Management Commentary

Strategy and environment

Swisscom is Switzerland's largest telecoms provider. Through its subsidiary Fastweb, it also has an alternative telecoms service provider in the Italian market. In order to ensure its long-term success in a dynamic environment, Swisscom has defined five Group goals. In Switzerland, Swisscom aims to consolidate its market leadership even further. Swisscom forms Switzerland's digital backbone and sets itself apart by offering the best customer experience. In Italy, the subsidiary Fastweb is focusing on the further expansion of the ultra-broadband network and on convergence offerings. Other key Group goals are an extremely high level of financial stability, innovative offerings, resilient networks and sustainability.

Targets and achievement of targets in 2021

	Targets 2021	**Target achievement 2021**
Financial targets		
Net revenue	Net revenue for the year 2021 of around CHF 11.1 billion	CHF 11,183 million
Operating income before depreciation and amortisation (EBITDA)	EBITDA for the year 2021 of around CHF 4.3 billion	CHF 4,478 million
Capital expenditure	Capital expenditure for the year 2021 of around CHF 2.3 billion	CHF 2,286 million
Operational Excellence	Reduction of cost base 2021 in Swiss business by CHF 100 million	CHF 119 million

Swisscom has set itself various targets that take economic, ecological and social factors into consideration. This annual report contains the targets and achievement of targets for 2021 from a financial perspective. Those for sustainability are described in the separate sustainability report.

See **www.swisscom.ch/cr-report2021**

General conditions and market environment

Swisscom operates in a very dynamic environment. Megatrends such as demographic change, a sharper focus on health-related topics and the growing importance of sustainability are indelibly shaping and altering Swiss society and the economy and have a long-term impact on the activities of Swisscom as a result. By the same token, the expansion of ultra-fast broadband, the increasing penetration of cloud computing and the advancements made in the field of artificial intelligence are short- to medium-term trends that impact Swisscom's business. Digitisation is being accelerated even further by the global Covid-19 pandemic as it penetrates more and more into all spheres of life. Customer behaviour has also undergone a lasting change, as indicated by, among other things, the increased use of online channels for shopping and making contact as well as the rise of contactless payment. The pandemic has caused the importance of high-performance networks to grow and expectations regarding the stability and availability of the network infrastructure will continue to rise as a result.

Digitisation is leading to new, rapidly developing business models. Swisscom's core business is characterised by fierce competition with strong price pressure. The overall market for connectivity services continues to shrink in Switzerland and Italy. Global Internet companies are using their economies of scale and forcing themselves into local ICT markets for both residential and business customers.

Market environment

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

	Unit	2017	2018	2019	2020	2021
Change GDP Switzerland	in %	1.0	2.8	0.9	(2.5)	3.5 [1]
Change GDP Italy	in %	1.5	0.1	0.2	(9.6)	6.3 [2]
Yield on government bonds (10 years)	in %	(0.07)	(0.24)	(0.46)	(0.53)	(0.13)
Closing rate CHF/EUR	in CHF	1.17	1.13	1.09	1.08	1.03
Closing rate CHF/USD	in CHF	0.98	0.99	0.97	0.88	0.91

1 Forecast SECO

2 Forecast Istat

Economy

Economic developments in 2021 were once again dominated by the measures taken to contain the Covid-19 pandemic. After slumping sharply in the early stages of the pandemic in 2020, the economy recovered in the year under review, with GDP in Switzerland up 3.5% in 2021 compared with the previous year. Swisscom's customer segments are affected differently by the economic trend. 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 on revenue remains low in the short term. However, an economic downturn may reinforce the trend towards switching to cheaper price plans. Project business with business customers is more sensitive to cyclical factors. Pandemic-related travel restrictions led to lower revenues and lower costs in the roaming business. Furthermore, the pandemic resulted in a negative business trend in the cinema business.

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 goodwill and other items in the financial statements. The yields on ten-year government bonds remain at a very low level. Swisscom issued one bond totalling CHF 100 million in 2021. The average interest expense on these financial liabilities (excl. lease liabilities) was 0.9% at the end of 2021. 88% of these financial liabilities were charged a fixed interest rate. The average maturity is 6.2 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 for 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. The largest currency exposure is 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. The net assets of foreign subsidiaries, especially of Fastweb in Italy, are also subject to a currency translation risk in the consolidated financial statements. The carrying amount of Fastweb's net assets totalled EUR 3.4 billion at the end of 2021. 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. A portion of the financial liabilities in EUR is 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 requirements of the Ordinance against Excessive Compensation in Listed Stock Companies (OaEC). 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. The current target period covers the years 2018 to 2021. These goals include strategic, financial and personnel policy objectives as well as targets relating to partnerships and investments. The Federal Council also expects Swisscom to pursue a corporate strategy that is, to the extent economically possible, both sustainable and committed to ethical principles. In November 2021, the Federal Council approved the goals for the period from 2022 to 2025.

See www.swisscom.ch/ziele_2018-2021

See www.swisscom.ch/ziele_2022-2025

Telecommunications Act (TCA)

The Telecommunications Act and the associated legislation primarily govern network access, basic service provision and the use of radio frequencies. The new provisions on network neutrality and roaming resulting from amendments to the law and ordinances entered into effect in 2021. The regulatory provisions regarding mobile network hardening are still being drafted. These provisions are designed to ensure that the population and the economy can continue to use important telecommunications services (emergency calls, data services, telephony, radio and TV programmes) in the event of a power shortage.

See www.admin.ch

Network access

The legislator has confirmed that it intends to continue to limit network access regulation to copper-based connections (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 Federal Communications Commission (ComCom) has awarded the universal service licence for the period 2018 to 2022 to Swisscom. 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 Federal Council periodically determines the scope of services as well as the related quality and pricing requirements. Swisscom fulfils its mandate and generally offers fixed network telephony (IP) as well as broadband Internet with a transmission rate of at least 10 Mbps (downloads) and 1 Mbps (uploads). In December 2021, the Federal Council opened a consultation on the revision of the Ordinance on Telecommunications Services (OTS), proposing to include an additional Internet service with a download speed of at least 80 Mbps in the universal service licence from 2024 onward. The amendment to the ordinance provides for the subsidiarity principle. If the market already provides an alternative using mobile communications or satellite technology, for example, no basic service is required.

Non-ionising radiation

The Ordinance on Non-Ionising Radiation (ONIR) regulates immissions and thus the transmission power of mobile antennas. The Swiss limit values (installation limit value) are ten times stricter than the limit values recommended by the WHO or those in force in neighbouring countries. Additional antennas are required to cope with increasing volumes of data transmitted over the network and to guarantee the reliability of mobile connections. These meet with resistance from the population. In April 2020, the Federal Council refused to adjust the limits, which would have increased the capacity of existing antenna systems.

Federal Cartel Act (CartA)

Competition law (Federal Cartel Act) is highly relevant to various products and services from Swisscom, primarily due to Swisscom's prominent market position. It allows for direct sanctions to be imposed for unlawful conduct by market-dominant companies. Companies upon which other companies are dependent (relative market power) will be subject to the Federal Cartel Act from 2022 onward. The Swiss competition authority (Competition Commission, COMCO) has classified Swisscom as being market-dominant in a wide range of submarkets. There are currently several proceedings open within the context of which COMCO has classified Swisscom as being market-dominant and its conduct as being unlawful, and has thus imposed or may impose direct financial sanctions. The proceedings relate to the rolling out of the fibre-optic network, the broadcast of live sporting events on pay TV, broadband connections of post office locations and the broadband connections of business customers. 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).

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 blue 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 Swiss Federal Act on Data Protection regulates the treatment of personal data. After several years of preparatory work, Parliament adopted the revised version of the Federal Act on Data Protection in 2020. It is not yet known when the revised act will come into force. Swisscom expects this to happen in the second half of 2022.

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

The General Data Protection Regulation has regulated the processing of personal data since May 2018. The GDPR is relevant to Swisscom both as regards its service offering to residential customers in the EU as well as 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. Following a market analysis, in August 2019 the national regulatory authority, AGCOM, issued a decision on Telecom Italia's wholesale access services (TIM) for the years 2018 to 2021. Among other things, it approved a price reduction for virtual unbundled access (VULA) based on FTTS (Fibre to the Street) for the period from 2019 to 2021. In July 2021, Commission Delegated Regulation (EU) 2021/654 entered into force, setting limits on fixed and mobile termination rates for voice services at EU level.

Data protection

Swisscom attaches great importance to the legally compliant and responsible processing of personal data. Data protection within Swisscom is controlled and monitored by a central data governance unit, which works closely with all the relevant divisions and other staff units.

Swisscom pushed ahead with the implementation of the new Federal Act on Data Protection (FADP) in the year under review. It has analysed the new legal requirements and examined their impact on its own activities. It will now implement the corresponding measures in a cross-departmental programme involving all relevant functions. In addition, Swisscom issued new directives and information sheets in 2021 for specific types of data processing. One important aspect of data protection at Swisscom is the expansion of technical systems that support data governance. Swisscom also has clearly defined processes and responsibilities that apply in the event of data protection breaches.

In the year under review, Swisscom worked hard to promote the development of Privacy Icons. These graphical representations show data subjects quickly and easily which of his or her data is being processed and how. They are made available to the public through the Privacy Icons association and can be used by data processors at no charge. Swisscom is a member of the association and is represented on the board.

At Swisscom, a data ethics framework for the entire company forms the basis for ethically correct data processing. The framework is used by the Data Ethics Board, which is made up of members from various divisions of Swisscom, to assess sensitive cases and ensure that they comply with the principles of corporate ethics. The Data Ethics Board reviewed several use cases in 2021 to check for compliance with data ethics principles. The approach set out in the framework for data ethics has proven successful and will be continued.

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

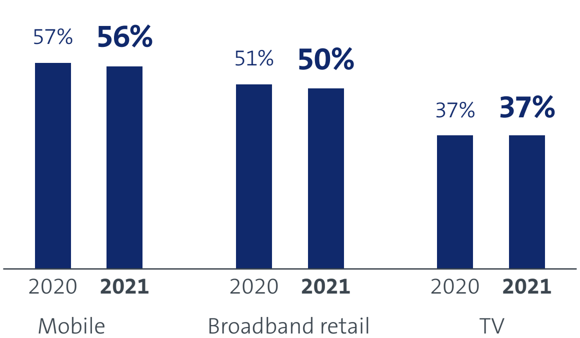
Swiss market trends in telecoms and IT services

The Swiss telecommunications market is characterised by a wide range of voice and data products and services as well as the continuing advance of digitisation and connectivity. 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. Overall, this is generating constant growth in demand for high bandwidths that enable fast, quality access to data and applications. The uninterrupted availability of data and services as well as the security involved in ensuring this availability are becoming increasingly important, with modern, highly effective network infrastructures providing the foundations. Swisscom is therefore employing the latest technologies to continuously expand both its fixed and mobile networks. The 2020 acquisition of Sunrise by Liberty Global (parent company of UPC Switzerland) and the subsequent merger of UPC Switzerland and Sunrise have consolidated the market even further in the year under review. Competitive pressure in the market remains high as a result.

The Swiss telecoms market is broken down into the submarkets of relevance to Swisscom – mobile communications and fixed network – and generates total revenue estimated at CHF 11 billion. Price pressure will remain high in all markets, and Swisscom therefore expects revenue to decline slightly in the telecommunications market in the medium term. Saturation in all markets is intensifying the existing cut-throat competition. The individual submarkets are characterised by a high level of promotional activity on the part of the individual market participants and corresponding price pressure. At the heart of the portfolio of offerings are convergence offerings which can contain one or more mobile lines, in addition to a fixed broadband connection with Internet, TV and fixed-line telephony. Swisscom – as well as some competitors – 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 Swiss mobile communications market is saturated due to the high level of market penetration and the number of mobile lines (SIM cards) has stagnated at around 11 million. Mobile access line penetration in Switzerland remains at around 125%. 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 81% (prior year: 77%). Swisscom decommissioned the obsolete second-generation mobile network (2G/GSM) in the first half of 2021. Swisscom is using the freed-up capacity for the newer 4G and 5G generations. Swisscom's postpaid market share is 56%. This represents a decrease of one percentage point compared to the previous year, which is due to the continuing competitive pressure.

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. For the most part, their network infrastructures are available to other market participants for product offerings and the provision of services. Swisscom is building state-of-the-art fibre-optic networks, partly in cooperation with other companies, based on the principle of open networks. In 2021, Swisscom entered into a partnership for fibre-optic expansion with its competitor Salt. Within the framework of the partnership, Salt is investing in long-term usage rights for Swisscom's fibre-optic connections. This will enable Salt to offer its own products and services on a large scale in the future, thereby increasing the diversity of its offerings on the market even further. Fixed broadband connections lay the basis for a wide-ranging product offering from both national and global competitors. There is currently a great deal of uncertainty shrouding the continued rolling out of the fibre-optic network to homes and businesses (FTTH), which Swisscom is implementing for the whole of Switzerland. In 2021, the Federal Administrative Court confirmed the precautionary measures taken by the Competition Commission in December 2020, which partly call into question Swisscom's network architecture and may therefore also have an impact on its partnership with Salt. Until the situation is clarified, Swisscom is only building network elements relating to the P2P (point-to-point) network element (e.g. feeder to the home) or that are being built under cooperations.

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. The broadband market grew by around 2% in the 2021 reporting year. There were 4 million retail broadband access lines in Switzerland at the end of 2021. Swisscom's market share declined by one percentage point year-on-year to 50% as a result of persistently high competitive pressure.

TV market

In Switzerland, TV signals are transmitted via cable, broadband, satellite and mobile. The large majority of TV connections is provided via cable or broadband networks. The Swiss TV market features a diverse 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 remain high, driven by the large number of different offerings. At the end of 2020, Swisscom acquired the broadcasting rights for all matches in the top Swiss football leagues from 2021 to 2025 in order to further strengthen its strong position in the TV market. It defended its market share against the competition in 2021 and remains the market leader with a market share of 37%.

Fixed-line telephony market

Fixed-line telephony is mainly based on lines running over the fixed networks of the telecoms service providers and the cable networks. As the use of fixed-line telephony is steadily declining it continues to be replaced by mobile communications. This trend continued in 2021, with the number of Swisscom fixed-line connections falling by around 7% to 1.4 million.

IT services market in Switzerland

In 2021, the IT services market (IT services and software) generated revenue of around CHF 19 billion. The market recovered in the 2021 reporting year following a slight decline in the previous year due to the Covid-19 pandemic. For the coming years, Swisscom assumes that the market will grow by 4 to 5% per year due to increasing digitisation. The areas in which it expects the most growth are the cloud, workspace & collaboration, security, the Internet of Things (IoT) and business applications. This growth is a result of the increasing number of business-driven ICT projects as well as the rising demand for digital business models and new working models. Swisscom has noticed companies' growing willingness to procure more external services in order to cope with elevated complexity and the accelerating transformation into a hybrid cloud. Further growth drivers are also the increasing threats in the area of IT security as well as system solutions in the area of IoT. Customers generally expect services customised to their individual sector and business processes with appropriate advice.

In a difficult market environment, Swisscom increased its revenue slightly year-on-year and held on to its market position. This was mainly due to positive trends in the growth areas of security, cloud and business applications. Market revenues increased in each of those areas, although certain revenues shifted to the big global cloud providers (hyperscalers) and were lost in Switzerland as a result. In addition, Swisscom strengthened its position in the IT services market in the year under review through the acquisitions of the MTF Group (IT services for SMEs), Webtiser AG (SAP e-commerce) and JLS Digital AG (digital communications, customer-specific applications and digital signage), all of which operate in German-speaking Switzerland and the Principality of Liechtenstein.

