
Annual Report 2020
swisscom
We are
ready

Annual Report publications

The Annual Report, Sustainability Report and “2020 at a glance” together make up Swisscom’s reporting on 2020. The three publications are available online at: **swisscom.ch/report2020**

Concept “ready”

With the brand platform “ready”, Swisscom also wants to revitalise its brand internally and externally and make the networked future accessible to its customers in a simple way.

The pictures in the Annual Report 2020 show Swisscom employees who were also ready in this extraordinary year in order to enable our customers, for their part, to be “ready for life”.

The cover of the Annual Report and “2020 at a glance” shows Dilan Mert, Shop Manager Shopville at Zurich Main Station.

The cover page of the Sustainability Report shows Saskia Günther, the new head of the Sustainability Team.

A big thank you to all who took time to pose for these photographs and film recordings: Lorenz Inglin, Florian Leibenzeder, Florian Badertscher, Sebnem Kaslack, Stefan Kuch, Reto Jost, Pascal Salina, Carmen Wäfler, Markus Gisi, Cloé Zähringer-Cela, Dilan Mert, Dany Kammacher, Patrick Weibel, Barbara Pytlik, Klaus Liechti, Luigi Chiofalo, Saskia Günther and Giulia Langhi.

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2020 in review

Net revenue billion CHF **11.1** ▼ 3.1%	EBITDA billion CHF **4.4** ▲ 0.6%	Capital expenditure billion CHF **2.2** ▼ 8.6%
Net income billion CHF **1.5** ▼ 8.4%	Net debt to EBITDA after leases ratio **1.5** ▼ 0.2	Equity ratio % **39.1** ▲ 2.5 PP
Employees (full-time equivalent) **19,062** ▼ 1.3%	Dividend per share CHF **22** ▶	Total shareholder return Swisscom share % **-3.0** ▼ 17.3 PP

World champion in sustainability

Swisscom named world's most sustainable telecommunications company.

Climate-neutral operations

The company has itself saved 80% of emissions and now offsets the other 20% with myclimate.

The world premiere:

50

Gbps

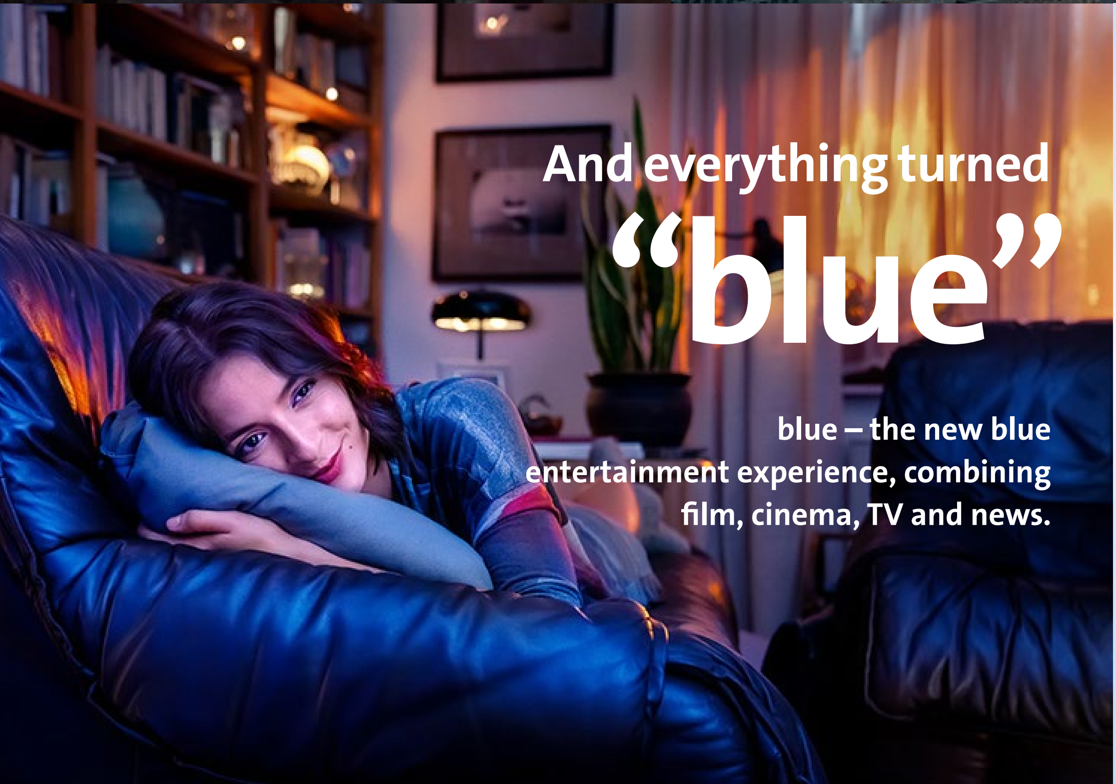
Achieved for the first time by Swisscom in a real fixed network environment.

