, on the basis of a sample, we assessed whether revenue in the Solutions business with Enterprise Customers was recorded correctly. To do so, we checked specific accounts receivable payments and obtained external balance confirmations from Swisscom customers. We consider management's estimates relating to the recognition of revenue in the Solutions business with Enterprise Customers to be appropriate.

Capitalisation and impairment of technical installations and intangible assets

Key audit matter	How our audit addressed the key audit matter
We consider the capitalisation and impairment of technical installations and intangible assets to be a key audit matter for the following reasons: • In the 2019 financial year, Swisscom made investments in technical installations and intangible assets amounting to CHF 1,828 million (2018: CHF 1,949 million). • There is a risk that, whether by accident or design, investments may be capitalised that, according to Swisscom's policies, should not be capitalised. The risk is increased by the inherent complexity and the range of the investments. • Swisscom recognises as of 31 December 2019 technical installations with a net book value of CHF 8,407 million (2018: CHF 8,575 million) and intangible assets with a net book value of CHF 1,842 million (2018: CHF 1,860 million). Both represent significant amounts. • Management has significant scope for judgement when assessing and determining the useful life of existing technologies. Please refer to note 3.2 'Property, plant and equipment' (page 146) and note 3.3 'Intangible assets' (page 148) in the notes to the consolidated financial statements.	We assessed the design and effectiveness of the controls implemented to ensure the correct capitalisation and impairment testing of technical installations and intangible assets. With regard to capitalisation, we performed the following audit procedures: • We assessed the compliance of Swisscom's capitalisation policy with International Financial Reporting Standards (IFRS). • We assessed on a sample basis the capitalisation of the investments and the timing of the capitalisation of technical installations and intangible assets. • We checked for plausibility the capitalisation of self-constructed assets on the basis of the actual hours worked by staff and the hourly rates invoiced to an external customer of Swisscom. With regard to impairment testing, we performed the following audit procedures: • We discussed with Group management the estimate of the future useful lives of existing technologies and critically assessed these on the basis of current developments at Swisscom and other telecommunications companies. • We assessed the completeness and appropriateness of changes in useful lives and actual impairments for the 2019 financial year. We consider the approach to capitalisation and management's assessment of the expected period over which Swisscom will derive economic benefits from the use of existing technologies to be appropriate.

Assessment of litigation arising from regulatory and competition law proceedings

Key audit matter	How our audit addressed the key audit matter
Swisscom recorded as at 31 December 2019 provisions amounting to CHF 1,146 million (2018: CHF 1,032 million). Of this amount, CHF 206 million (2018: CHF 166 million) relates to provisions for litigation arising from regulatory and competition law proceedings. Swisscom provides regulated access services in accordance with the Telecommunications Act to other telecommunication service providers. The prices charged by Swisscom are subject to reviews by the Federal Communications Commission (ComCom). If the Commission issues a ruling against Swisscom, the prices charged must be reduced with retroactive effect. Swisscom is also a party to proceedings conducted by the Federal Competition Commission (COMCO). In the event of a final verdict establishing market abuse by Swisscom, COMCO may impose a sanction. In addition, civil law claims may be brought against Swisscom. We consider the assessment of the financial implications of litigation arising from regulatory and competition law proceedings to be a key audit matter because management has significant scope for judgement in estimating the probability of occurrence, the timing and the amount of a potential cash outflow due to litigation. Please refer to note 3.5 'Provisions, contingent liabilities and contingent assets' (page 152) in the notes to the consolidated financial statements.	To address the significant scope for judgement in estimating the probability of occurrence, the timing and the amount of a potential cash outflow due to litigation, we performed together with an internal legal specialist the following audit procedures: • We discussed with Group management and Swisscom's internal legal counsel the pending litigation. • We obtained written statements from Swisscom's external and internal legal counsel. • We gained an understanding of the process and controls implemented by Group management to identify, assess and recognize legal proceedings and critically assessed it. To assess the amount of the provisions established, we also assessed whether the underlying data have been adequately factored into the calculation of the provisions. Finally, we assessed the recognition and disclosure in the consolidated financial statements of litigation arising from regulatory and competition law proceedings. We consider management's approach to the treatment in the consolidated financial statements of litigation arising from regulatory and competition law proceedings to be appropriate.

Other matters

The consolidated financial statements of Swisscom AG for the year ended 31 December 2018 were audited by another firm of auditors whose report, dated 6 February 2019, expressed an unmodified opinion on those statements.