Italian market trends in telecoms services

Italian broadband market

Thanks to revenue of around EUR 15 billion including wholesale, Italy is the fourth largest fixed-line market in Europe. The volume of the broadband market for homes and businesses has increased steadily in past years. The broadband market comprises around 17 million access lines for four major competitors and other smaller providers. Fastweb is one of the largest fixed-network broadband providers with a market share of 16% in the residential customer segment and 34.5% in the business customer segment.

Italian mobile communications market

The Italian mobile communications market has a volume of around 78 million active SIM cards and a total revenue of around EUR 13 billion. Competition and price pressure are substantial. Despite the difficult environment, Fastweb's customer base in mobile communications grew by 26% year over year to around 2.5 million customers. Fastweb's market share in terms of SIM cards is 3%.

Swisscom Group Goals

In order to ensure its long-term success in a dynamic environment, Swisscom has defined five Group targets ('Swisscom Group Goals 2025'). It has enshrined one common denominator in these Group targets, which apply to all Group companies: the new purpose of 'Empowering the Digital Future'.

Swisscom Group Goals 2025

Swisscom has set itself the goal of consolidating its position even further, both as a market leader in Switzerland and as a key provider in the market for IT services ('No. 1 in Switzerland'). It forms Switzerland's digital backbone and sets itself apart by offering the best customer experience.

Swisscom's Fastweb subsidiary is a leading alternative provider for residential and business customers in Italy ('Leading challenger in Italy'). Fastweb continues to expand its own convergent ultra-broadband network through ongoing investments. The best customer experience is based on impressive quality of service and on offers that are characterised by transparency, fairness and simplicity. Fastweb contributes significantly to Swisscom's growth and aims to make further gains in market share.

Swisscom is characterised by enormous stability ('Rock-solid financials'). Safeguarding profitability and cash flow is pivotal to its ability to continue distributing attractive dividend.

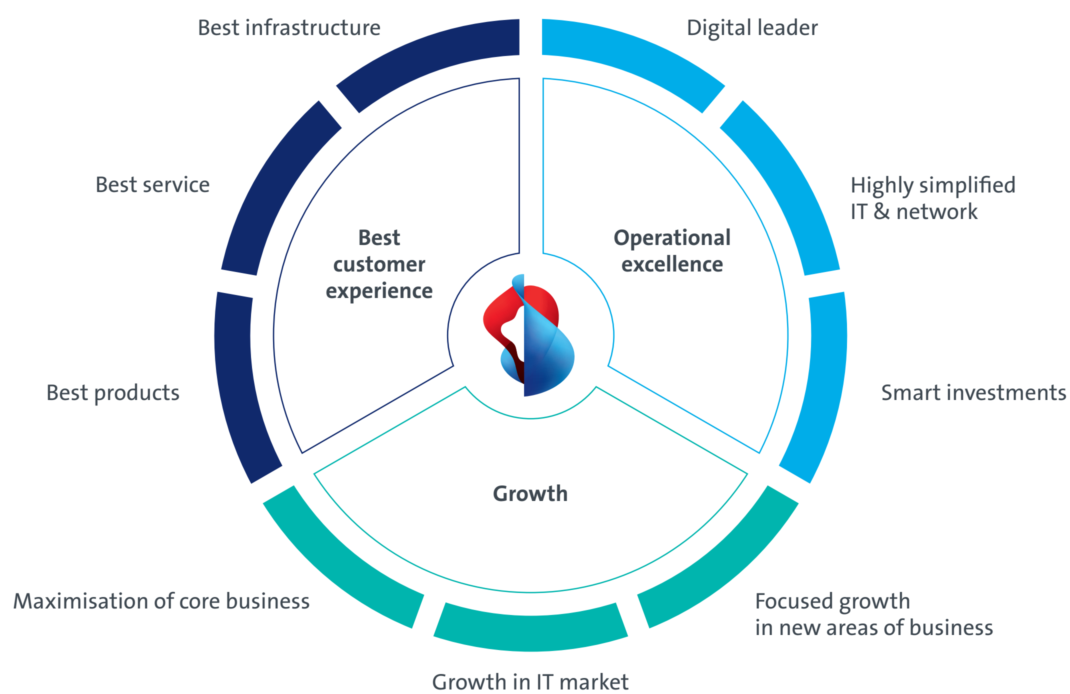
Swisscom is committed to fulfilling its corporate responsibility towards society. This responsibility is becoming increasingly important in the eyes of shareholders, the capital market and customers ('Committed to corporate responsibility'). As a trustworthy company, Swisscom focuses on sustainability, which it expresses through net zero emissions and a positive carbon footprint in the Swiss business by 2025, among other things. Swisscom also promotes diversity and inclusion within its own company. Diversity stands for a balanced mix of generations, gender equality and variety in terms of language and origin. Inclusion refers to the targeted integration of employees with physical or psychological impairments as well as the integration of refugees.

See **www.swisscom.ch/cr-report2021**

As a leading digital company, Swisscom launches innovative products and services based on resilient and secure networks ('Outstanding in innovation & reliability'). It develops growth areas in its Digital Business division, such as FinTech or Trust Services, in a targeted manner.

Strategy for Switzerland

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, consistently seeks to learn new things and develop and systematically pursues its goals. What matters most to Swisscom is its customers' trust in it. That trust is strengthened by Swisscom's reliability and sustainability in everything it undertakes. To realise its vision of being a market leader in shaping the future and inspiring people in a networked world, Swisscom has set out three strategic aspirations.



Strategic aspirations of Swisscom

Best customer experience

Swisscom wants to inspire its customers by providing them with the best service at all times, regardless of their location. Since the customer experience is based on a high-performance infrastructure, Swisscom offers its customers the latest IT and communications infrastructure and develops these on an ongoing basis. Customer requirements for networks are constantly growing. As a result, Swisscom sets up and operates high-performance networks that are top-notch in terms of security, availability and coverage. In the year under review, the Swisscom network once again earned top rankings in numerous tests conducted by leading technical journals. Swisscom sets itself ambitious goals for the expansion of its fibre-optic network. By the end of 2025, fibre-optic coverage in homes and businesses (FTTH – Fibre to the Home) is expected to increase to between 50 and 60%.

After launching the first 5G network in Europe with commercial offerings and end devices in spring 2019, Swisscom is continuing to push ahead with the expansion of 5G. Some portions of the population still have concerns about and are resistant to the expansion of 5G. Additionally, Switzerland's strict legal limits mean that networks' full capacity cannot be exploited and that, in turn, hinders efforts to create urgently needed capacity on the mobile network.

Cloud services produced in Switzerland form the central cornerstone of the cloud offering and are supplemented by global public cloud solutions (including Amazon Web Services or Microsoft Azure, for example). Swisscom acts as an independent service provider that offers hybrid and multicloud solutions to provide customers the support they need for their digital transformation.

The relationship with customers is at the heart of Swisscom's success. Swisscom's top priorities are providing the best service and inspirational experiences across the board. Swisscom provides customers with expert guidance and they get flexible, personalised on-site service and enjoy a simple user experience across all online offerings. Swisscom is also streamlining its offering and provides relevant, advanced products. At the forefront of its convergence offering is the flexible, modular inOne subscription, which is being improved on an ongoing basis and remains very popular among residential customers. In addition to its main brand, Swisscom offers second- and third-party brands to address more digitally savvy or price-sensitive target groups. Swisscom continues to develop its blue TV, blue News, blue+ and blue Cinema entertainment services within the 'Swisscom blue' product family.

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. Swisscom provides SMEs with complete Smart ICT solutions for outsourcing IT. Most recently, it added new security solutions and more to its offering for Swiss SMEs. As a trusted partner, Swisscom helps SME customers to defend themselves against the growing threat of cyber attacks. Both standardised products and customised customer solutions are in demand in the business customer segment. Swisscom offers business customers an integrated customer experience from a single source.

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. In its core business, Swisscom wants to optimise its cost base further over the coming years in order to secure long-term profitability. This should allow Swisscom to free up funds for the exploration of new business opportunities and make the investments necessary to ensure future success. As a leading digital company, Swisscom's internal digital transformation and accompanying increase in its own level of digitisation are also crucial. To drive this transformation, Swisscom is expanding process automation, strengthening its online channel for sales and consulting and using artificial intelligence and analytics capabilities, among other things. Simplifying the company's own IT and network is also essential. To this end, Swisscom is modernising and consolidating its IT platforms, phasing out old technologies, reducing interfaces, using agile development methods and standardising and streamlining its product portfolio. What's more, Swisscom is making its investment activities even more efficient, for example through an intelligent mix of technologies and value-oriented network expansion.

New growth

The market for telecommunications in Switzerland is saturated. Swisscom anticipates moderate volume growth, both as a continuation of the previous trend in the postpaid segment of mobile communications as well as in the broadband segment, where it expects the rising number of homes and businesses in Switzerland, among other factors, to result in an increase in the number of subscribers. Price pressure will remain high in all markets, and Swisscom therefore expects revenue to decline slightly in the telecommunications market as a whole. Following the slight dip in the market in 2020 due to the Covid-19 pandemic, the IT services market recovered in the year under review. Market experts believe that it will continue to enjoy moderate growth over the next few years, driven by increasing digitisation and the related increase in the use of ICT in numerous industries.

Swisscom is targeting growth in the following three areas in particular: in its core business, in the IT market and in new business areas. By developing its core business further, it intends to exploit growth opportunities, e.g. in the Internet of Things (for both residential and business customers), with advanced value-added services and in respect of secondary and third-party brands. In the IT sector, the focus is on security and cloud services, vertical IT offerings (e.g. banking) and applications. It aims to generate growth in new business areas through its activities in the fintech sector, digital services for SMEs provided by localsearch (Swisscom Directories Ltd) and trust services. It manages growth areas using clearly defined success criteria. When selecting growth areas, it is guided by future customer requirements, focuses on future-oriented business models offering strong growth and makes increased use of partnerships.

'Level up' transformation

In order to achieve the Group goals ('Swisscom Group Goals 2025') in a rapidly changing environment and to help shape the future, Swisscom must break new ground. To do so, it focuses on the following three basic principles of management and employee behaviour: 'Performing together', 'Thinking digital first', and 'Acting lean-agile'. These three basic principles are crucial to achieving the Group's goals. With clear targets regarding 'Performing together', 'Thinking digital first' and 'Acting lean-agile', Swisscom intends to develop its corporate culture and employees' skills and take them up to the next level ('Level up'). To that end, Swisscom is committed to Group-wide goals and also relies on the continuous development of all employees and teams who take on responsibility and deliver a correspondingly impressive performance. Decisions at Swisscom are always made based on data. In this context, digitisation plays a central role, which is why Swisscom is systematically digitising its internal business processes. Likewise, all employees need digital skills to provide Swisscom customers with the best experience and to offer significant added value through lean, iteratively developed solutions. To that end, Swisscom promotes the continuous development of its employees.

Strategy in Italy

Fastweb is an infrastructure-based, alternative telecommunications provider for residential and business customers in Italy. It has its own ultra-broadband infrastructure and offers mobile communications services in addition to fixed-network services for residential customers and smaller business customers. It positions itself as a high-quality provider and pursues a strategy of becoming an infrastructure-based OTT provider. Its own network infrastructure (mobile communications and fixed network) offers customers gigabit connectivity. At the same time, Fastweb is developing new services that – much like conventional OTT providers – are characterised by simplicity, strong customer orientation and effectiveness. Fastweb continues to expand its own convergent ultra-broadband network through ongoing investments. In the broadband market, Fastweb's good market position is based on its own optical fibre-based infrastructure (FTTH and FTTS). Fastweb has held a 4.5% stake in FibreCop S.p.A, a network company founded in 2020 and majority owned by TIM (58%), since 2021. By acquiring a stake in FibreCop, Fastweb will benefit from the planned further FTTH roll-out in Italy. Fastweb additionally relies on the use of fixed wireless access (FWA). FWA allows surfing speeds similar to those offered by fibre to achieve a better customer experience at lower costs and with less time required for network expansion. The planned roll-out of the nationwide 5G mobile network will be enabled by the acquisition of Spektrum and the partnership with WindTre.

In the residential customer segment, Fastweb relies on a convergent product portfolio that is transparent, fair and simple. It intends to offer the best customer experience by providing an impressively high level of service quality. For business customers, it is making strategic expansions to its portfolio, primarily by employing horizontal solutions focused on cloud and digital security. Another focus of Fastweb's activities is the expansion of its wholesale offerings – whether in the area of ultrafast broadband or with the connection of mobile communications sites to the fibre-optic network.

In order to improve its brand positioning, Fastweb has additionally enshrined its purpose of 'Tu sei futuro' in its articles of association. In doing so, it intends to expand its positioning, which had been heavily based on speed and performance in the past, to include future topics such as digitisation and sustainability. Swisscom expects Fastweb to further expand its market position in the future and to make a rising value contribution.

Sustainability

Sustainability strategy

Swisscom assumes responsibility towards society and the environment. As Switzerland's leading ICT company, it wants to seize the opportunities of the digital transformation for the prosperity of Switzerland, get involved and help shape the future. Swisscom does this by promoting the digital skills of people, protecting the climate, supporting fair and climate-friendly supply chains, and building and maintaining a reliable, high-performance ICT infrastructure. These measures are part of its Sustainability Strategy and are aligned with the UN's 17 Global Sustainable Development Goals. Swisscom has formulated three strategic priorities with corresponding objectives to address these fields of activity: 'ready for people', 'ready for the environment' and 'ready for Switzerland'. Further information can be found in the separate Sustainability Report.

See www.swisscom.ch/cr-report2021

Ready for people

Swisscom wants to enable people in Switzerland to make use of the opportunities presented by a networked world. By no later than 2025, Swisscom will help 2 million people annually to improve their skills in the digital world. New educational opportunities for schools, the people, SMEs and their employees are bringing it closer to this goal. Its teams in the call centres and shops are available to answer its customers' questions. Swisscom ensures safe and fair working conditions in the supply chain. It is also committed to barrier-free access to all its services.

Ready for the environment

As a pioneer in climate protection, Swisscom makes a contribution to help limit the global temperature increase to 1.5 degrees. In its Swiss business, Swisscom will be climate-neutral across the entire value chain by 2025. It is also working with its customers to reduce net CO_2 emissions by 1 million tonnes per year by 2025. This corresponds to around 2% of Switzerland's greenhouse gas emissions. Furthermore, Swisscom wants to reduce its energy consumption by 20% by 2030 compared to today.

Ready for Switzerland

Swisscom provides individuals and businesses nationwide with reliable ultra-fast broadband. Swisscom uses the best networks and progressive solutions to create added value for its customers, employees, shareholders and suppliers, and for all of Switzerland. By doing this, Swisscom makes the country more competitive and a better place to live.

Climate protection and energy efficiency

In a rapidly changing environment, Swisscom is continuing along its path towards greater energy efficiency and climate protection, strengthening its sustainability targets and reducing its greenhouse gas emissions. The transition to a zero-emission company has implications for Swisscom's organisation and processes. In return, it offers new sources of revenue through Swisscom's portfolio of sustainable products and services.

