Management Commentary

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.

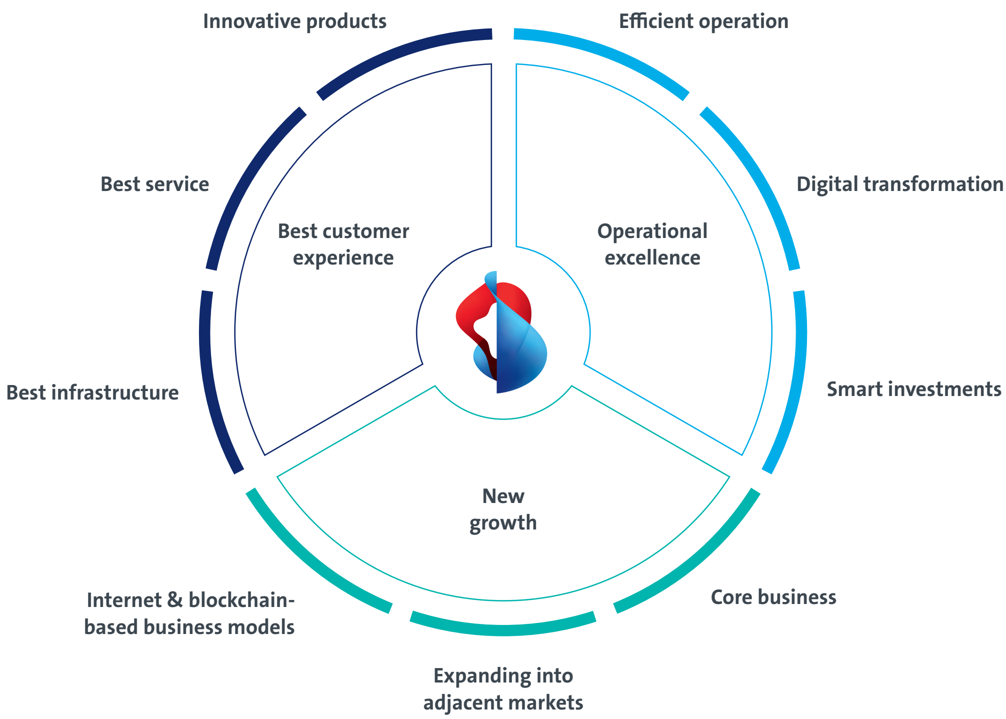
Corporate strategy

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.

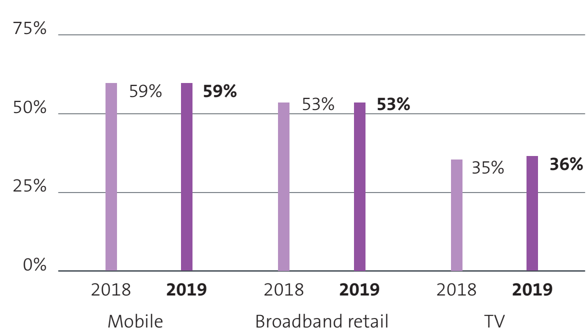
Swiss market trends in telecoms and IT services

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

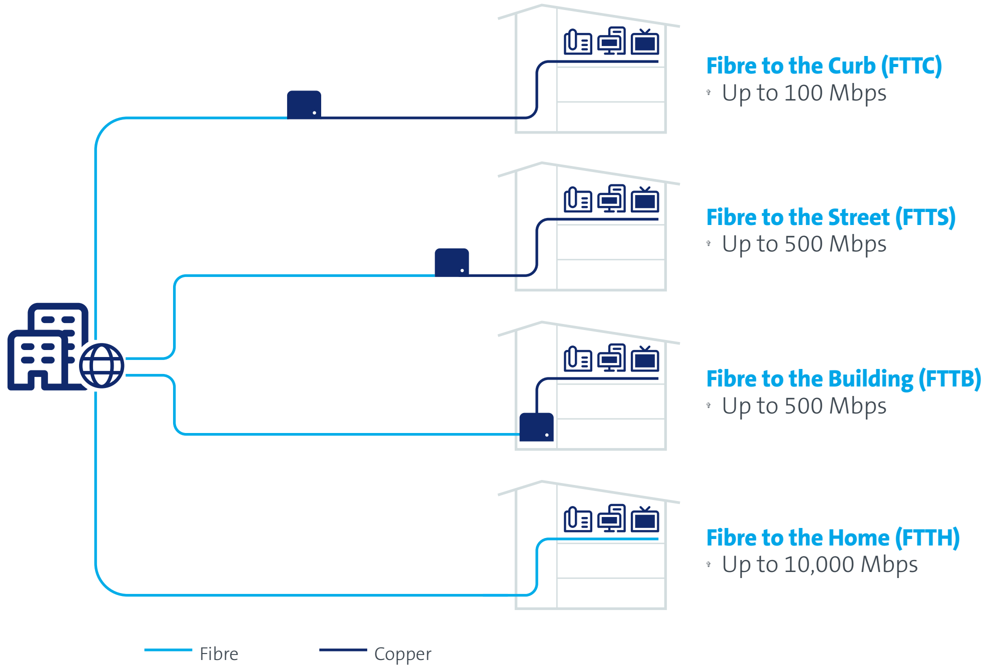
Swisscom has replaced conventional fixed-line telephony with the Internet protocol (IP), and thus geared its network towards the future. All Swiss municipalities have already switched to IP telephony. Private customers benefit from significantly improved voice quality, automatic name display and the 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.