Other information in the annual report

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

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG

Peter Kartscher	Petra Schwick
Audit expert Auditor in charge	Audit expert

Zurich, 5 February 2020

Further Information

Further Information

Financial statements of Swisscom Ltd

General information

This is a condensed version of the financial statements of Swisscom Ltd. The full version and the auditors' report can be viewed on the Swisscom website.

See www.swisscom.ch/financialstatements2019

Swisscom Ltd is a holding company under Swiss law. As at 31 December 2019, the Swiss Confederation, as majority shareholder, continued to hold 51.0% of the issued shares of Swisscom Ltd as in the prior year. The Telecommunications Enterprises Act (TEA) provides that the Swiss Confederation shall hold the majority of the share capital and voting rights of Swisscom Ltd. The financial statements of Swisscom Ltd have been prepared in accordance with statutory requirements and the Articles of Incorporation. Distributable reserves are not determined on the basis of the equity as reported in the consolidated financial statements but rather on the basis of equity as reported in the separate financial statements of Swisscom Ltd. The equity totalled CHF 6,759 million in the 2019 financial statements of Swisscom Ltd. 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 2019, Swisscom Ltd held distributable reserves of CHF 6,697 million. The dividend is proposed by the Board of Directors and must be approved by Swisscom's Annual General Meeting of Shareholders on 6 April 2020. Treasury shares are not entitled to a dividend.

In its opinion, the statutory auditor PricewaterhouseCoopers (PwC) confirms that the financial statements of Swisscom Ltd comply with Swiss law and the company's Articles of Incorporation and that an internal control system exists which has been designed for the preparation of the financial statements according to the instructions of the Board of Directors. PwC further confirms that the proposed appropriation of retained earnings complies with Swiss law and the company's Articles of Incorporation and recommends that the financial statements be approved.

Income statement

In CHF million	2019	2018
Net revenue from the sale of goods and services	209	218
Other income	34	33
Total operating income	**243**	**251**
Personnel expense	(63)	(71)
Other operating expense	(85)	(82)
Total operating expenses	**(148)**	**(153)**
Operating income	**95**	**98**
Financial expense	(104)	(112)
Financial income	87	121
Income from participations	1,324	2,230
Income before taxes	**1,402**	**2,337**
Income tax expense	(1)	(13)
Net income	**1,401**	**2,324**

Balance sheet

In CHF million	31.12.2019	31.12.2018
Assets		
Cash and cash equivalents	182	306
Accrued dividends receivable from subsidiaries	1,200	2,100
Financial assets	6,078	5,026
Participations	8,194	8,214
Other assets	225	266
Total assets	**15,879**	**15,912**
Liabilities and equity		
Interest-bearing liabilities	8,913	8,978
Other liabilities	207	437
Total liabilities	**9,120**	**9,415**
Share capital	52	52
Legal capital reserves/capital surplus reserves	21	21
Voluntary retained earnings	6,686	6,424
Total equity	**6,759**	**6,497**
Total liabilities and equity	**15,879**	**15,912**

Further information

Information on the participation rights held by the members of the Board of Directors and the Group Executive Board is disclosed in the Remuneration Report (sections 2.5 and 3.5).

At of 31 December 2019, guarantee obligations exist for Group companies in favour of third parties totalling CHF 225 million (prior year: CHF 253 million) and financial assets totalling CHF 107 million (prior year: CHF 108 million) were not freely available. These assets serve to secure commitments arising from bank loans.

Proposed appropriation of retained earnings

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 6 April 2020 that the available retained earnings of CHF 6,685 million for the financial year ending on 31 December 2019, be appropriated as follows:

In CHF million	31.12.2019
Appropriation of retained earnings	
Retained earnings from previous year	**6,424**
Ordinary dividend	(1,140)
Balance carried forward from prior year	**5,284**
Net income for the year	1,401
Retained earnings available to the Annual General Meeting	**6,685**
Ordinary dividend of CHF 22.00 per share	(1,140)
Balance to be carried forward	**5,545**

In the event that the proposal is approved, a dividend per share will be paid to shareholders on 14 April 2020 as follows:

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

Glossary

Technical terms

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

4G+/LTE Advanced: 4G+/LTE enables theoretical broadband data speeds of up to 700 Mbps via the mobile network. To do so, it bundles 4G/LTE frequencies to achieve the required capacity.

5G: 5G is the latest generation in mobile network technology. 5G brings with it even more capacity, very short response times and higher bandwidths, and supports the digitisation of Swiss business and industry.