The regulatory environment has become more challenging. In Switzerland, as in Europe, there is a noticeable trend towards more stringent requirements. Regulatory efforts are aimed at accelerating the transition to a zero-emissions economy by 2050 (net zero emissions) or, in other words, an economy that produces no more CO_2 emissions than it is able to offset. This target is in line with the latest recommendations of the International Plant Protection Convention (IPPC) to keep the average temperature increase below 1.5 degrees. Swisscom revised its CO_2 reduction targets in the 2021 reporting year and plans to meet the goal of net zero emissions in its Swiss business by 2025.

In order to achieve its goals, Swisscom is working mainly on efforts to boost its own energy efficiency. Maximum energy efficiency is essential for an energy-intensive company like Swisscom. As part of that, Swisscom aims to increase the efficiency of its network, real estate and mobility infrastructure while refraining from using environmentally harmful energy carriers. Accordingly, it acts and invests in a targeted manner. The company's individual activities and impact of those activities are described in detail in the sustainability and climate reports.

The goal of net zero emissions not only requires that emissions be reduced to an enormous degree, but CO_2 also needs to be sequestered in carbon sinks in the long term to remove it from the atmosphere. Swisscom is examining various options for this, including reforestation or capturing CO_2 directly from the air and storing it underground.

Swisscom offers a range of services that help customers reduce their CO_2 footprint. These include teleservices such as Microsoft Teams or Zoom, which significantly reduce travel and therefore greenhouse gas emissions, as well. These services have proven very useful during the Covid-19 pandemic since they were able to preserve and even increase the economy's productivity and competitiveness. One prerequisite for using teleservices like these is comprehensive coverage with high-speed connectivity. By 2025, Swisscom aims to provide 50 to 60% of Swiss homes and businesses with network speeds of up to 10 Gbps. An estimate of the emissions prevented by Swisscom customers through the use of sustainable services can be found in Swisscom's annual climate report.

See www.swisscom.ch/climatereport2021

A transformation of this magnitude and speed comes with various risks and opportunities. Swiss and European regulations will strongly shape the field of sustainable finance going forward. They will demand a much higher degree of transparency about investments and their long-term impacts, as well as a more detailed materiality analysis. This kind of analysis must look at the matter from two perspectives: in terms of both the company's impact on its environment and the environment's impact on the company. From 1 January 2022, companies with subsidiaries in the EU or whose securities are traded on financial markets in the EU will have to report their activities according to the categories of the European taxonomy to make these more easily comparable. Swisscom has arranged its business activities in accordance with this classification.

In addition to the transition risks associated with regulatory and legal uncertainties, Swisscom must assess the physical risks arising from climate change. To that end, it has begun to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Swisscom has surveyed the potential impact that arises through climate change and the transition to a net-zero emissions company on its reputation, financing and portfolio. Swisscom was the first listed company in Switzerland to issue a green bond in euros in 2020, the proceeds of which will be used within the scope of the Green Bond Framework. A green bond in CHF followed in 2021 and Swisscom has also had credit facilities with costs that are linked to environmental social governance (ESG) objectives since 2021. The portfolio of sustainable services makes a relevant contribution to sales and is expected to grow further. Information on this can be found in the sustainability report.

See www.swisscom.ch/cr-report2021

Infrastructure

Telecommunications networks form the foundations for digital Switzerland. This was evident during the pandemic, when the networks seamlessly maintained economic life and social life. Swisscom continues to invest heavily in infrastructure to meet the growing broadband needs of the Swiss fixed and mobile network. It aims to directly connect up to 60% of homes and businesses with optical fibre by the end of 2025 and Swisscom had already provided 99% of the Swiss population with basic 5G coverage by the end of 2021. This is 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. It aims to provide Swiss customers with the best network for both the fixed and mobile networks. It relies on a smart combination of different network technologies so that the whole of Switzerland can benefit from the opportunities offered by the digital world. A network fault occurred in July 2021 that impacted emergency numbers, among others. The measures taken in 2020 to implement a dynamic routing system for emergency service organisations proved fundamentally successful during the incident. Swisscom continues to work on reducing disruptions. The number of residential customers affected by interruptions and downtime has decreased in recent years. Accordingly, customer satisfaction is showing a positive trend.

A new age of communication has begun

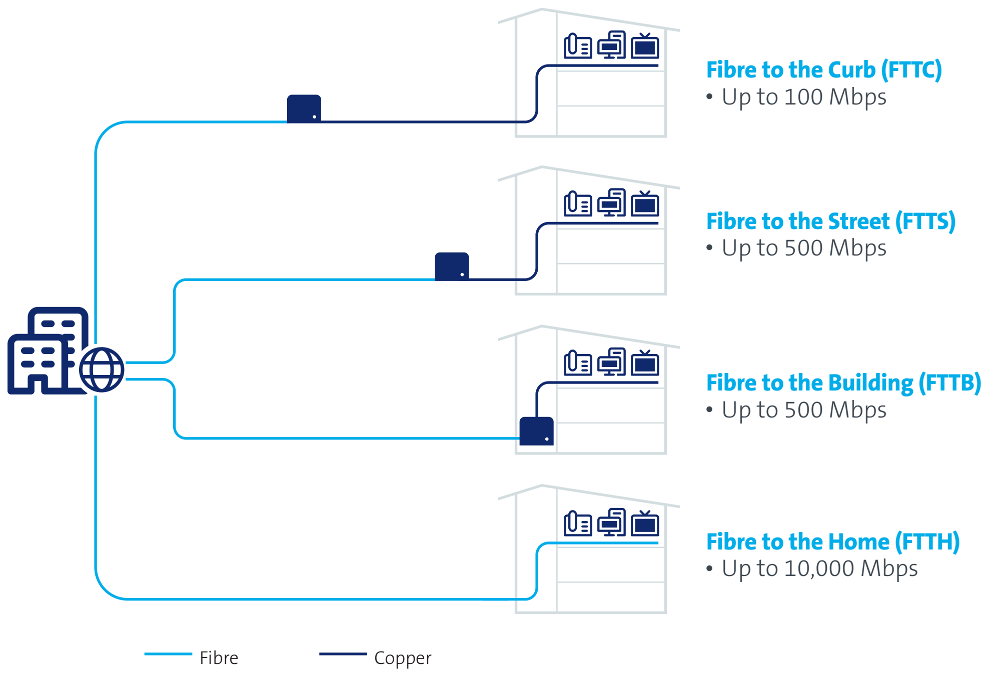
Swisscom has replaced conventional fixed-line telephony with the Internet protocol (IP), and thus geared its network towards the future. All Swiss municipalities have already switched to IP telephony. Private customers benefit from significantly improved voice quality, automatic name display and the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

Leading international position thanks to constant expansion

Switzerland boasts one of the best IT and telecoms infrastructures worldwide, International studies carried out by the OECD or the data and information service provider IHS Markit regularly confirm this. Rural regions benefit in particular from the high level of capital expenditure, almost two thirds of which is financed by Swisscom. According to the Broadband Coverage in Europe 2020 study carried out by Omdia/IHS Markit, commissioned by the EU Commission and published in the year under review with the support of Glasfasernetz Schweiz, the availability of broadband in rural regions of Switzerland is significantly higher than the EU average. At the end of 2021, around 4.8 million or 90% of homes and businesses were connected with speeds in excess of 80 Mbps. This has enabled Swisscom to make ultra-fast broadband available even in remote locations. Meanwhile, more than 3.9 million (or 72%) of homes and businesses enjoy connections with speeds of more than 200 Mbps. Coverage is at around 33% for speeds of 10 Gbps. In the Broadband Network Test Switzerland 2021 conducted by the trade magazine connect, Swisscom's fixed network takes first place in the 10 Gbit/s speed class. At the same time, Swisscom received a 'very good' rating for its fixed network. Swisscom's mobile network is also one of the best networks in the world, as confirmed by independent network tests such as those conducted by the trade magazine connect, CHIP or network analyst Ookla. Swisscom now provides over 99% of the population with 3G and 4G coverage, 99% of the population with basic 5G coverage and 888 locations with 5G+ coverage.

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. Compared to 2019, FTTH coverage will 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.



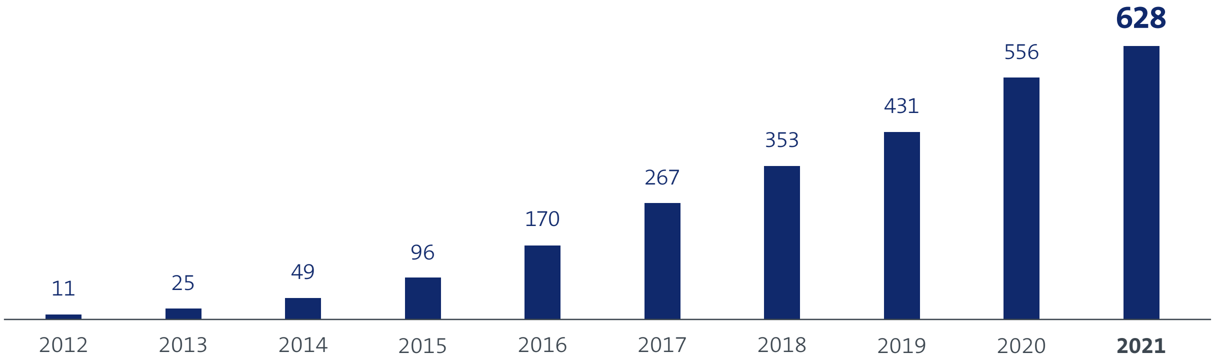
At the same time, Swisscom will continue to modernise its existing network in the coming years, giving 30 to 40% of homes and offices access to a bandwidth of 300 to 500 Mbps. Bonding technology is also helping to noticeably improve broadband provision in certain regions. Bonding combines the performance of the fixed-line network with that of the mobile network, thus ensuring a significantly better customer experience.

Customer demand for data in the mobile network continues to rise. According to an independent study conducted by the Sotomo research institute based on Swisscom network data, mobile data traffic has grown 200-fold since 2010 and there are now three times more devices on the network than in 2010. In this context, the 5G mobile communication standard not only enables new functions for current applications, but also brings a much-needed reduction in the load on the network, increases capacity and maintains the accustomed quality of the 4G network. Because of this, and owing to the stringent legal framework conditions that apply, the mobile network has to be expanded by the addition of new mobile telephony sites. Progress continues to be made on expanding 4G+ and 5G+. In the year under review and after 28 years of operation, Swisscom decommissioned the now obsolete second mobile generation (2G) in the space of just a few weeks. Swisscom is using the freed-up capacity for the more efficient successor generations.

See www.swisscom.ch/networkcoverage

57 times higher data volume in nine years

in million terabytes



Development of data volume in Swisscom networks in million terabytes

Swisscom has been working together with Ericsson since 2015 on the introduction of 5G in Switzerland. In 2019, it was the first provider in Europe to put a 5G network into operation and is constantly expanding it. Swisscom currently provides 99% of the Swiss population with a basic version of 5G and has already made the 5G+ version, which includes all the benefits of 5G, available in 888 locations. According to the industry association asut, more than 1 million 5G-enabled devices were already in operation in Switzerland by mid-2021. The 5G expansion will gradually provide the additional capacity that residential and business customers need. Things are proceeding slowly, however, as health concerns from the populace often dominate the discussion about network expansion.

On 23 February 2021, an important addendum to the NISV enforcement recommendations was published that controls the operation of the new type of adaptive antennas. On 19 August 2021, OFCOM confirmed that mobile operators meet all technical and operational requirements to apply correction factors to adaptive antennas. This enables operators to use adaptive antennas in accordance with their technical design – and, in doing so, to benefit from all the advantages offered by the latest generation of antennas. These are increased capacity and range with less exposure to people who are near the antenna but not using mobile communications.

The Conference of Building, Planning and Environment Directors (BPUK) has expressed legal concerns about the aforementioned federal enforcement recommendations and called for a partial waiver of the application of the correction factor – based on legal expertise. At the time, however, a legal opinion from the industry supported the FOEN's enforcement recommendation in all key respects. BPUK, FOEN, OFCOM and delegations from the cantonal NIS specialists as well as the operators subsequently met under the chairmanship of DETEC to find a joint solution. They achieved that goal prior to the end of the year and found binding solutions at ordinance level to the issues raised. One question remains unanswered, namely how adjustments made to antennas that do not have any impact on immissions can be regulated in a legally binding manner. To answer that question, the task force mentioned above intends to present solutions that take different interests into account by the end of the first quarter of 2022. Since operational adjustments have to be made to mobile communications systems approximately every 18 months, an appropriate regulation is essential.

Some portions of the population still have reservations regarding the expansion of the mobile communications infrastructure and are resistant to the idea. The arguments for opposing expansion vary widely, with the underlying speculation and assumptions about 5G often lacking a factual basis. Even today, the controversy surrounding mobile communications has considerably delayed numerous network expansion projects, which is also affecting the expansion of the 4G network.

Moreover, since strict regulation is currently preventing the new 5G technology from exploiting its full potential, the legal environmental framework will need to be adjusted if Switzerland is to make full use of the possibilities offered by 5G. In order to improve the level of information, Swisscom provides information on its channels and supports the industry association asut in its information campaigns, one of which is the joint information platform CHANCE5G.

See www.chance5g.ch

The Internet of Things (IoT) has long connected a multitude of objects and devices to one another and to users. 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 and their operation. 'Data as a Service' rounds off Swisscom's portfolio and, thanks to plug-and-play, makes it even easier for many customers to enter the IoT. In the year under review, for example, Swisscom implemented overarching applications that combine 5G, IoT, cloud, data-driven business and artificial intelligence in a project with its business partner Rhomberg Sersa Rail Group. The joint project has global appeal: Together, Rhomberg Sersa Rail Group and Swisscom have been awarded the Microsoft Partner of the Year Award 2021 by Microsoft in the Azure/IoT category.

Swisscom is continually increasing its number of antenna sites. It coordinates site expansions with other mobile providers wherever feasible, and now shares nearly a quarter of its approximately 9,400 antenna sites with them. At the end of 2021, Swisscom had around 6,400 exterior units and 3,500 mobile communication antennas in buildings. With around 7,000 hotspots in Switzerland, it is also the country's leading provider of public wireless local area networks (WLAN).

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 and 3G 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 frequencies to offer its customers services via the 5G, 4G and 3G mobile communication technologies. It always does this within the legal limits, which in Switzerland are ten times stricter than those recommended by the World Health Organization in sensitive areas such as homes, schools, hospitals and permanent workplaces.

IT infrastructure and platforms

Swisscom operates six major data centres in Switzerland. The IT infrastructure comprises over 75,000 virtual machines and around 4,300 servers. The central telecommunications functions for the operation of the fixed and mobile networks converge in four of the six data centres. In addition, four data centres (two data centres have a dual function) are used for the operation of IT applications. These include all business applications in connection with Swisscom services. The infrastructure is designed for redundant operation and high availability. Swisscom attaches the very highest priority to both stability and resilience, and reviews and improves them on an ongoing basis. Since the quality and security culture is a central aspect of Swisscom, the company takes every possible precaution to continuously minimise the likelihood that major disruptions will occur.

Swisscom positions itself as a reliable IT partner with a broad range of services. On the basis of an extended cloud strategy, it is expanding its cloud offering with hybrid ICT services. These services support Swisscom customers in setting up hybrid and multi-cloud environments and operating them efficiently. Swisscom responds quickly and individually to the numerous needs of its customers using a flexible service modular system. As part of its strategy, it is strengthening its partnerships with the major public cloud providers (such as Amazon Web Services and Microsoft Azure). In addition to its extensive public cloud service offering for business customers, Swisscom will be relying on Amazon Web Services to operate selected internal IT applications over the next few years.