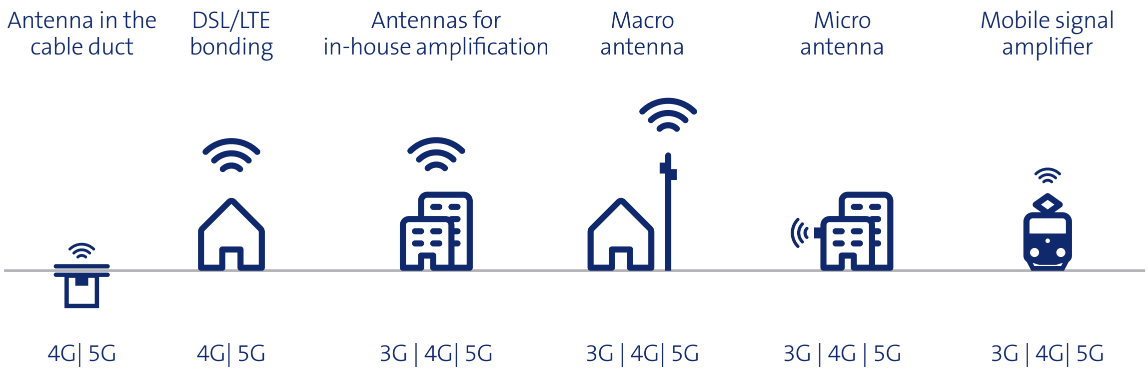
The majority of people in every Swiss municipality should have access to increased bandwidths by the end of 2021: by the end of 2021, some 90% of all homes and offices will have a minimum bandwidth of 80 Mbps – with around 85% of connections achieving speeds of 100 Mbps or higher.

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.