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

All IP: All IP means that all services such as television, the Internet and fixed-line phone run over the same IT network. Swisscom switched all existing communication networks to Internet Protocol (IP) by the end of 2019. The IP services within Switzerland thus operate on Swisscom's own network, thereby enhancing security and availability in comparison with other voice services on the World Wide Web.

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

Cloud: Cloud computing makes it possible for IT infrastructures such as computing capacity, data storage, ready-to-use software and platforms to be accessed dynamically via the Internet as needed. The data centres, along with the resources and databases, are distributed via the cloud. The term "cloud" refers to such hardware which is not precisely locatable.

DSL (Digital Subscriber Line): DSL is the generic term for transmission technologies using subscriber lines that are made partly or completely of copper. Examples of DSL technologies: ADSL or VDSL.

EDGE (Enhanced Data Rates for GSM Evolution): EDGE is part of the second generation of mobile telephony and is a radio modulation technology used to enhance data transmission speeds in GSM mobile networks. It enables data transmission speeds of up to 256 kbps. EDGE is currently available to over 99% of the Swiss population. Swisscom plans to decommission second-generation mobile communications at the end of 2020 and use the frequencies for new, more efficient technologies.

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

FTTS (Fibre to the Street)/FTTB (Fibre to the Building)/ FTTC (Fibre to the Curb): FTTS, FTTB and FTTC in conjunction with vectoring refer to innovative, hybrid broadband connection technologies (optical fibre and copper). With these technologies, optical fibre is brought as near as possible to buildings and in the case of FTTB right to the building's basement; the existing copper cables are used for the remaining stretch. The future technological evolution from VDSL2 to G.fast will significantly increase the bandwidths for FTTS and FTTB.

G.fast (pronounced "gee dot fast"): G.fast, the latest technology for copper lines, is capable of providing far more bandwidth than VDSL2. The use of G.fast for FTTS and FTTB is part of Swisscom's access strategy.

Optical fibre: Optical fibre is a transport medium for optical data transmission – in contrast to copper cables, which transmit data through electrical signals.

GPRS (General Packet Radio Service): GPRS is a second-generation (2G) mobile technology that increases the transmission speeds in GSM mobile communications networks. GPRS enables speeds of 30 to 40 kbps. Swisscom plans to decommission 2G at the end of 2020 and use the frequencies for new, more efficient technologies.

GSM (Global System for Mobile communications) network: GSM is a global digital mobile communication standard of the second mobile generation (2G). In addition to voice and data transmission, it enables services such as SMS messages and phone calls to other countries and from abroad (international roaming). Swisscom plans to decommission 2G at the end of 2020 and use the frequencies for new, more efficient technologies.

Housing: Housing refers to the accommodation of server infrastructure, and network connections, in a data centre.

HSPA (High Speed Packet Access): HSPA is a further development of the third-generation mobile technology (3G) of the UMTS mobile communication standard. Compared to UMTS, HSPA enables large volumes of data to be transmitted at faster speeds. Currently, the highest transmission rate of HSPA in use is 21 Mbps.

ICT (Information and Communication Technology): The terms "information technology" and "communication technology" were first combined in the 1980s to denote the convergence of information technology (information and data processing and the related hardware) and communication technology (technically aided communications).

Inbound/Outbound (see Roaming)

IoT (Internet of Things): The connecting of things, devices and machines to enable recording of status and environmental data. These data provide the basis for optimising processes, such as early identification of failing machine components. IoT facilitates new business models based on these data or opens up new opportunities for interacting with customers.

IP (Internet Protocol): IP enables different types of services to be integrated on a single network. Typical applications are virtual private networks (VPN), telephony (Voice over IP) and fax (Fax over IP).

IPTV (Internet Protocol Television): IPTV refers to the digital broadcasting of broadband applications (for example, television programmes and films) over an IP network.

ISP (Internet Service Provider): An ISP is a provider of Internet-based services, also commonly referred to as an Internet Service Provider or Internet Provider. Services include Internet connection (using DSL, for example), hosting (registration and operation of Internet addresses, websites and web servers) and content provision.

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

Convergence: In the telecommunications sector, "convergence" normally refers to an interaction of mobile communication and fixed-network technologies or to products that encompass both mobile communication and fixed-network services.

LAN (Local Area Network): A LAN is a local network for interconnecting computers, usually based on Ethernet.