In order to accommodate the continuing advance of digitisation as well as the growing requirements imposed on connectivity services, Swisscom has distributed the virtualisation and containerisation of network functions across four locations. This enables the transfer of high data volumes with short response times while also ensuring the most resilient and stable operation possible.

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 connectivity offering to include advanced software-defined networking (SDN), managed security and managed LAN, paying special attention to the combination of modern and established services. During the Covid-19 pandemic and in light of changing needs, the use of remote access services and cloud connectivity services has risen dramatically. 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. At the same time, the consistent dismantling of obsolete fixed-network technology such as TDM (Time Division Multiplexing) and traditional data centre infrastructure is reducing complexity and creating space for new infrastructure. 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

The market for ultra-fast broadband (UBB) in Italy is growing steadily. This development is further accelerated by an increasingly extensive use of digital services and related performance requirements. Fastweb plays a fundamental role in the sustainable development of UBB. To that end, it is investing in its own infrastructure and that of FibreCop, in which it holds a 4.5% stake. Fastweb's goal is to provide UBB coverage to 90% of homes and offices by 2025. The expansion of UBB's own fixed network through the use of FTTH/FFTS (Fiber to the Home/Street) and 5G FWA (Fixed Wireless Access) will help reach this goal.

Fastweb's UBB coverage had reached 9 million homes and offices, or about 30% of the population in Italy, by the end of 2021. The deployment of 5G FWA, in a strategic partnership with Linkem, will add another 10.5 million homes and offices by 2025. Finally, Fastweb reaches another 7 million homes and offices via FibreCop.

IT infrastructure

Fastweb currently uses four large data centres, three in the Milan area and one in Rome. One of the data centres is owned by a technology partner that manages and develops the data centre and handles all operational tasks relating to Fastweb's IT infrastructure. Two other data centres are mainly used for the corporate business segment, including housing, the cloud, and other ICT-managed services. In view of the growth of the cloud ICT market and the business opportunities in cloud edge, Fastweb plans to expand its central and local data centre capabilities. It intends to mainly use additional whitespace solutions for this purpose. The IT infrastructure comprises around 6,000 virtual servers and physical servers for its own needs.

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. At the end of 2021, Swisscom had 18,905 full-time equivalent employees, of whom 15,882 or 84% were employed in Switzerland. Swisscom is also training around 900 apprentices in Switzerland.

Employees in Switzerland

Digitisation 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. Swisscom helps its employees develop their skills and provides them with five training and development days a year for this purpose to ensure that its employees continue to have the required skills and resources going forward. The One Swisscom Academy offers a wide range of training and development opportunities. For the most part, the One Swisscom Academy relies on digitalised learning methods, thanks to which employees can build their knowledge irrespective of location and time. The offerings are designed to develop skills that are needed now and in the future, as well as to strengthen employees' employability.

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 professional skills. 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, 98.6% of the employees in Switzerland were on open-ended contracts (prior year: 98.1%). Part-time employees made up 21.6% (prior year: 21.4%). The fluctuation rate, representing departing employees in Switzerland, was 6.2% of the workforce (prior year: 7.8%). Further information on HR matters can be found in the Sustainability Report.

See www.swisscom.ch/cr-report2021

The Covid-19 pandemic presented Swisscom with a multitude of challenges yet again in the year under review. However, experience gained in 2020 helped the company react swiftly and in a targeted manner. Swisscom's Covid-19 task force continuously analysed the situation and – both quickly and transparently – informed the company internally about any decisions taken. Swisscom adapted its measures to the current circumstances as well as the regulations of the Federal Office of Public Health (FOPH) or the Federal Council on an ongoing basis.

In the days when working from home was mandatory, over 80% of employees – even those in the call centres – worked from home.

Swisscom plays a pioneering role in flexible working throughout Switzerland. Even before the Covid-19 pandemic, working from home, on the road or at different locations was very popular and widespread among Swisscom staff. Employees appreciate the flexibility, the elimination of commuting and a better work-life balance. Swisscom will continue to promote and expand flexible working models in the future. However, meeting regularly in the office and thus maintaining an informal exchange remains important for Swisscom employees.

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. The subsidiaries cablex Ltd and Swisscom Directories Ltd (localsearch) negotiate their own CEA with the social partners. 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. At the end of December 2021, 80% of the workforce in Switzerland were covered by the Swisscom CEA (prior year: 81%). The CEA includes progressive employment conditions and benefits such as five days of further training per year, 18 weeks of maternity leave, three weeks of paternity leave and an option to purchase ten days of additional holiday time. The CEA also accords the social partners and employee representations rights of co-determination of varying degrees.

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 subsidiary firm Worklink AG. 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 progressive working models such as phased partial retirement. In 2021, 93% of those affected by personnel reduction measures had found a new job before the social plan programme ended (prior year: 80%). For employees with management contracts, there is also an arrangement in place to support them in their professional reorientation in the event of restructuring.

Employee remuneration

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 variable performance-related salary component depends on the success of the company. This is measured by the achievement of overriding objectives such as financial parameters as well as business transformation metrics that fall into the areas of operating performance, customers, growth and sustainability. Details on remuneration paid to members of the Group Executive Board are provided in the Remuneration Report.

In 2021, Swisscom and its social partners signed an agreement on the pay round for the year under review. With effect from April 2021, salaries for employees subject to the CEA were increased by 0.8% of the total payroll: this took the form of a general salary increase, the level of which varied depending on the employee's position in the salary band. The performance of employees whose salaries are in the upper range of the respective salary band was rewarded by a one-off payment. The payroll for managers increased by 0.6% to allow for individual salary adjustments.

Equal pay

Swisscom remunerates its employees fairly and in line with market conditions and also ensures equal pay between the sexes. The salary system is structured in such a way that equal salaries are paid for equivalent tasks and services. Employees' salaries are adjusted within the scope of the annual salary review. Employees who have put in an above-average performance and whose wages are at the lower end of their respective salary bands generally receive an above-average wage increase. Swisscom also periodically reviews the salary structure for differences between men's and women's wages using the federal government's equal pay tool (Logib). Past reviews have only revealed minor pay discrepancies that are below the tolerance threshold set by the Federal Office for Gender Equality.

In accordance with the new requirements under the Gender Equality Act, Swisscom carried out equal pay analyses for all Swiss Group companies with more than 100 employees. The formal review of the pay equal analyses required by law was carried out by PwC. According to its report, there are no indications that the analyses do not comply with the legal requirements in all respects.

Internal staff development and external job market

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 2021, Swisscom employees spent an average of 3.5 days per person on learning, training and development. It is also Swisscom's declared goal to fill as many positions as possible internally. Where this is not possible, external recruitment is used. Here Swisscom has to compete with national and international companies for the best talent – especially in the IT professions. The shortage of skilled workers on the Swiss labour market is currently noticeably affecting DevOps engineers primarily. These engineers have a skills profile that is critical to companies' competitiveness in the ICT market. Their skills help Swisscom become even more agile and respond quickly to changing markets. Although the Swiss labour market remains a priority, Swisscom operates DevOps centres in Rotterdam and in Riga. It does this primary to provide access to international talent outside the Swiss labour market, if needed.

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. The results and the comments in which employees give their assessments are available to all employees in real time. They enable every individual employee and team and the organisation as a whole to respond quickly to the feedback and start making improvements. A survey of this type fosters a culture of feedback and trust, which provides the basis for Swisscom and its employees to grow and develop together. The response rate to the Pulse survey was 68% in 2021 (previous year: 74%). More than 90% of the employees participating in the survey said they recommend Swisscom as an employer.

Diversity

Swisscom grows through diversity – as individuals, as a team, as a company. 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, innovative company. To promote diversity, Swisscom focuses in its activities on the factors of gender, inclusion, generations and language regions. In the gender dimension, 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. At the end of 2021, around 24% of Swisscom's employees were women (prior year: 25%), and the proportion of women in management was around 14%. 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 1.06% to 1.11% versus the previous year. Swisscom tries to earmark at least 1% of jobs for inclusion-related 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 trains around 900 apprentices in Switzerland. Graduates of technical colleges and universities gain their first practical experience in our company as part of a step-in internship or as a trainee. Swisscom is represented in all of Switzerland's language regions. It attaches importance to ensuring that the different languages are adequately represented in all areas and accordingly offers apprenticeships, internships and talent programmes for all language regions.

Employees in Italy

Statutory terms and conditions of employment in Italy are based on the Contratto Collettivo Nazionale di Lavoro (CCNL), a state collective employment agreement. The CCNL defines the terms and conditions of employment between 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.

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. The company's terms and conditions of employment enable employees to achieve a healthy balance between their work demands and personal life. This is largely due to the following measures, which were set out in an agreement concluded with the trade unions: flexible office working hours, smart working and working from home, and for mothers the choice of shifts or temporary part-time jobs.

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 model agreed with the unions. Fastweb complies with the legal minimum salary defined by the CCNL.

The Covid-19 pandemic also left its mark on Fastweb: Fastweb and the national trade unions of the telecommunications sector, together with the local representations and the Rappresentanza Sindacale Unitaria (RSU), have extended the preliminary agreement on Smart Working that was signed on 29 September 2020 until 30 June 2022. The goal is to renew the organisational and working model in a flexible and sustainable way – in order to guarantee a high level of quality and the achievement of corporate goals as well as to facilitate the balance between work and family life.

The agreement on Smart Working had been introduced on a trial basis on 16 October 2020. It provides full flexibility and autonomy in the choice of working model for all employees of the company, including customer advisors. It gives Fastweb employees the option of using the smart working model on all business days or deciding each day, in consultation with their supervisor, whether to do their work in the office or remotely. This guarantees performance-based management that does not view success as being contingent upon employees' on-site work.

‘Ready for tomorrow’s competition’

More competitive thanks to our innovative solutions that leverage artificial intelligence, the Internet of Things, the cloud and 5G.

‘Ready for the digital working environment’

More efficient collaboration thanks to the web training we provide for your company’s employees.

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. The 'Swisscom blue' product family, which combines all of Swisscom's entertainment offerings in a single world of experience, became extremely well established on the market in the year under review.

Swisscom brands

The Swisscom brand is managed strategically as an intangible asset and an important element of the Group's reputation management. It supports Swisscom's business activities, gives guidance to customers and partners, and also acts to attract and motivate current and future 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 the familiar and the new and standing equally for network infrastructure, best experiences, entertainment, ICT and digitisation.

In Switzerland, Swisscom offers core business products and services under the main 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. 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.

Main brand

Product family

Secondary brand

Tertiary brands

Other brands (excerpt)

Swisscom brand portfolio

Society, technology and the environment are changing ever more rapidly. A brand must absorb these changes while offering direction and stability. To that end, Swisscom has given the imagery and individual design elements of its brand a gentle makeover. Vision, values and the Swisscom promise determine the positioning of the Swisscom brand. To revitalise its brand both internally and externally, Swisscom works with the brand platform it created in 2020: 'ready'. It 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 offers its customers the opportunity to make even easier use of the networked future and prepares them for this. The 'ready' brand platform expresses this positioning to the outside world, which has a positive effect on the brand perception measured.

The 'Swisscom blue' product family, which combines all of Swisscom's entertainment offerings, became well established on the market in the year under review. It ensures a high level of visibility and recognition, particularly via Swisscom blue TV and blue News. Swisscom blue aims to continue making the connection between the individual offerings clear, enables new offerings and makes the Swisscom brand even more appealing and dynamic. All this is in line with Swisscom's one-brand strategy. Swisscom has also made its mark in terms of employer branding. The 'My Internet App – MIA' brings topics from the intranet to the mobile phones of all employees, thus strengthening identification with the company and helping employees to act as ambassadors for the brand.

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 diverse 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 assessments also confirm this image. In the 'Switzerland 50' study conducted by the consulting firm Brand Finance, Swisscom moved up one place in the list of the most valuable Swiss brands and is now ranked eighth. According to Brand Finance, the Swisscom brand is worth nearly CHF 5 billion.

Products and services in Switzerland

Residential Customers

In order to offer 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. inOne includes 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 and the recording and replay functions, inOne can be easily adapted to individuals' needs; new mobile devices such as smart watches, trackers and tablets are also easy to integrate.

At the same time, Swisscom is continuously expanding the inOne mobile subscription. Thanks to inOne mobile go, customers benefit from unlimited use of their smartphones in Switzerland. Swisscom is also the first provider in Switzerland to include use within the EU/Western Europe in the 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 revised its offer for its younger customers in early 2021: Following the launch of inOne mobile go young, Swisscom customers not only surf and make phone calls across Europe without limits until their 30th birthday, but also at speeds of up to 2 Gbps.

Home networking (smart home) for controlling lighting, music or alarm systems grew strongly in 2021. At the end of 2021, around 400,000 devices (+17%) were connected via the Swisscom Home app. The number of households that activated one or more devices in the app increased by 80%. In entertainment, Swisscom blue offers a comprehensive entertainment experience with TV, streaming and cinema along with the freedom of being able to access this content from anywhere. This new offering is based on blue TV. It is available both via the Swisscom Box as well as an app for smartphones and tablets, a web player for laptops at blue.ch and a smart TV app on Samsung and LG devices. The app is also available with the complete blue+ offering on the TV boxes of UPC TV, Quickline, Wingo, Net+ and Apple TV. blue TV is thus not only accessible to Swisscom customers, but also to customers of other operators.

The broadest blue TV package is still only available in combination with the Swisscom Box, because only the Swisscom Box integrates streaming offers from Netflix, Prime Video, Sky, OCS, DAZN, YouTube and Play Suisse in addition to traditional television and blue+ content (live sport, films and series). In addition, the Swisscom Box offers access to the MySports channels, which broadcast matches from the top Swiss ice hockey leagues, among other things.

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 attractive mobile, Internet and fixed-line services. Coop Mobile is exclusively a mobile subscription.

Swisscom is constantly expanding its service offerings to meet the ever-changing needs of its customers. In addition to the standard channels such as hotlines, chats and contact forms, customers can get in touch with Swisscom via WhatsApp, Facebook, Twitter and Google Business Messenger. In summer 2021, Swisscom also introduced automatic speech recognition on its hotline, thereby eliminating the need to respond by pressing keys (after announcements such as 'Select 1'). This approach connects customers even more quickly with the employees responsible for their concerns. Customers can go to the 115 Swisscom Shops to have damaged mobile devices repaired on site in eleven Swisscom Repair Centers. As a rule, repairs are carried out within 24 hours, or even in just three hours in the case of express repairs. myCloud offers Swisscom customers a Swiss solution for securely managing and sharing their personal data such as photos, videos and documents. Thanks to the My Swisscom app, customers always have an overview of their data and services and have the opportunity to view their bill, report a move, contact Swisscom or change other settings at any time.

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 its 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 for mobile working and communication, networking solutions, location networking, business process optimisation, SAP solutions, security and authentication solutions and a full range of services tailored to the banking industry. 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.

inOne SME offers SME customers a standardised, yet customisable bundled package for Internet and telephony. SMEs with more complex needs can use Smart Business Connect, a scalable communication solution with collaboration and networking features. Both bundled offerings include integrated services such as an Internet failover and can be supplemented with blue TV, blue TV Public or blue TV Host for hotels and homes. blue TV Host comprises an info channel and an in-house channel and offers the best infotainment. IT infrastructure is increasingly becoming the lifeline of companies. SMEs are dependent on their IT functioning flawlessly throughout and being able to adapt easily and flexibly to market and company changes at any time. Swisscom thus provides SMART ICT, a complete IT outsourcing package, as a modular integrated solution. For this, Swisscom works together with regional IT partners to operate the ICT infrastructure and ensure customers' data security in a professional manner. In the year under review, Swisscom also launched the Security Assessment and introduced the digital POS solution Swisscom Business POS. Mobile subscriptions geared to the needs of business customers, IoT solutions or cloud-based software for mobile working and web services round off Swisscom's SME portfolio.