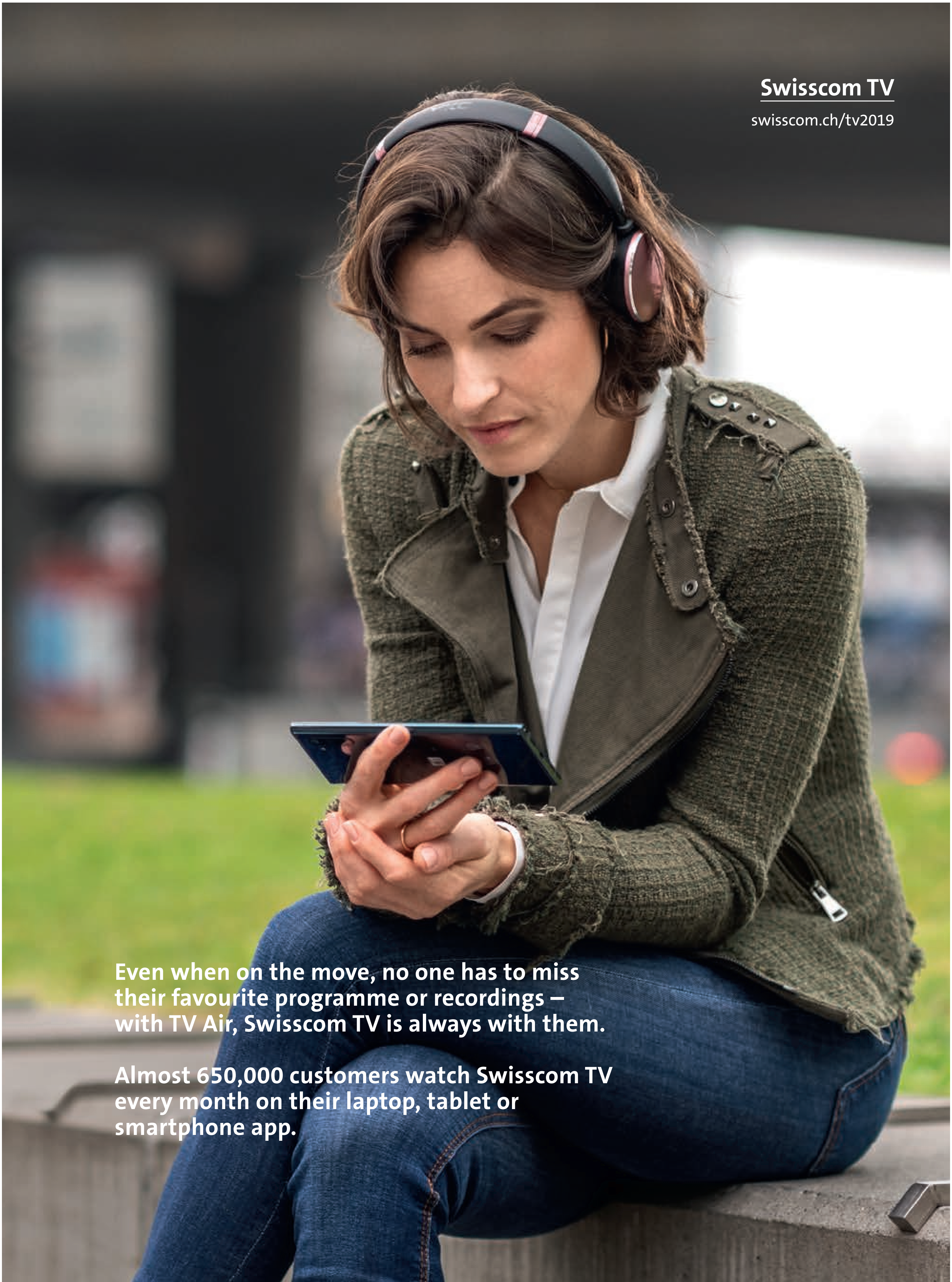
Customer satisfaction

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.

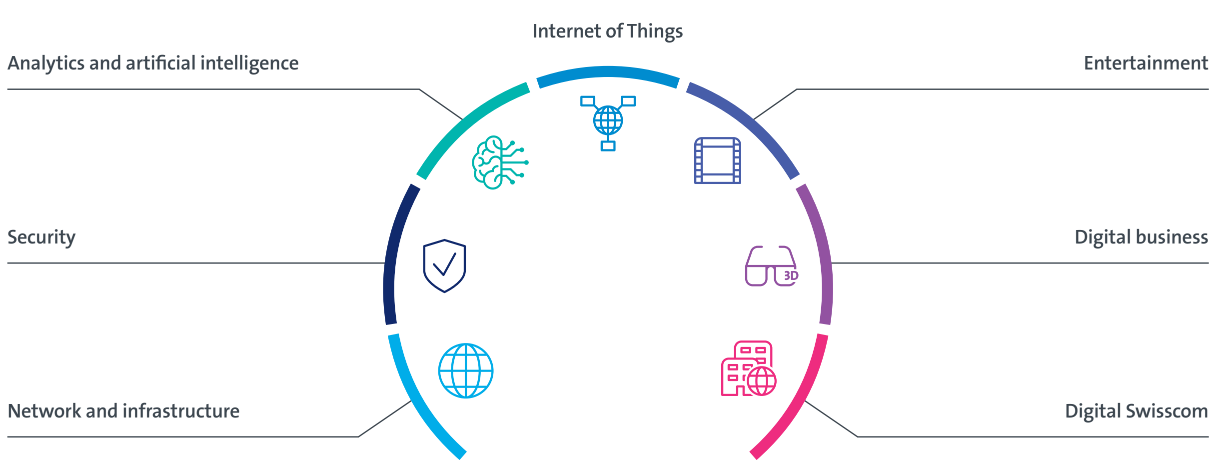
Innovation as an important driver

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.

Business customers

swisscom.ch/b2b2019

"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.