LTE-M: LTE-M is a connection technology for the Internet of Things (IoT). It dispenses with some of the features of LTE to increase efficiency and reduce complexity and costs. It enables all conventional IoT applications and – in contrast to Narrowband IoT (NB-IoT) – allows voice transmission (e.g. in lift telephones). LTE-M is particularly suitable for quality-sensitive applications such as security and monitoring solutions (Critical IoT applications).

MVNO (Mobile Virtual Network Operator): MVNO denotes a business model for mobile communications. In this case, the corresponding business (the MVNO) has either a limited network infrastructure or no network infrastructure at all. It therefore accesses the infrastructure of other mobile communication providers.

NB-IoT (Narrowband IoT): NB-IoT is a connection technology for the Internet of Things (IoT). It is designed for maximum range, minimum energy consumption and a high density of devices, but dispenses with some of the features of LTE. NB-IoT is mainly used for mass market applications such as electricity and water meters or monitoring sensors (Massive IoT applications).

Net Promoter Score (NPS): The NPS is an indicator that directly measures the likelihood of customer referrals and indirectly measures customer satisfaction. It is used as an analysis instrument when determining customer satisfaction levels.

Network convergence: Network convergence refers to the dissolution and reconstitution of previously separate networks to one large convergent network, such as in the case of the fixed and mobile networks of Swisscom.

OTT (Over the Top): OTT refers to content distributed by service providers over an existing network infrastructure that they do not themselves operate. OTT companies offer proprietary services on the basis of the infrastructures of other companies in order to reach a broad range of users quickly and cost-efficiently.

Petabyte: Unit of measurement for data size. 1 petabyte is equivalent to approximately 1,000 terabytes, 1,000,000 gigabytes or 1,000,000,000 megabytes.

PWLAN (Public Wireless Local Area Network): PWLAN denotes a wireless, local public network based on the IEEE 802.11 WiFi standard family. A PWLAN typically offers data transmission speeds of between 5 and 10 Mbps.

Roaming: Roaming is when a mobile user makes calls, uses other mobile services or participates in data traffic outside his or her home network, i.e. usually abroad. This requires that the mobile device in question is compatible with the roaming network. In Europe all GSM networks use the same frequency bands. Other countries such as the USA or countries in South America use a different frequency range. Most mobile telephones today are triband or quadband and support 900 MHz and 1800 MHz networks (which are most commonly used in Europe) as well as 850 MHz and 1900 MHz networks.

Router: A router is a device for connecting or separating several computer networks. The router analyses incoming data packets according to their destination address and either blocks them or forwards them accordingly (routing). Routers come in different types, ranging from large machines in a network to the small devices used by residential customers.

Smart data: Primarily refers to the processing and understanding of large, complex and rapidly changing data volumes with the aim of creating added value.

Streaming: Streaming is the transmission of audio and video signals over a network or the Internet without the data having to be stored on a local device.

TDM (Time Division Multiplexing): Multiplexing is a method that allows the simultaneous transmission of multiple signals over a single communications medium (line, cable or radio link), for example, by means of classic telephony (using an ISDN or analogue line). Multiplexing methods are often combined to achieve even higher utilisation. The signals are multiplexed once the user data have been modulated on a carrier signal. At the receiver end the information signal is first demultiplexed and then demodulated. TDM methods are now at the end of their life cycle.

Terabyte: Unit of measurement for data size. 1 terabyte is equivalent to approximately 1,000 gigabytes or 1,000,000 megabytes.

TIME: Acronym for Telecommunication, Information, Multimedia and Entertainment. It refers to the way in which these areas grow together in the course of digitisation.

Ultra-fast broadband: Ultra-fast broadband denotes broadband speeds of more than 50 Mbps – on both the fixed-line and mobile networks.

UMTS (Universal Mobile Telecommunications System): UMTS is an international third-generation (3G) mobile communications standard that combines mobile multimedia and telematic services. UMTS is a further development of GSM and supplies Switzerland as a complement to 4G, 5G and Public Wireless LAN.

Vectoring: Vectoring is a technology used in conjunction with VDSL2. It eliminates interference between copper wire pairs, technically allowing bandwidths to be increased by up to 100%.

VDSL (Very High Speed Digital Subscriber Line): VDSL is currently the fastest DSL technology, allowing data transmission speeds of up to 100 Mbps. The current form of VDSL is called VDSL2.

VoIP (Voice over Internet Protocol): VoIP is used to set up telephone connections via the Internet.