Swisscom gives SMEs access to information and directory services in the form of localsearch, which makes it easy to publish addresses, telephone numbers and detailed information on companies – on the Internet, via the mobile app and in the printed telephone directory (Local Guide). In addition, localsearch operates the local.ch and search.ch directories. The subsidiary Swisscom Broadcast AG provides radio networks for broadcasting, security and professional mobile radio and makes around 450 transmitter sites available for co-use. Its offering also includes numerous video-related services, ranging from the provision of IPTV and Web TV platforms to sophisticated video surveillance solutions. It is supplemented by temporary ICT, media and entertainment services. Swisscom also offers infrastructure solutions and services for telecoms/ICT, transport, energy and companies or authorities in Switzerland via cablex Ltd.

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 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, and supplies its customers with infrastructure products such as the shared use of cable ducts and the mobile network. 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 has focused on transparency and simplicity in both the fixed and mobile markets. It introduced additional services in 2021 to further strengthen its Fixed-Mobile convergent business as well as its Go-To-Market approach. In the fixed network segment, Fastweb newly implemented 5G FWA (Fixed Wireless Access) in order to offer its customers bandwidths comparable to fibre-optic cables in locations where FTTH coverage is not yet available. Fastweb also launched the 'NeXXt' Internet box, which is the first Wi-Fi 6 router with the Alexa voice assistant built-in. This innovative Internet box transforms the Wi-Fi network into a home's 'digital heart'. In the mobile segment, Fastweb first launched 5G services in Milan, Bologna, Rome and Naples. It subsequently extended 5G coverage to Italy's main city centres to provide the best possible data speeds to its mobile customers. This earned Fastweb top rankings in terms of customer satisfaction in the area of mobile communications – and the company held on to its leading position in terms of satisfaction among its fixed-network customers.

Fastweb has maintained its leading position in the business customers segment, mainly in the corporate business segment, where Fastweb has a broadband market share of 34.5%. Fastweb's market share grew to 46% within the public administration segment, partly as a result of the successful conclusion of national public framework contracts for wireline and ICT services. In order to expand its service offering in the ICT and security market, Fastweb acquired a 100% stake in Cutaway and a 70% stake in 7Layers in 2020. Fastweb has increased its autonomy through these two acquisitions. Not only is it now able to offer end-to-end cloud solutions, but is expanding its cybersecurity-related expertise.

To take advantage of business opportunities in the public cloud, where telecommunications service providers have limited reach, partnering with a hyperscaler is essential. Fastweb 2021 has therefore partnered with global leader Amazon Web Services (AWS) to provide its customers with a multicloud offering through AWS's Restack programme and further expand both its customer base and portfolio in the process.

Fastweb also launched its own 5G mobile service for business customers, marking another step towards a fully convergent digital offering.

In the wholesale market, Fastweb successfully provides ultra-fast broadband services to residential and business customers of Sky, WindTre, BT, Linkem, Tiscali and other companies.

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 represents the emotional aspects of customer loyalty and reflects 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 continuously survey buyers and users to determine product satisfaction, service and quality.
- The **Business 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.

Innovation and development

Global competition, new technologies and changing customer needs are leading to an ever more rapid pace of change. Swisscom invests constantly in the development of new products and services for its customers and additionally optimises its processes to secure its long-term market position.

Innovation as a key driver of business performance

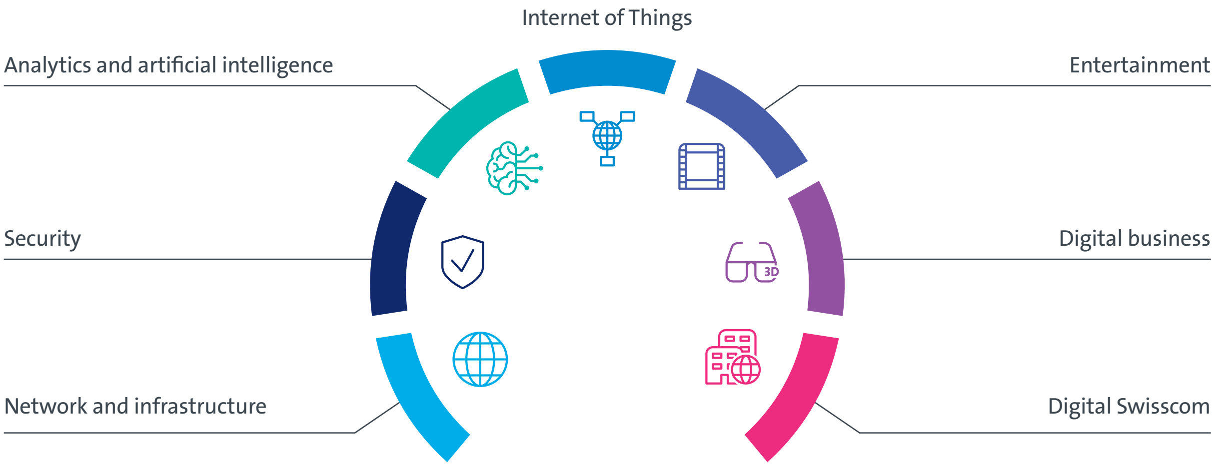
Innovation is central to the success of the company and to Swisscom's strategic ambitions. Swisscom offers its customers the best customer experience by further developing products and improving customer journeys. With the help of analytical tools, artificial intelligence and automation, Swisscom designs processes to be even more efficient – and creates new growth by developing new products and business segments. Innovation also helps to differentiate the Swisscom brand, attract and retain top talent and counteract potential market disruptions at an early stage. To this end, Swisscom works closely with partners, universities, start-ups and established technology companies.

In its Silicon Valley office, Swisscom has been engaged in technology scouting and transfer for over 20 years. The Swisscom Ventures division networks Swisscom's business units with start-ups in order to stimulate innovation. Since 2007, Swisscom has invested in more than 70 young companies – six to ten new start-ups every year with the volume of capital expenditure amounting to CHF 10 to 12 million per year. Swisscom also advises funds that invest an additional CHF 30 to 40 million. In the year under review, Swisscom made investments in nine new companies and twelve follow-up investments in existing holdings. SOPHiA GENETICS, another start-up funded by Swisscom, went public in 2021. This is the fourth IPO of a Swisscom Ventures start-up. Swisscom uses the Swisscom StartUp platform to support start-ups and entrepreneurs in Switzerland through consulting, discounts on IT and cloud services, expert know-how, coaching programmes, financing and community events. The Swisscom StartUp Challenge 2021 focused on the topic of cyber security. More than 80 start-ups and research teams worldwide applied for the promotional programme available for the winners of the StartUp Challenge. By the end of the Challenge, five winners had secured their spots in the week-long exploration programme, which included an exchange of experiences with Swisscom's cyber security community as well as valuable contacts with mentors, potential partners and customers. Swisscom strengthens the internal innovation process through the internal intrapreneurship programme Kickbox, which provides employees with tools, a clear process and resources for innovation projects. The programme is available to other companies via the spin-off rready AG.

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:



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 make new developments available to customers.

Mobile communications

New self-organising network (SON) algorithms automate and improve the mobile network, for example, by automatically adjusting parameters, antenna inclination, and power levels according to specifications. Before SON was introduced, network data was processed manually and resulted in 40 to 50 network adjustments per week. SON automated both the processing of network data and the creation of the improvement proposals, with some of those proposals being automatically uploaded to the Internet so that around 10,000 network adjustments are currently being made each week.

Fixed network

Broadband demand will continue to grow going forward. It has increased more than tenfold in ten years – with another growth surge prompted in particular by a heightened use of streaming services as well as an increase in video calls during the Covid-19 pandemic. For example, data usage per household in Europe increased by 40% within the space of one year. This is why Swisscom continually invests in network expansion and relies on both the latest technologies as well as digitisation (such as that offered by software-defined networking). Similarly, network security and protection against cybercrime are issues that are gaining importance. In collaboration with the Swiss National Bank and the SIX Group, Swisscom and other telecommunications service providers collaborated in 2021 to launch the Secure Swiss Finance Network (SSFN). This network is based on the innovative SCION Internet architecture developed at the ETH; Swisscom has been providing financial support for its development for ten years now. SCION technology offers a very high level of protection against cybercrime by operating the communications network separately from the conventional Internet and by clearly defining network users and data paths. Following a pilot project conducted within the SSFN framework, Swisscom is now offering products based on SCION technology to its business customers.

Convergent products

Swisscom developed a new device for Fixed Wireless Access (FWA) in 2021 that allows residential customers to use the mobile network as Internet access at home.

Internet of Things (IoT)

The Internet of Things (IoT) enables lucrative business models, automated processes, and novel customer interactions through smart products. Swisscom supports companies through various formats to successfully enter the IoT and to develop their systems further. Swisscom partnered with Microsoft to develop an advanced IoT solution for the Rhomberg Sersa Rail Group, a leading international full-service provider of railway technology. The solution collects position and operating data from the equipment, analyses the data with the help of artificial intelligence and evaluates it. This approach to digitised railway construction is already enabling faster and correspondingly more economical work processes in several countries.

At the same time, the IoT is becoming increasingly important to residential customers in their smart homes or on the move. The Swisscom Home app bundles smart helpers from ten manufacturers – like the Swisscom Smart Switch adapter, products from the Philips Hue family or devices from Sonos – and controls them centrally. Launched in 2021, the Home app offers even smarter rules for automating homes and using TVs as smart home devices. In turn, users can conveniently use their TV remote control to operate the Swisscom Home app and play stations offered by blue radio on Sonos speakers.

Analytics and artificial intelligence (AI)

Swisscom makes targeted use of artificial intelligence (AI) to offer its customers even better service and optimise processes. It uses AI in its customer service and to detect network faults, for example. Since last year, customers have been navigating the automated voice dialogue on the Swisscom hotline via AI-based speech recognition instead of conventional numerical inputs through the keypad. This makes it possible for customer concerns to be identified via an automated process, classified more quickly and for customers to be forwarded directly to the agent best qualified to assist them. Swisscom plans to expand the use of AI to customer service in other languages (French, Italian and English). Ongoing training of the AI application is improving the service continuously, so that certain customer enquiries can be resolved entirely via automated voice dialogue in the future. The same AI foundation is used in the Swisscom chatbot via webchat, Apple Business Chat (ABC), SMS and WhatsApp. The chatbot recognises customer enquiries and resolves them in an automated process whenever possible. If the chatbot is unable to resolve a case, it hands the case off to an agent. Currently, the Swisscom chatbot already provides answers and solutions to around 180 different questions. In addition, it is capable of resolving the ten most frequent customer enquiries completely independently.

Security

Security is part of Swisscom's values and culture. Threats from the Internet are constantly growing in number and becoming increasingly intelligent. Many processes and business models in today's companies are completely IT-based and thus become attractive targets for attackers. In addition, the use of multi-cloud and hybrid cloud solutions are making IT landscapes increasingly complex and vulnerable. By combining professional security services, skills, processes and tools, Swisscom offers highly effective security and thus the best possible protection for its customers, stakeholders and its own company. For business customers, Swisscom offers dedicated facilities through Managed Security Services to monitor and safeguard the infrastructure. In doing so, it adds new detection patterns to its Threat Detection & Response solutions and expands them to cover multi- and hybrid-cloud environments.

In addition to the high level of protection that the Swisscom network offers every user as well as its premium virus protection programme, Swisscom now also offers online identity protection to its Residential Customers, which protects their data from being stolen by viruses, hackers or spyware. Swisscom has also launched an Internet legal protection insurance policy (Cyber Insurance): This policy helps customers in cases of online crime such as cyberbullying or cyberattacks and offers protection for online shopping.

Entertainment

Swisscom combined all its entertainment offerings under the new 'Swisscom blue' product family in 2020 and expanded the Swisscom blue offering even further during the year under review. blue TV is now available on LG devices, Apple TV and on Wingo's TV box. A new sport hub on the TV makes sporting content even more enjoyable as it gives users direct access to highlights from current sporting events. Swisscom also provides its customers with a free media library entitled blue Play and launched the new Swisscom Box 21 in 2021, which features even lower energy consumption.

Digital Swisscom

In 2021, Swisscom again took further steps to digitise its network, jobs and processes, thereby consolidating its role as the leading service provider among Swiss telecommunications providers. The new My Swisscom app passed the test carried out by trade magazine connect and came in first place with the highest score among all service apps operated by European telecommunications companies. This app delights some 500,000 customers a month with its revamped areas for billing and cost-related information (including a link to the TWINT payment system), a shopping area with personalised content, the weekly 'Spin & Win' competition and user-relevant notifications.

Swisscom uses innovations from the field of digitisation on the customer channels it serves (such as in shops and call centres). During a pilot trial in 2021, for example, it successfully tested self-checkouts via the My Swisscom app in its own shop. In future, the self-checkout function will become an integral part of the My Swisscom app as one of the elements of the digital customer journey.

Digital business

In the field of digital business innovation, Swisscom supported developments within and outside its own company in 2021, by setting up and further developing joint ventures with strategic partners and promoting intrapreneurship. The Swisscom Digital Business Unit (DBU) focuses on digital services for SMEs via localsearch (Swisscom Directories Ltd), fintech activities and trust services. It is also continuously examining other action areas that could become relevant to its activities.

Swisscom Directories Ltd (localsearch)

Today, even small SMEs have to be competitive in the online world. The Swisscom subsidiary Swisscom Directories Ltd (localsearch) offers efficient marketing products that are geared to the needs of the SME segment: simple, inexpensive and time-saving solutions for the success of Swiss industry in the digital world. Thanks to localsearch products, SMEs can be found online, acquire new customers and retain existing ones. This is why localsearch brings the five principles of digital marketing to Swiss SMEs: seen, found, booked, bought and liked. In addition, localsearch operates the popular and well-used local.ch and search.ch directories.

Fintech

The fintech area of the Digital Business Unit focuses on the digital assets and trust services segments. In the digital assets segment, Swisscom is working on the future of the Swiss financial infrastructure. It does this jointly with daura ltd and Custodigit Ltd (in which it holds a minority interest). Using the digital share platform of daura ltd, the existing share register can be easily digitised, capital increases can be processed quickly and inexpensively, practically at the push of a button, and digital general meetings can be held. Custodigit Ltd offers regulated financial service providers an easy-to-integrate, secure platform to store and manage digital assets.

Trust services

Through its trust services, Swisscom, as a leading provider of trust services, aims to digitally issue, verify, transmit and store high-quality documents such as contracts, certificates and register extracts. Swisscom subsidiary Ajila AG is already providing major support to numerous Swiss companies and administrations to help them completely digitise their document-based business processes. Customer identification and onboarding as well as contract signings often pose bottlenecks in the customer journey. However, fully digital processes call for tools that avoid media discontinuity and integrate seamlessly into companies' offerings. This is ensured by Swisscom Trust Services, which is a leading provider in Switzerland and Europe of legally valid electronic signature and identity solutions in accordance with the EU's eIDAS Regulation and the Swiss Signatures Act ZertES. Swisscom transferred its existing trust services business division to the subsidiary Swisscom Trust Services Ltd in spring 2021.