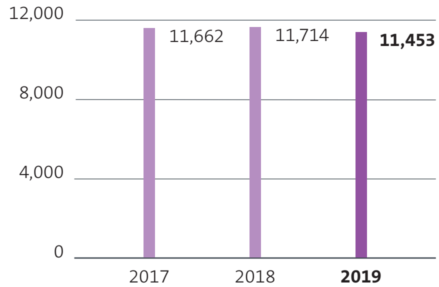
The key alternative performance measures used at Swisscom for the 2019 financial reporting are defined as follows:

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.

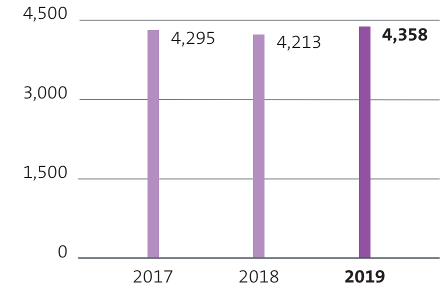
Reconciliation of alternative performance measures

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**

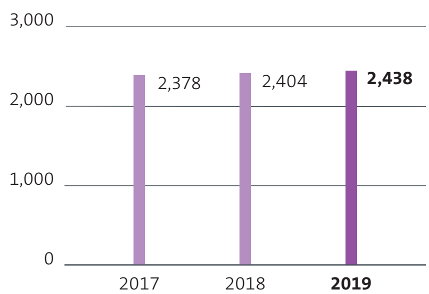
Net revenue
in CHF million



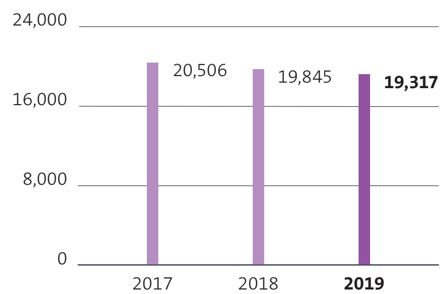
EBITDA
in CHF million



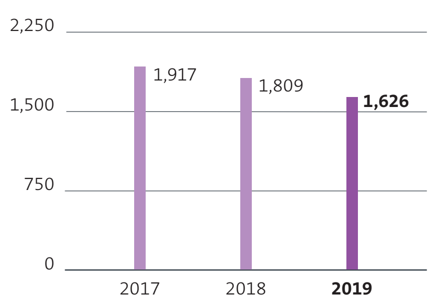
Capital expenditure
in CHF million



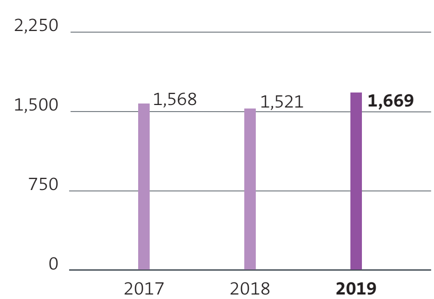
Headcount
in full-time equivalents



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)**

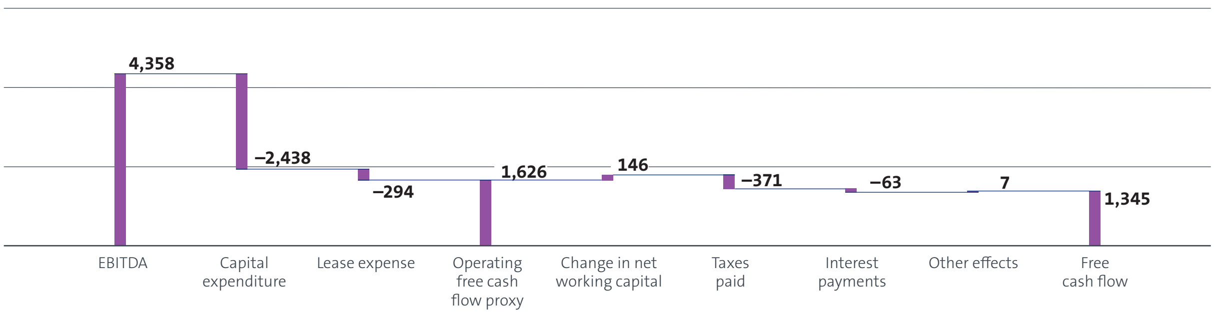
The operating free cash flow proxy declined year-on-year by CHF 183 million to CHF 1,626 million, owing largely to higher capital expenditure. Capital expenditure rose by CHF 34 million to CHF 2,438 million. This was driven by the expenditure of CHF 196 million for the mobile radio frequencies purchased 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