VoLTE (Voice over LTE): LTE is, in effect, a pure data network. VoLTE enables telephone calls over the LTE data network.

WiFi Calling: WiFi Calling makes it possible to make calls on a mobile phone via WLAN/WiFi. It thereby greatly improves mobile phone calls in buildings.

WLAN (Wireless Local Area Network): A wireless local area network (WLAN) connects several computers wirelessly and links them to a central information system, printer or scanner.

Other terms

Federal Office of Communications (OFCOM): OFCOM deals with issues related to telecommunications and broadcasting (radio and television) and performs official and regulatory tasks in these areas. It prepares the decisions of the Swiss Federal Council, the Federal Department of the Environment, Transport, Energy and Communications (DETEC) and the Federal Communications Commission (ComCom).

Bitstream access (BSA): Regulated bitstream access is a high-speed link that travels the last mile from the local exchange to the customer's home connection via a metallic pair cable. BSA is set up by Swisscom and is provided to other telecoms service providers (TSP) as an upstream service at a price regulated by the government. TSPs can use this link, for example, to offer their customers broadband services such as fast Internet access.

ComCom (Federal Communications Commission): ComCom is the decision-making authority for telecommunications. Its primary responsibilities include issuing concessions for use of the radio frequency spectrum as well as basic service licences. It also provides access (unbundling, interconnection, leased lines, etc.), approves national numbering plans and regulates the conditions governing number portability and freedom of choice of service provider.

Unbundling: Unbundling of the last mile (Unbundling of the Local Loop, ULL) enables fixed-line-network competitors without their own access infrastructure to access customers directly at non-discriminatory conditions based on original cost. The prerequisite for ULL is the presence of a market-dominant provider. There are two forms of unbundling: unbundling at the level of the telephone exchange (Unbundling of the Local Loop (ULL) or Local Loop Unbundling (LLU), known as TAL in Switzerland) with currently around 600 unbundled locations; and unbundling at distribution box level (sub-loop unbundling, known as T-TAL in Switzerland), in which no competitor has yet shown any interest.

Ex-ante: In an ex-ante approach to regulation, the particulars of the regulated offerings (commercial, technical and operating conditions) must be approved by a government authority (authorisation obligation). Then, when a regulated service is used, the parties have to adhere to the conditions approved by the government authority (e.g. pricing). The suppliers affected have legal remedies at their disposal for reviewing the correctness of the government-authorised pricing.

Ex-post: In an ex-post approach to regulation, the parties must agree on all possible aspects of the contractual content (primacy of negotiation). In the event of a dispute, the authorities decide only on the points on which the parties have been unable to agree (objection principle).

Full access: Full access in connection with unbundling means providing alternative telecommunications service providers with access to subscriber lines for the purpose of using the entire frequency spectrum of metallic pair cables.

Hubbing: Hubbing denotes the trading of telephone traffic with other telecommunication operators.

Interconnection: Interconnection means linking up the systems and services of two TSPs so as to enable the logical interaction of the connected telecoms components and services and to provide access to third-party services. Interconnection allows the customer of one provider to communicate with the subscribers of another provider. Under the terms of the Federal Telecommunications Act, market-dominant telecommunications service providers are required to allow their competitors interconnection at cost-based prices (see also LRIC).

Last mile: Also referred to as the “local loop”, the “last mile” denotes the subscriber access line between the subscriber access point and the local exchange. In Switzerland, as in most other countries, access to the last mile is regulated.

FTE (full-time equivalent): Throughout this report, FTE is used to denote the number of full-time equivalent positions.

ComCo (Competition Commission): ComCo enforces the Federal Cartel Act, the aim of which is to safeguard against the harmful economic or social impact of cartels and other constraints on competition in order to foster competition. ComCo combats harmful cartels and monitors market-dominant companies for signs of anti-competitive conduct. It is responsible for monitoring mergers and also provides opinions on official decrees that affect competition.