Intelligent automobile networking

autoSense Ltd, a joint venture between Swisscom, AMAG and Zurich Insurance, focuses on the development of advanced automotive services. autoSense offers services related to the intelligent networking of cars for private individuals and companies as well as partner services. The portfolio of services includes 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 learners. The offering is constantly being expanded.

Intrapreneurship

Swisscom's efforts to promote intrapreneurship gave rise to an innovation programme entitled Getkickbox. This software structures the company's own innovation process and makes it easy to understand, thereby enabling easy access to this process for all employees. Whether it's a flash of inspiration or a sophisticated, carefully conceived innovation, everything can be fed directly into the Kickbox. The Getkickbox software solution gave rise to the new rready AG start-up during the year under review. rready's goal is to promote employees' innovativeness, structure innovation processes and make innovation management globally scalable for companies in the process.

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 2021 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.
At constant exchange rates	Key performance measures considering currency effects (figures for 2021 are translated at the 2020 exchange rate to calculate the currency effect).
Operating income before depreciation and amortisation (EBITDA)	Operating income before depreciation, amortisation and impairment losses 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.
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) minus capital expenditure in property, plant and equipment, intangible assets and payments for indefeasible rights of use (IRU) and lease expense. Lease expense includes interest expenses on lease liabilities and depreciation of rights of use excluding depreciation of indefeasible rights of use (IRU) and impairment losses on right-of-use assets.
Free cash flow	Cash flows from operating and investing activities excl. cash flows from the acquisition and sale of subsidiaries as well as income and expenses for equity-accounted investments and other financial assets.
Net debt	Financial liabilities less cash and cash equivalents, listed debt instruments, certificates of deposit, derivative financial instruments held for hedging financial liabilities and other current financial assets.
Net debt incl. lease liabilities	Net debt and lease liabilities.

Reconciliation of alternative performance measures

in million CHF	2021	2020	Change reported	Change at constant currencies
Net revenue				
Net revenue	**11,183**	**11,100**	**0.7%**	**0.6%**
Operating income before depreciation and amortisation (EBITDA)				
EBITDA	4,478	4,382	2.2%	2.0%
Termination benefits	14	–		
Gain from change in pension plan	(60)	–		
Additions to provisions for legal proceedings in Switzerland	52	–		
EBITDA adjusted	**4,484**	**4,382**	**2.3%**	**2.2%**
Capital expenditure				
Capital expenditure in property, plant and equipment and intangible assets	2,270	2,188	3.7%	3.5%
Payments for indefeasible rights of use (IRU)	16	41	–61.0%	–
Capital expenditure	**2,286**	**2,229**	**2.6%**	**2.3%**

In CHF million	2021	2020	Change
Operating free cash flow proxy			
Cash inflow from operating activities	4,044	4,169	(125)
Capital expenditure	(2,286)	(2,229)	(57)
Depreciation of right-of-use assets	(281)	(286)	5
Depreciation of indefeasible rights of use (IRU)	23	24	(1)
Impairment losses on right-of-use assets	1	7	(6)
Proceeds from finance leases	(112)	(100)	(12)
Change in deferred gain from the sale and leaseback of real estate	11	16	(5)
Change in operating assets and liabilities	(65)	(178)	113
Change in provisions	73	22	51
Change in defined benefit obligations	9	(65)	74
Gain on sale of property, plant and equipment	10	10	–
Expense for share-based payments	(1)	(1)	–
Revenue from finance leases	120	101	19
Interest received	(14)	(24)	10
Interest paid on financial liabilities	81	93	(12)
Dividends received	(1)	(15)	14
Income taxes paid	279	309	(30)
Operating free cash flow proxy	**1,891**	**1,853**	**38**
Free cash flow			
Cash inflow from operating activities	4,044	4,169	(125)
Cash flow used in investing activities	(2,120)	(2,331)	211
Repayment of lease liabilities	(259)	(287)	28
Acquisition of subsidiaries, net of cash and cash equivalents acquired	42	39	3
Proceeds from sale of subsidiaries, net of cash and cash equivalents sold	(1)	–	(1)
Purchase of equity-accounted investees	3	15	(12)
Proceeds from sale of equity-accounted investees	(149)	–	(149)
Purchase of other financial assets	73	121	(48)
Proceeds from other financial assets	(120)	(20)	(100)
Free cash flow	**1,513**	**1,706**	**(193)**

Summary

In CHF million, except where indicated	2021	2020	Change
Net revenue	11,183	11,100	0.7%
Operating income before depreciation and amortisation (EBITDA)	4,478	4,382	2.2%
EBITDA as % of net revenue	40.0	39.5	
Operating income (EBIT)	2,066	1,947	6.1%
Net income	1,833	1,528	20.0%
Earnings per share (in CHF)	35.37	29.54	19.7%
Operating free cash flow proxy	1,891	1,853	2.1%
Capital expenditure	2,286	2,229	2.6%
Net debt	5,689	6,218	–8.5%
Equity ratio	43.6	39.1	
Full-time equivalent employees	18,905	19,062	–0.8%

Swisscom's net revenue was up by 0.7% or CHF 83 million at CHF 11,183 million, while operating income before depreciation and amortisation (EBITDA) increased by 2.2% or CHF 96 million to CHF 4,478 million. Adjustments to post-employment benefits and provisions impacted EBITDA mainly in the Swiss core business, but these were balanced out across the Group as a whole. The consolidated net income of CHF 1,833 million is significantly higher than in the previous year (+20.0% or CHF 305 million), primarily due to non-recurring items in the financial result and the higher EBITDA. Payment of an unchanged dividend of CHF 22 per share for the 2021 financial year will be proposed to the Annual General Meeting.

In the Swiss core business, net revenue decreased by 0.2% or CHF 17 million to CHF 8,233 million. The continuing competitive and price pressure led to a 3.3% drop in revenue from telecoms services to CHF 5,478 million. By contrast, revenue in the solutions business with business customers increased by 5.0% or CHF 53 million. EBITDA in the Swiss core business decreased by 0.4% or CHF 13 million to CHF 3,453 million. On a like-for-like basis, there was an increase of 1.4%. The decline in revenue from telecoms services and the higher costs involved in services and subscriber acquisition and retention were offset by ongoing efficiency improvements. Revenue at the Italian subsidiary Fastweb increased by 3.8% or EUR 88 million to EUR 2,392 million. In the broadband business, Fastweb's customer base remained close to stable over the year at 2.75 million despite fiercer competition, while in mobile communications it grew by 26.1% to 2.47 million. EBITDA at Fastweb rose by 5.4% or EUR 42 million in local currency to EUR 826 million, as a result of the growth in revenue.

Swisscom's capital expenditure increased by 2.6% or CHF 57 million to CHF 2,286 million. Capital expenditure in the Swiss core business rose by 2.7% or CHF 43 million to CHF 1,642 million. Capital expenditure in broadband and mobile communications networks increased, while capital expenditure in other infrastructure decreased. Fastweb recorded an increase in capital expenditure of 2.4% or EUR 14 million to EUR 601 million as a result of higher customer-driven investments and higher investment in the mobile network infrastructure.

The operating free cash flow proxy increased by 2.1% or CHF 38 million to CHF 1,891 million. The improved operating income before depreciation and amortisation (EBITDA) was partially offset by the higher capital expenditure. Net debt decreased by 8.5% to CHF 5,689 million, while the net debt/EBITDA after lease expense ratio fell from 1.5 to 1.4.

The number of Swisscom employees decreased by 0.8% or 157 FTEs to 18,905 FTEs. In Switzerland, headcount decreased by 1.0% or 166 FTEs to 15,882 FTEs.

Swisscom expects net revenue of CHF 11.1 to 11.2 billion, EBITDA of around CHF 4.4 billion and capital expenditure of around CHF 2.3 billion for 2022. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2022 financial year at the 2023 Annual General Meeting.

Segment results

In CHF million, except where indicated	2021	2020	Change
Net revenue			
Residential Customers	4,592	4,560	0.7%
Business Customers	3,058	3,100	–1.4%
Wholesale [1]	971	976	–0.5%
Infrastructure & Support Functions	76	83	–8.4%
Intersegment elimination	(464)	(469)	–1.1%
Swisscom Switzerland	**8,233**	**8,250**	**–0.2%**
Fastweb	2,583	2,470	4.6%
Other Operating Segments	1,033	1,014	1.9%
Intersegment elimination	(666)	(634)	5.0%
Revenue from external customers	**11,183**	**11,100**	**0.7%**
Operating income before depreciation and amortisation (EBITDA)			
Residential Customers	2,771	2,698	2.7%
Business Customers	1,287	1,348	–4.5%
Wholesale	525	524	0.2%
Infrastructure & Support Functions	(1,131)	(1,104)	2.4%
Intersegment elimination	1	–	
Swisscom Switzerland	**3,453**	**3,466**	**–0.4%**
Fastweb	892	840	6.2%
Other Operating Segments	166	184	–9.8%
Reconciliation pension cost [2]	14	(65)	
Intersegment elimination	(47)	(43)	9.3%
Operating income before depreciation and amortisation (EBITDA)	**4,478**	**4,382**	**2.2%**

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.

Swisscom's reporting focuses on the operating divisions Swisscom Switzerland and Fastweb. The other business divisions are grouped together under Other Operating Segments. Swisscom Switzerland comprises the customer segments Residential Customers, Business Customers and Wholesale, along with the Infrastructure & Support Functions business 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).

For its services, the Infrastructure & Support Functions business division does not charge any network costs or management fees to other segments. All other services between the segments are charged at market prices. Network costs in Switzerland are budgeted, monitored and controlled by the Infrastructure & Support Functions segment, which is managed as a cost centre. For this reason, no revenue is credited to the Infrastructure & Support Functions segment within the segment reporting, with the exception of the rental and administration of buildings and vehicles. The results of the Residential Customers, Business Customers and Wholesale segments thus correspond to a contribution margin before network costs.

Swisscom Switzerland

In CHF million, except where indicated	2021	2020	Change
Net revenue and results			
Telecom services	5,478	5,667	–3.3%
Solution business	1,111	1,058	5.0%
Merchandise	776	759	2.2%
Wholesale	658	661	–0.5%
Revenue other	154	48	220.8%
Revenue from external customers	**8,177**	**8,193**	**–0.2%**
Intersegment revenue	56	57	–1.8%
Net revenue	**8,233**	**8,250**	**–0.2%**
Direct costs	(1,826)	(1,772)	3.0%
Indirect costs	(2,954)	(3,012)	–1.9%
Segment expenses	**(4,780)**	**(4,784)**	**–0.1%**
Segment result before depreciation and amortisation (EBITDA)	**3,453**	**3,466**	**–0.4%**
Margin as % of net revenue	41.9	42.0	
Lease expense	(232)	(232)	0.0%
Depreciation and amortisation	(1,475)	(1,509)	–2.3%
Segment result	**1,746**	**1,725**	**1.2%**
Operating free cash flow proxy			
Segment result before depreciation and amortisation (EBITDA)	3,453	3,466	–0.4%
Lease expense	(232)	(232)	0.0%
EBITDA after lease expense (EBITDA AL)	**3,221**	**3,234**	**–0.4%**
Capital expenditure	(1,642)	(1,599)	2.7%
Operating free cash flow proxy	**1,579**	**1,635**	**–3.4%**
Operational data in thousand and full-time equivalent employees			
Fixed telephony access lines	1,424	1,523	–6.5%
Broadband access lines retail	2,037	2,043	–0.3%
TV access lines	1,592	1,588	0.3%
Mobile access lines	6,177	6,224	–0.8%
Revenue generating units (RGU)	11,230	11,378	–1.3%
Broadband access lines wholesale	596	555	7.4%
Headcount	12,889	12,845	0.3%

Swisscom Switzerland's net revenue decreased by 0.2% or CHF 17 million to CHF 8,233 million. The continuing competitive and price pressure led to a drop of 3.3% or CHF 189 million in revenue from telecoms services to CHF 5,478 million. Of this decline, CHF 105 million (–2.7%) was attributable to the Residential Customers segment and CHF 84 million (–4.9%) to the Business Customers segment. By contrast, revenue from the solutions business increased by 5.0% or CHF 53 million to CHF 1,111 million.

The market is showing signs of saturation and competitive pressure in the area of mobile communications and fixed-network services. The subscriber base in mobile communications shrank by 0.8% or 47,000 year-on-year to 6.18 million. The number of postpaid lines increased by 128,000 year-on-year, while the number of prepaid lines decreased by 175,000. In the Residential Customers segment, the share of the secondary brand Wingo and third-party brands such as M-Budget Mobile and Coop Mobile in the postpaid portfolio increased from 19% to 23%. The number of broadband and TV connections remained virtually stable year-on-year, at 2.04 million broadband connections and 1.59 million for TV. As at the end of 2021, the Residential Customers segment had 2.52 million inOne customers. In this segment, inOne accounted for 66% of postpaid mobile lines and 81% of broadband connections. The number of fixed telephony access lines fell by 6.5% or 99,000 year-on-year to 1.42 million.

Segment expense fell by 0.1% or CHF 4 million to CHF 4,780 million. Direct costs increased by 3.0% or CHF 54 million to CHF 1,826 million. Costs for merchandise and services and costs for acquiring and retaining customers both went up. Indirect costs decreased by 1.9% or CHF 58 million to CHF 2,954 million. During 2021, indirect costs were also impacted by a CHF 52 million increase in provisions for litigation and an increase in provisions for headcount reduction. On a like-for-like basis, indirect costs fell by 4.0% or CHF 119 million, chiefly due to ongoing efficiency improvements. As a consequence of the acquisitions of Webtiser and JLS Digital, the number of employees increased by 0.3% or 44 FTEs to 12,889 FTEs. The segment result before depreciation and amortisation decreased by 0.4% or CHF 13 million to CHF 3,453 million, but increased by 1.4% on a like-for-like basis. The decline in revenue from telecoms services and the higher costs associated with services and subscriber acquisition and retention were offset by ongoing efficiency improvements. Capital expenditure rose by 2.7% or CHF 43 million to CHF 1,642 million. Capital expenditure on the expansion of broadband networks and mobile networks increased, while capital expenditure on other infrastructure decreased. As at the end of 2021, around 4.8 million Swiss homes and businesses, or 90% of the total, were connected with ultra-fast broadband exceeding 80 Mbps. More than 3.9 million homes and businesses, or 72% of the total, enjoy even faster connections with speeds of more than 200 Mbps.

There is currently a great deal of uncertainty shrouding the continued rolling out of the fibre-optic network to homes and businesses (FTTH), which Swisscom is implementing for the whole of Switzerland. In 2021, the Federal Administrative Court confirmed the precautionary measures taken by the Competition Commission in December 2020, which partly call into question Swisscom's network architecture. Until the situation is clarified, Swisscom is only building network elements relating to the P2P (point-to-point) network element (e.g. feeder to the home) or that are being built under cooperations.