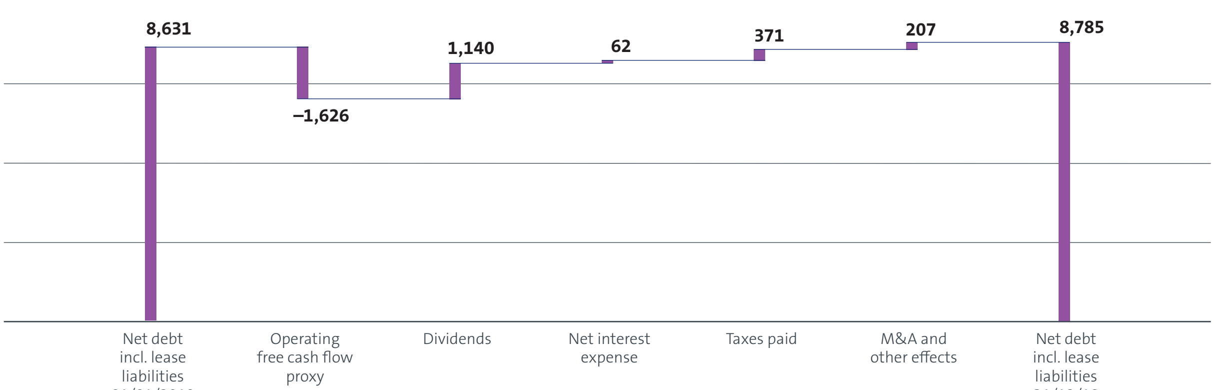
1 Incl. effect of the initial application of IFRS 16.

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.

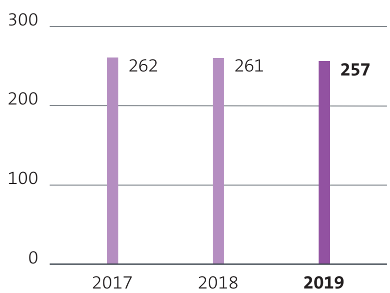
In CHF million	2019 Switzerland	2019 Other countries	2019 Total	2018 Switzerland	2018 Other countries	2018 Total
Added value						
Net revenue	**8,969**	**2,484**	**11,453**	**9,274**	**2,440**	**11,714**
Capitalised self-constructed assets and other income	378	131	509	347	114	461
Direct costs	(1,925)	(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.

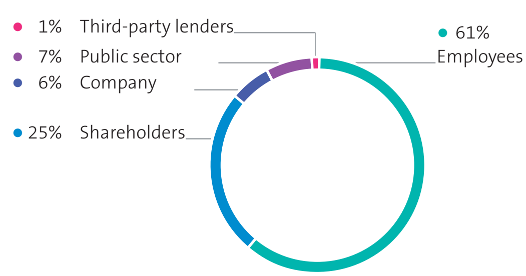
Swisscom development of value added per employee in Switzerland

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

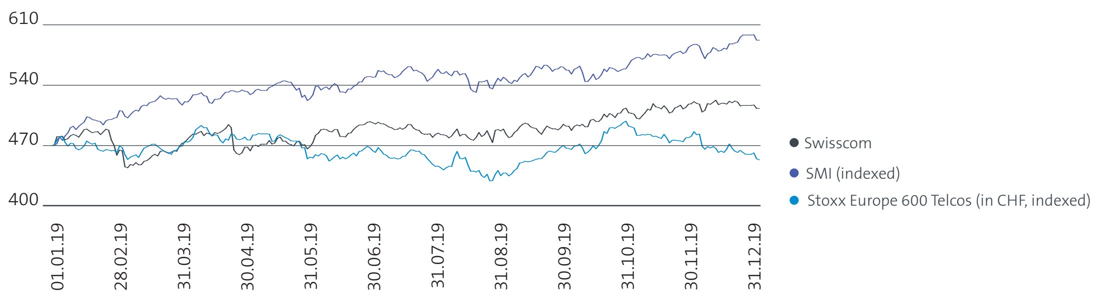
By consistently implementing its strategy, Swisscom has achieved its financial ambitions for 2019, which will enable it to create added value for shareholders once again this year. With ratings of A (stable) from Standard & Poor's and A2 (stable) from Moody's, Swisscom is one of the best-rated telecommunications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

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