Swisscom Group five-year review

In CHF million, except where indicated	2015	2016	2017	2018 [1]	2019 [2]
Net revenue and results					
Net revenue	11,678	11,643	11,662	11,714	11,453
Operating income before depreciation and amortisation (EBITDA)	4,098	4,293	4,295	4,213	4,358
EBITDA as % of net revenue	35.1	36.9	36.8	36.0	38.1
Operating income (EBIT)	2,012	2,148	2,131	2,069	1,910
Net income	1,362	1,604	1,568	1,521	1,669
Earnings per share	26.27	30.97	30.31	29.48	32.28
Balance sheet and cash flows					
Equity	5,242	6,522	7,645	8,208	8,875
Equity ratio	24.8	30.4	34.7	36.3	36.6
Cash flow from operating activities	3,702	3,722	4,091	3,720	3,981
Capital expenditure	2,409	2,416	2,378	2,404	2,438
Net debt incl. lease liabilities	8,042	7,846	7,447	7,393	8,785
Employees					
Full-time equivalent employees at end of year	21,637	21,127	20,506	19,845	19,317
Average number of full-time equivalent employees	21,546	21,543	20,836	20,083	19,561
Operational data					
Fixed telephony access lines in Switzerland	2,629	2,367	2,047	1,788	1,594
Broadband access lines retail in Switzerland	1,958	1,992	2,014	2,033	2,033
Mobile access lines in Switzerland	6,625	6,612	6,637	6,370	6,333
Swisscom TV access lines in Switzerland	1,331	1,418	1,467	1,519	1,555
Revenue generating units (RGU) Switzerland	12,543	12,389	12,165	11,710	11,515
Unbundled fixed access lines in Switzerland	128	128	107	87	70
Broadband access lines wholesale in Switzerland	315	364	435	481	515
Broadband access lines in Italy	2,201	2,355	2,451	2,547	2,637
Swisscom share					
Number of issued shares	51.802	51.802	51.802	51.802	51.802
Market capitalisation	26,056	23,627	26,859	24,331	26,553
Closing price at end of period	503.00	456.10	518.50	469.70	512.60
Closing price highest	580.50	528.50	527.00	530.60	523.40
Closing price lowest	471.10	426.80	429.80	427.00	441.10
Ordinary dividend per share	22.00	22.00	22.00	22.00	22.00 [3]
Ratio payout/earnings per share	83.75	71.04	72.59	74.63	68.16
Information Switzerland					
Net revenue	9,764	9,665	9,476	9,274	8,969
Operating income before depreciation and amortisation (EBITDA)	3,461	3,572	3,451	3,419	3,508
Capital expenditure	1,822	1,774	1,678	1,645	1,770
Full-time equivalent employees at end of year	18,965	18,372	17,688	17,147	16,628

1 Swisscom has been applying IFRS 15 “Revenue from Contracts with Customers” since 1 January 2018. The prior year’s figures have not been adjusted.
2 Swisscom has been applying IFRS 16 “Leases” since 1 January 2019. The prior year’s figures have not been adjusted.
3 In accordance with the proposal of the Board of Directors to the Annual General Meeting.

Forward-looking statements

This Annual Report contains forward-looking statements. In this Annual Report, such forward-looking statements include, without limitation, statements relating to our financial condition, results of operations and business and certain of our strategic plans and objectives.

Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors which are beyond Swisscom's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom's and Fastweb's past and future filings and reports, including those filed with the U.S. Securities and Exchange Commission and in past and future filings, press releases, reports and other information posted on Swisscom Group Companies' websites.

Readers are cautioned not to put undue reliance on forward-looking statements, which speak only of the date of this communication.

Swisscom disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Publishing details

Key dates

- **6 February 2020**
  Publication of 2019 Annual Results and Annual Report
- **6 April 2020**
  Annual General Meeting in Zurich
- **8 April 2020**
  Ex dividend date
- **14 April 2020**
  Dividend payment
- **30 April 2020**
  2020 First-Quarter Results
- **13 August 2020**
  2020 Second-Quarter Results
- **29 October 2020**
  2020 Third-Quarter Results
- **February 2021**
  Publication of 2020 Annual Results and Annual Report

Published and produced by

Swisscom Ltd, Berne

Translation
Lionbridge Switzerland AG, Basel

Production
MDD Management Digital Data AG, Lenzburg

Printing
Stämpfli AG, Berne

Photographers
Franz Rindlisbacher, Zurich
Gerry Amstutz, Zurich
Lukas Lienhard, Zurich

Printed on chlorine-free bleached paper

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FSC® C016087
FSC www.fsc.org

The Annual Report is published in English, French and German.

Online versions of the Annual Report
German: www.swisscom.ch/bericht2019
Englich: www.swisscom.ch/report2019
French: www.swisscom.ch/rapport2019

2019 at a glance is a condensed version of the Annual Report. It is also available in English, French, German and Italian at www.swisscom.ch/ataglance2019

The Sustainability Report 2019 is published online at www.swisscom.ch/cr-report2019.

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