Fastweb

In EUR million, except where indicated	2021	2020	Change
Net revenue and results			
Residential Customers	1,142	1,133	0.8%
Corporate Business	979	907	7.9%
Wholesale	263	257	2.3%
Revenue from external customers	**2,384**	**2,297**	**3.8%**
Intersegment revenue	8	7	14.3%
Net revenue	**2,392**	**2,304**	**3.8%**
Segment expenses	(1,566)	(1,520)	3.0%
Segment result before depreciation and amortisation (EBITDA)	**826**	**784**	**5.4%**
Margin as % of net revenue	34.5	34.0	
Lease expense	(54)	(52)	3.8%
Depreciation and amortisation	(590)	(577)	2.3%
Segment result	**182**	**155**	**17.4%**
Operating free cash flow proxy			
Segment result before depreciation and amortisation (EBITDA)	826	784	5.4%
Lease expense	(54)	(52)	3.8%
EBITDA after lease expense (EBITDA AL)	**772**	**732**	**5.5%**
Capital expenditure	(601)	(587)	2.4%
Operating free cash flow proxy	**171**	**145**	**17.9%**
Operational data in thousand and full-time equivalent employees			
Broadband access lines	2,750	2,747	0.1%
Mobile access lines	2,472	1,961	26.1%
Headcount	2,753	2,703	1.8%

Fastweb's net revenue rose by 3.8% or EUR 88 million year-on-year to EUR 2,392 million. Competition intensified in the broadband business. Fastweb's customer growth weakened in the course of the year. The customer base remained almost unchanged year-on-year, at 2.75 million (+0.1%). The number of mobile access lines increased by 26.1% or 511,000 year-on-year to 2.47 million, despite stiff competition. Bundled offers continue to play an important role. 38% of broadband customers use a bundled offering combining fixed network and mobile. Residential customer revenue rose by 0.8% or EUR 9 million to EUR 1,142 million as a result of customer growth. Fastweb is also growing in the business customer market. Revenue from business customers was up by 7.9% or EUR 72 million to EUR 979 million, driven by higher revenue from public authorities. Revenue from wholesale business increased by 2.3% or EUR 6 million to EUR 263 million.

The segment result before depreciation and amortisation was 5.4% or EUR 42 million higher at EUR 826 million on the back of the growth in revenue. Capital expenditure increased by 2.4% or EUR 14 million to EUR 601 million as a result of higher customer-driven investments and higher investments in the mobile network infrastructure. Fastweb's headcount increased by 1.8% or 50 FTEs to 2,753 FTEs as the company's growth created a need for more personnel.

Other Operating Segments

In CHF million, except where indicated	2021	2020	Change
Net revenue and results			
Revenue from external customers	431	445	–3.1%
Intersegment revenue	602	569	5.8%
Net revenue	**1,033**	**1,014**	**1.9%**
Segment expenses	(867)	(830)	4.5%
Segment result before depreciation and amortisation (EBITDA)	**166**	**184**	**–9.8%**
Margin as % of net revenue	16.1	18.1	
Lease expense	(11)	(12)	–8.3%
Depreciation and amortisation	(56)	(62)	–9.7%
Segment result	**99**	**110**	**–10.0%**
Operating free cash flow proxy			
Segment result before depreciation and amortisation (EBITDA)	166	184	–9.8%
Lease expense	(11)	(12)	–8.3%
EBITDA after lease expense (EBITDA AL)	**155**	**172**	**–9.9%**
Capital expenditure	(41)	(44)	–6.8%
Operating free cash flow proxy	**114**	**128**	**–10.9%**
Full-time equivalent employees			
Headcount	3,263	3,514	–7.1%

The net revenue of the Other Operating Segments rose by 1.9% or CHF 19 million to CHF 1,033 million. This was due to higher revenue from construction services provided by cablex. The segment result before depreciation and amortisation decreased by 9.8% or CHF 18 million to CHF 166 million, and the profit margin shrank accordingly to 16.1% (prior year: 18.1%). The headcount decreased by 7.1% or 251 FTEs to 3,263 FTEs, mainly as a result of the sale of the French subsidiary local.fr.

Pension cost reconciliation and intersegment eliminations

Net costs not allocated to the operating segments, which comprise pension cost reconciliation and intersegment elimination, fell by CHF 75 million year-on-year to CHF 33 million. The reconciliation item for pension cost is the difference between total employer contributions and the cost under IFRS. The first half of 2021 included a non-recurring expense reduction of CHF 60 million due to a change in plan. In addition, changes in assumptions (particularly with regard to the discount rate) led to lower costs. Intersegment elimination relates to intragroup profits on capitalised services of other Group companies.

Depreciation and amortisation, non-operating results

In CHF million, except where indicated	2021	2020	Change
Operating income before depreciation and amortisation (EBITDA)	**4,478**	**4,382**	**2.2%**
Depreciation and amortisation of property, plant and equipment and intangible assets	(2,131)	(2,149)	–0.8%
Depreciation of right-of-use assets	(281)	(286)	–1.7%
Operating income (EBIT)	**2,066**	**1,947**	**6.1%**
Net interest expense on financial assets and liabilities	(60)	(69)	–13.0%
Interest expense on lease liabilities	(44)	(45)	–2.2%
Other financial result	200	(38)	
Result of equity-accounted investees	(10)	4	
Income before income taxes	**2,152**	**1,799**	**19.6%**
Income tax expense	(319)	(271)	17.7%
Net income	**1,833**	**1,528**	**20.0%**
Attributable to equity holders of Swisscom Ltd	1,832	1,530	19.7%
Attributable to non-controlling interests	1	(2)	
Earnings per share (in CHF)	35.37	29.54	19.7%

Swisscom's net income rose by CHF 305 million or 20.0% to CHF 1,833 million, largely due to non-recurring items in the financial result and the higher EBITDA. Earnings per share rose accordingly from CHF 29.54 to CHF 35.37. Income before income taxes rose by 19.6%. The depreciation and amortisation of property, plant and equipment and intangible assets decreased by CHF 18 million or 0.8% year-on-year to CHF 2,131 million; these went down at Swisscom Switzerland and up at Fastweb. The non-recurring items in the financial result originate from the first quarter of 2021. As part of its strategic partnership with TIM, Fastweb transferred its stake in Flash-Fiber as a capital contribution to the newly established fibre-optic company FiberCop. This resulted in an upward revaluation of the participation recognised in the income statement of CHF 169 million. In addition, Swisscom realised a gain of CHF 38 million on the sale of its investment in Belgacom International Carrier Services. Income tax expense stood at CHF 319 million (prior year: CHF 271 million), which corresponds to an effective income tax rate of 14.8% (prior year: 15.1%).

Income taxes

Income tax expense increased by CHF 48 million year-on-year, from CHF 271 million to CHF 319 million, corresponding to an effective income tax rate of 14.8% (prior year: 15.1%) The tax expense in 2021 was positively impacted by the low taxation of income from participations and the capitalisation of deferred tax assets in connection with a change in Italian tax laws. Swisscom anticipates a future effective consolidated tax rate of 19.5%. The CHF 30 million decrease in income taxes paid to CHF 279 million was mainly due to the difference between the expense recorded and the payment of income taxes due.

In CHF million, except where indicated	Switzerland	Italy	Other countries	Total
2021 financial year				
Income before income taxes	1,827	306	19	2,152
Income tax expense	339	(22)	2	319
Effective income tax rate	18.6%	–7.2%	10.5%	14.8%
Income taxes paid	264	15	–	279
2020 financial year				
Income before income taxes	1,669	108	22	1,799
Income tax expense	242	25	4	271
Effective income tax rate	14.5%	23.1%	18.2%	15.1%
Income taxes paid	299	10	–	309

Swisscom operates principally in Switzerland and Italy, so the information on income taxes is divided into Switzerland, Italy and other countries.

Cash flows

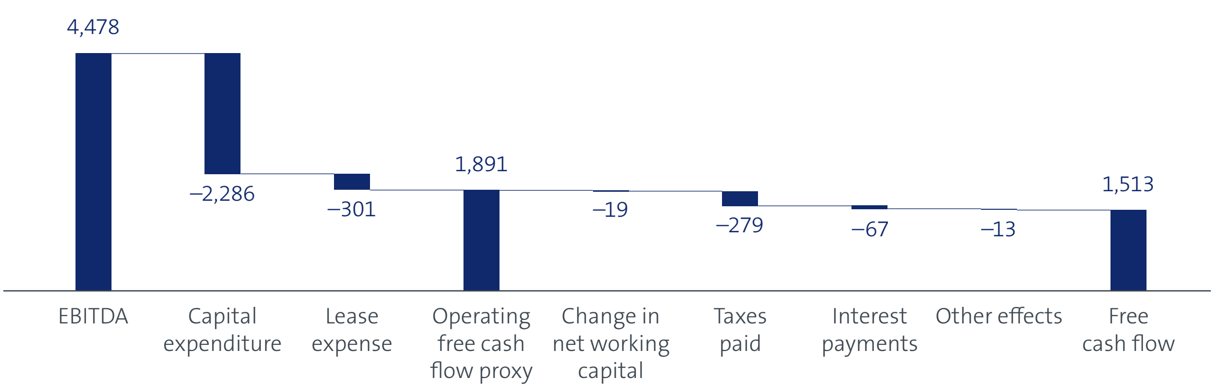
In CHF million	2021	2020	Change
Operating income before depreciation and amortisation (EBITDA)	4,478	4,382	96
Lease expense	(301)	(300)	(1)
EBITDA after lease expense (EBITDA AL)	**4,177**	**4,082**	**95**
Capital expenditure	(2,286)	(2,229)	(57)
Operating free cash flow proxy	**1,891**	**1,853**	**38**
Change in net working capital	(19)	140	(159)
Change in defined benefit obligations	(9)	65	(74)
Net interest payments on financial assets and liabilities	(67)	(69)	2
Income taxes paid	(279)	(309)	30
Other operating cash flow	(4)	26	(30)
Free cash flow	**1,513**	**1,706**	**(193)**
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Net expenditures for company acquisitions and disposals	105	(54)	159
Other changes	51	28	23
Decrease in net debt	**529**	**540**	**(11)**

The operating free cash flow proxy increased by 2.1% or CHF 38 million year-on-year to CHF 1,891 million. The higher operating income before depreciation and amortisation (EBITDA) was partially offset by the increased capital expenditure. Free cash flow decreased by 11.3% or CHF 193 million to CHF 1,513 million. Overall, net debt decreased by 8.5% or CHF 529 million to CHF 5,689 million.

The decrease in free cash flow was mainly attributable to the change in net working capital. Net working capital went up by CHF 19 million in 2021 (prior year: decrease of CHF 140 million). The change in defined benefit obligations includes a one-off adjustment of CHF 60 million arising from a plan amendment in the first half of 2021, which is recognised in EBITDA. In 2021, net cash inflows from acquisitions and disposals included the proceeds of CHF 126 million from the sale of the participation in Belgacom International Carrier Services. Swisscom paid an unchanged dividend of CHF 22 per share in 2021. This is equivalent to a total dividend payout of CHF 1,140 million.

Development of free cash flow

in CHF million



Capital expenditure

In CHF million, except where indicated	2021	2020	Change
Fixed access and infrastructure	428	438	–2.3%
Expansion of the fibre-optic network	555	519	6.9%
Mobile network	323	306	5.6%
Customer driven	64	76	–15.8%
Projects and others	272	260	4.6%
Swisscom Switzerland	**1,642**	**1,599**	**2.7%**
Fastweb	649	629	3.2%
Other Operating Segments	41	44	–6.8%
Elimination	(46)	(43)	7.0%
Total capital expenditure	**2,286**	**2,229**	**2.6%**
Thereof Switzerland	1,634	1,596	2.4%
Thereof other countries	652	633	3.0%
Capital expenditure as % of net revenue	20.4	20.1	

Capital expenditure climbed by CHF 57 million or 2.6% year-on-year to CHF 2,286 million, corresponding to 20.4% of net revenue (prior year: 20.1%). Swisscom Switzerland accounted for 72% of capital expenditure in 2021, and Fastweb for the remaining 28%.

Capital expenditure incurred by Swisscom Switzerland increased by CHF 43 million or 2.7% year-on-year to CHF 1,642 million, corresponding to 19.9% of net revenue (prior year: 19.4%). Swisscom invested CHF 53 million more than in the previous year in the expansion of fibre-optic broadband in the fixed network and in the expansion of the mobile network.

Fastweb increased its capital expenditure by CHF 20 million or 3.2% to CHF 649 million. Measured in local currency, capital expenditure increased by EUR 14 million or 2.4% to EUR 601 million as a result of higher customer-driven investments and higher investments in the mobile network infrastructure. The ratio of capital expenditure to net revenue consequently fell to 25.1% (prior year: 25.5%).

Net asset position

In CHF million	31.12.2021	31.12.2020	Change
Property, plant and equipment	10,771	10,725	46
Intangible assets	1,714	1,745	(31)
Goodwill	5,157	5,162	(5)
Right-of-use assets	2,134	2,138	(4)
Trade receivables	2,315	2,132	183
Receivables from finance leases	99	87	12
Trade payables	(1,600)	(1,525)	(75)
Provisions	(1,149)	(1,216)	67
Deferred gain on sale and leaseback of real estate	(95)	(106)	11
Other operating assets and liabilities, net	(438)	(240)	(198)
Net operating assets	**18,908**	**18,902**	**6**
Net debt	(5,689)	(6,218)	529
Lease liabilities	(2,017)	(1,988)	(29)
Defined benefit assets and obligations, net	(13)	(795)	782
Income tax assets and liabilities, net	(835)	(643)	(192)
Equity-accounted investees and other non-current financial assets	459	233	226
Equity	**10,813**	**9,491**	**1,322**
Equity ratio	43.6	39.1	

Operating assets

Net operating assets were unchanged at CHF 18.9 billion, of which CHF 12.5 billion or 66% was attributable to property, plant and equipment and intangible assets. The net carrying amount of goodwill was CHF 5.2 billion, the bulk of which relates to Swisscom Switzerland (CHF 4.3 billion). This goodwill arose primarily in 2007 in connection with the repurchase of the 25% stake in Swisscom Mobile Ltd sold to Vodafone in 2001. Following the repurchase, the mobile, fixed-network and solutions businesses were organisationally combined and merged to create the new company Swisscom (Switzerland) Ltd. The valuation risk of this goodwill item is extremely low. The net carrying amount of Fastweb's goodwill is EUR 0.5 billion (CHF 0.5 billion). The total carrying amount of Fastweb's net assets is EUR 3.4 billion (CHF 3.5 billion).

Post-employment benefits

Defined benefit obligations recognised in the consolidated financial statements are measured in accordance with IFRS provisions. Net defined benefit obligations were CHF 13 million. These were down steeply year-on-year, by CHF 782 million. The main reasons behind this were an increase in the interest rate used for the valuation, a change in the actuarial bases (in particular the life expectancy assumption) and a positive return on plan assets. Under the Swiss accounting standards applicable to the pension fund (Swiss GAAP FER), there is a funding surplus of CHF 2.0 billion, corresponding to a coverage ratio of 120% on the plan's assets of CHF 13.1 billion. The main reasons for the difference of CHF 2.0 billion compared with the measurement according to IFRS are twofold. Firstly, the use of different assumptions, in particular the interest rate for discounting future pension benefits, has a net effect of CHF 1.4 billion. Secondly, the valuation method treats future salary increases, contribution rates scaled by age group and early retirement differently, resulting in a net effect of CHF 0.6 billion. The ordinary pension cost recognised in personnel expenses in accordance with IFRS is significantly higher than the actual contributions made. The difference between the contribution payments and the IFRS expense is not included in the segment results; instead it is recognised in the reconciliation to EBITDA according to the consolidated financial statements. In 2021, a change in the pension plan resulted in a positive non-recurring effect in EBITDA of CHF 60 million and contributed to a positive overall reconciliation position of CHF 14 million (prior year: negative position of CHF 65 million).

Net debt

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	31.12.2021	31.12.2020
Ratio of net debt/EBITDA after lease expense		
Debenture bonds	5,564	6,110
Bank loans	488	484
Private placements	151	151
Other financial liabilities	242	297
Total financial liabilities	**6,445**	**7,042**
Cash and cash equivalents	(401)	(340)
Listed debt instruments	(278)	(271)
Derivative financial instruments for financing	(19)	(79)
Other current financial assets	(58)	(134)
Net debt	**5,689**	**6,218**
EBITDA after lease expense (EBITDA AL)	4,177	4,082
Ratio of net debt/EBITDA after lease expense	**1.4**	**1.5**
Ratio of net debt incl. lease liabilities/EBITDA		
Net debt	5,689	6,218
Lease liabilities	2,017	1,988
Net debt incl. lease liabilities	**7,706**	**8,206**
EBITDA	4,478	4,382
Ratio of net debt incl. lease liabilities/EBITDA	**1.7**	**1.9**

The ratio of net debt including lease liabilities to EBITDA was 1.7 at the end of 2021 (prior year: 1.9). Without classification of the leases as financial liabilities, the ratio of net debt to EBITDA after lease expense was 1.4 (prior year: 1.5). Both ratios reflect an improved debt situation compared with 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 2.1x EBITDA after lease expense was also complied with.

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 liabilities. The share of fixed-interest-bearing financial liabilities is 88%. At the end of 2021, the average interest expense on all financial liabilities was 0.9%, and the average residual term to maturity was 6.2 years. Swisscom also has two lines of credit totalling CHF 2.2 billion, which have not been used. Financial liabilities with a term of one year or less stood at CHF 0.6 billion at 31 December 2021.

Equity

Swisscom has equity of CHF 10.8 billion (prior year: CHF 9.5 billion) and an equity ratio of 43.6% (prior year: 39.1%). As the combined total of net income of CHF 1.8 billion and other comprehensive income of CHF 0.6 billion was higher than the dividend payment of CHF 1.1 billion, equity increased by CHF 1.3 billion. The foreign currency differences arising from the translation of foreign subsidiaries are recognised in equity. As a result of the weaker euro, cumulative currency translation losses increased by CHF 0.1 billion to CHF 1.9 billion (after tax) in 2021. 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 in the 2021 separate financial statements of Swisscom Ltd was CHF 4.8 billion. The difference of CHF 6.0 billion versus the equity reported in the consolidated balance sheet is largely due to earnings retained by subsidiaries and different accounting methods. Under accounting and measurement rules in 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 2021, Swisscom Ltd held distributable reserves of CHF 4.7 billion.

Financial outlook

Key figures or as noted	2021 reported	**2022 outlook** [3]
Net revenue		
Swisscom Group	**CHF 11,183 mn**	**CHF 11.1–11.2 bn**
Switzerland [2]	CHF 8,600 mn	CHF 8.5–8.6 bn
Fastweb	EUR 2,392 mn	~ EUR 2.5 bn
Operating income before depreciation and amortisation (EBITDA)		
Swisscom Group	**CHF 4,478 mn**	**~ CHF 4.4 bn** [1]
Switzerland [2]	CHF 3,586 mn	~ CHF 3.5 bn
Fastweb	EUR 826 mn	EUR 0.8–0.9 bn
Capital expenditure		
Swisscom Group	**CHF 2,286 mn**	**~ CHF 2.3 bn**
Switzerland [2]	CHF 1,637 mn	~ CHF 1.7 bn
Fastweb	EUR 601 mn	~ EUR 0.6 bn

1 EBITDA after lease expense (EBITDA AL) 2021: CHF 4,177 mn; EBITDA AL guidance 2022: ~ CHF 4.1 bn
2 Swisscom w/o Fastweb
3 Exchange rate CHF/EUR 1.04 (2021: CHF/EUR 1.08)

Swisscom expects net revenue of CHF 11.1 to 11.2 billion, EBITDA of around CHF 4.4 billion and capital expenditure of around CHF 2.3 billion for 2022. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2022 financial year at the 2023 Annual General Meeting.

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 its peers (European telecommunications companies) and with its own figure for 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	**31.12.2021**	31.12.2020
Enterprise value		
Market capitalisation	26,657	24,715
Net debt incl. lease liabilities	7,706	8,206
Defined benefit assets and obligations, net	13	795
Income tax assets and liabilities, net	835	643
Equity-accounted investees and other non-current financial assets	(459)	(233)
Non-controlling interests	2	1
Enterprise value (EV)	**34,754**	**34,127**
Operating income before depreciation and amortisation (EBITDA)	4,478	4,382
Ratio enterprise value/EBITDA	**7.8**	**7.8**

Swisscom's enterprise value increased by 1.8% or CHF 0.6 billion to CHF 34.8 billion in 2021. The main reason for this was the increase of CHF 1.9 billion in the company's market capitalisation to CHF 26.7 billion. The ratio of enterprise value to EBITDA remained at 7.8 on higher EBITDA. 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 income tax rates in Switzerland compared with 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.

In CHF million	2021 Switzerland	2021 Other countries	2021 Total	2020 Switzerland	2020 Other countries	2020 Total
Added value						
Net revenue	**8,579**	**2,604**	**11,183**	**8,614**	**2,486**	**11,100**
Capitalised self-constructed assets and other income	459	139	598	362	104	466
Direct costs	(1,840)	(939)	(2,779)	(1,784)	(885)	(2,669)
Other operating expense [1]	(1,184)	(661)	(1,845)	(1,147)	(641)	(1,788)
Lease expense	(243)	(58)	(301)	(244)	(56)	(300)
Depreciation and amortisation [2]	(1,500)	(635)	(2,135)	(1,531)	(618)	(2,149)
Intermediate inputs	**(4,308)**	**(2,154)**	**(6,462)**	**(4,344)**	**(2,096)**	**(6,440)**
Operating added value	**4,271**	**450**	**4,721**	**4,270**	**390**	**4,660**
Other non-operating result [3]			126			(110)
Total added value			**4,847**			**4,550**
Allocation of added value						
Employees [4]	2,412	269	2,681	2,428	224	2,652
Public sector [5]	320	17	337	317	14	331
Shareholders (dividends)			1,141			1,141
Third-party lenders (net interest expense)			60			69
Company (retained earnings) [6]			628			357
Total added value			**4,847**			**4,550**

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, 90% or CHF 4.3 billion was generated in Switzerland. Operating added value in Switzerland was unchanged year-on-year. The value added per FTE was CHF 267,000 (prior year: CHF 263,000). In addition to direct added value, purchases from suppliers provide significant indirect added value for Switzerland's economy. Taking into account capital expenditure instead of depreciation and amortisation, the purchasing volume in the Swiss business was around CHF 4.4 billion in 2021, with added value of approximately 60% or CHF 2.7 billion contributed by suppliers in Switzerland.

Capital market

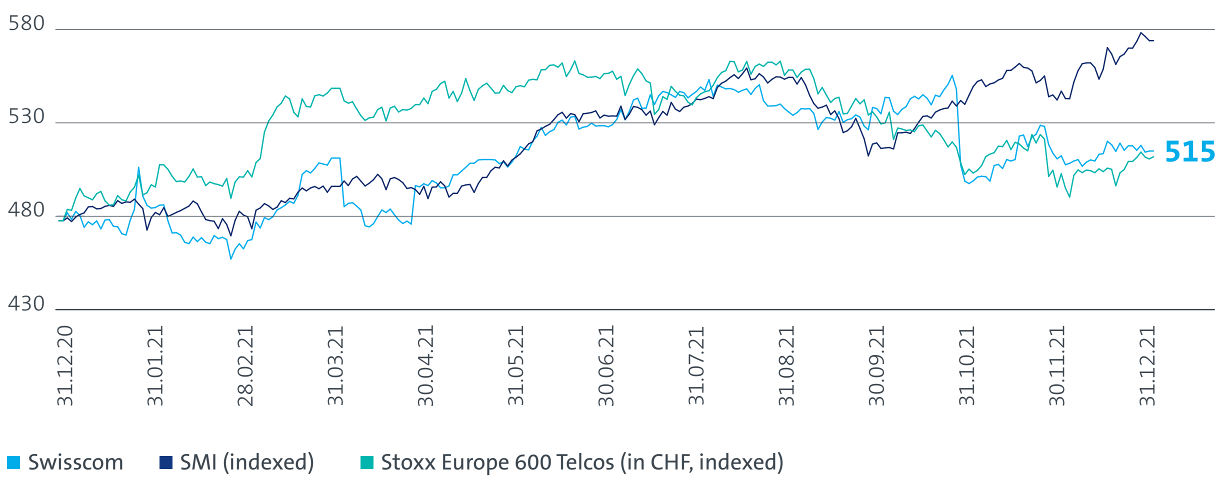
Swisscom achieved its financial targets in 2021 by consistently implementing its strategy, meaning it has succeeded in creating added value for shareholders once again this year. Thanks to its ratings of A (stable) from Standard & Poor's and A2 (stable) from Moody's, Swisscom is one of the best-rated telecommunications companies in Europe.

Swisscom share

Swisscom's market capitalisation as at 31 December 2021 amounted to CHF 26.7 billion (previous year: CHF 24.7 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 2021

in CHF



The Swiss Market Index (SMI) rose by 20.3% compared with the previous year. The Swisscom share price increased by 7.9% to CHF 514.60, lagging somewhat behind the performance of the Stoxx Europe 600 Telecommunications Index (+11.5% in EUR). The average daily trading volume decreased by 34% year on year to 118,509 shares. The total trading volume of Swisscom shares in 2021 was CHF 30.1 billion.

See www.swisscom.ch/shareprice

Shareholder return

On 05 April 2021, Swisscom paid out an ordinary dividend of CHF 22 per share. Based on the closing price at the end of 2020, this equates to a return of +4.6%. Taking into account the increase in the share price, the Swisscom share achieved a total shareholder return (TSR) of +12.9% in 2021. The TSR for the SMI was +23.7% and for the Stoxx Europe 600 Telecommunications Index +16.1% 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).

Shareholder structure

	31.12.2021			31.12.2020		
	Number of shareholders	**Number of shares**	**Share in %**	Number of shareholders	Number of shares	Share in %
Confederation	1	26,394,000	51.0%	1	26,394,000	51.0%
Natural persons	69,275	4,853,898	9.4%	69,308	4,817,812	9.3%
Institutions	2,772	10,484,218	20.2%	2,833	10,891,021	21.0%
Unregistered shareholdings	–	10,069,827	19.4%	–	9,699,110	18.7%
Total	**72,048**	**51,801,943**	**100.0%**	**72,142**	**51,801,943**	**100.0%**

The majority shareholder as at 31 December 2021 was the Swiss Confederation, which is obligated by current law to hold the majority of the capital and voting rights. As at 31 December 2021, some 19% of the shares were held in unregistered shareholdings, as in the previous year.

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-four analysts regularly publish studies on Swisscom. At the end of 2021, 17% of the analysts issued a buy rating for the Swisscom share, 50% a hold rating and 33% a sell rating. The average price target at 31 December 2021, according to the analysts' estimates, was CHF 502 per share.

Dividend policy

Swisscom pursues a return policy with a stable dividend. At the forthcoming Annual General Meeting on 30 March 2022, the Board of Directors will propose an unchanged ordinary dividend of CHF 22 per share for the 2021 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 35 billion to its shareholders: CHF 23 billion in dividend payments and CHF 12 billion in capital reductions and share buybacks. Swisscom has paid out a total of CHF 455 per share since the initial public offering. Together with the overall increase in share price of CHF 176 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 2021.

Risks

Changes in competition, customer behaviour, technologies and the regulatory framework are drivers of risk. Swisscom uses opportunities and minimises risks by adapting its business model, innovating and undergoing transformation. Its risk management system is responsible for protecting the value of the company based on measures introduced at an early stage.

Risk situation

Sales in the core business of Swisscom are under pressure from intense competition. New offerings in the areas of digitisation and IT services, such as cloud services, IT security and IoT solutions, are intended to compensate at least in part for sagging revenue from the core business. Market developments result in changes to the business model and demand a profound transformation of Swisscom's own company and efficiency improvement. The key risk factors are addressed below. The risk factors arising in the supply chain are described in the Sustainability Report.

See www.swisscom.ch/cr-report2021

Risk factors

Competitive dynamics in the telecommunications market

Competitive dynamics are currently being driven by infrastructure providers and service providers without their own network infrastructure. Swisscom is countering this pressure and the decline in revenue from the traditional telecommunications business by transforming the company and through constant innovation. Megatrends such as increasing 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. Swisscom conducts a comprehensive external environment analysis at least once a year in order to identify potential disruptions at an early stage, harness the opportunities these create and counter the risks in good time. It evaluates the future trends and developments identified by the analysis: for example, to categorise new, potentially disruptive developments and to model possible scenarios in a timely manner. Swisscom also produces regular analyses of the economic and regulatory environment. It also examines the activities of global Internet corporations in greater depth to identify relevant changes and respond with appropriate measures. To respond to changes in the market, Swisscom consistently focuses on customer needs when transforming its own company and optimises or adapts its processes and organisation.

Policy, regulation and compliance

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 threaten to fundamentally undermine the current competitive system. Swisscom's wide range of business activities, coupled with the complexity of the applicable regulations, calls for an effective compliance management system (CMS). Swisscom's central CMS covers the entire Group. It monitors group-wide adherence to laws relating to anti-corruption, money laundering, banking, data protection and confidentiality, antitrust and competition, telecommunications, stock exchange and product safety.

Increasing bandwidth in the access network

Customer demand for broadband access is growing rapidly, as is the growing popularity of mobile devices and IP-based (Internet Protocol-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. Swisscom also enters into partnerships for network expansion. 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.

Competitive dynamics and regulation in Italy

The competitive dynamics in Italy carry risks that have a detrimental impact on Fastweb's strategy and could jeopardise projected revenue growth as a result. In particular, risks may arise in connection with the entry of new competitors in the market. Fastweb is countering this pressure by constantly adapting its services, organisation, processes and partnerships. Changes in the legal and regulatory environment can have a negative impact on business activities and thus also on the value of the company.

Business interruption

Usage of Swisscom Switzerland's and Fastweb'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 activities) 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'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. Constant innovations and the capacity they create go hand in hand with new opportunities as well as new risks. Even if the rise in security threats posed by cyber attacks is making prevention increasingly difficult, the objective is to identify potential risks at an early stage, systematically document them and take appropriate steps to sustainably reduce them.

Health and the environment

In the year under review, claims were again made that electromagnetic radiation (e.g. from mobile antennas or mobile handsets) is potentially harmful to health. Under the terms of the Ordinance on Non-Ionising Radiation (ONIR), Switzerland has adopted the precautionary principle. It has introduced limits for base stations that are ten times stricter than both those prescribed by the WHO and the legal provisions in neighbouring countries and they apply to all mobile frequencies (including 5G). The public's wary attitude towards 5G, in particular when it comes to mobile communication antennas, is impeding Swisscom Switzerland'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 climatic parameters (e.g. increased average or extreme temperatures, more intense precipitation, melting permafrost), changes in the legal framework and other economic or 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 reflects the various emissions scenarios and 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 annual climate report and takes into account the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in the areas of governance and strategy. Swisscom made progress in 2021 in its efforts to implement the recommendations of the TCFD.

See www.swisscom.ch/climatereport2021