Fastweb is growing!

Fastweb has more customers, more revenue and more EBITDA.

CHF 1.6 billion

Invested by Swisscom in Swiss network expansion and maintenance.



And everything turned

"blue"

blue – the new blue entertainment experience, combining film, cinema, TV and news.

Test winner

No. 1

in all mobile network tests in Switzerland.

KPIs

In CHF million, except where indicated		2020	2019	Change
Net revenue and results [1]				
Net revenue		11,100	11,453	–3.1%
Operating income before depreciation and amortisation (EBITDA)		4,382	4,358	0.6%
EBITDA as % of net revenue	%	39.5	38.1	
EBITDA after lease expense (EBITDA AL)		4,082	4,064	0.4%
Operating income (EBIT)		1,947	1,910	1.9%
Net income		1,528	1,669	–8.4%
Earnings per share	CHF	29.54	32.28	–8.5%
Balance sheet and cash flows [1]				
Equity		9,491	8,875	6.9%
Equity ratio	%	39.1	36.6	
Operating free cash flow proxy		1,853	1,626	14.0%
Capital expenditure		2,229	2,438	–8.6%
Net debt		6,218	6,758	–8.0%
Operational data				
Fixed telephony access lines in Switzerland	in thousand	1,523	1,594	–4.5%
Broadband access lines retail in Switzerland	in thousand	2,043	2,058	–0.7%
TV access lines Switzerland	in thousand	1,554	1,555	–0.1%
Mobile access lines in Switzerland	in thousand	6,224	6,333	–1.7%
Revenue generating units (RGU) Switzerland	in thousand	11,344	11,540	–1.7%
Broadband access lines wholesale in Switzerland	in thousand	555	515	7.8%
Broadband access lines in Italy	in thousand	2,747	2,637	4.2%
Mobile access lines in Italy	in thousand	1,961	1,746	12.3%
Swisscom share				
Number of issued shares	in thousand	51,802	51,802	–
Market capitalisation		24,715	26,554	–6.9%
Closing price at end of period	CHF	477.10	512.60	–6.9%
Closing price highest	CHF	577.80	523.40	
Closing price lowest	CHF	446.70	441.10	
Dividend per share	CHF	22.00 [2]	22.00	–
Employees				
Full-time equivalent employees	number	19,062	19,317	–1.3%
Average number of full-time equivalent employees	number	19,095	19,561	–2.4%

1 Swisscom uses various alternative performance measures. The definition and reconciliation of values in accordance with IFRS are set out in the chapter on financial review.

2 In accordance with the proposal of the Board of Directors to the Annual General Meeting.

Business overview

Swisscom Switzerland

Residential Customers
The Residential Customers division provides mobile and fixed-line services in Switzerland, such as fixed-line telephony, broadband, TV and mobile communications.

Business Customers
Business Customers offers telecom services and overall communications solutions for large corporations and SME customers in Switzerland. The offering in the area of business ICT infrastructure covers the entire range from individual products to complete solutions.

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

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

Fastweb

Fastweb provides broadband and mobile phone services to residential, business and wholesale customers in Italy. The offering includes telephony, broadband and mobile services. Fastweb also offers comprehensive ICT solutions for business customers.

Other Operating Segments

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

	Swisscom Switzerland	Fastweb	Other Operating Segments
Revenues	CHF 8.3 bn	CHF 2.5 bn	CHF 1.0 bn
EBITDA	CHF 3.5 bn	CHF 0.8 bn	CHF 0.2 bn

Solid performance – despite extraordinary year

From left: Urs Schaeppi, CEO Swisscom Ltd and Hansueli Loosli, Chairman of the Board of Directors Swisscom Ltd.

Dear Shareholders

If proof were needed of how important digitisation is for society and the economy, then an extraordinary 2020 provided it in emphatic style. Home working, remote learning, online shopping and video calls all helped to alleviate some of the major disadvantages of the lockdown. It was a similar story at Swisscom: even though more than 80% of our employees worked from home, we maintained high productivity and achieved a solid financial result. We also set our future course through various innovations in our networks and the bundling of our entertainment offering under the "Swisscom blue" brand. Moreover, we were especially pleased to see Swisscom named the world's most sustainable telecommunications company and to witness our Italian subsidiary Fastweb grow in all segments.

A solid financial performance...

Swisscom performed well in the year under review despite fierce competition and high price pressure. Net revenue decreased by 3.1% to CHF 11,100 million, while operating income before depreciation and amortisation (EBITDA) rose by 0.6%. On a like-for-like basis and at constant exchange rates, revenue declined by 2.3% while EBITDA remained stable. The decline in revenue was primarily driven by ongoing price pressure and the impact of Covid-19 – in particular, the lack of roaming revenue. At EBITDA level, the decline in revenue was offset by efficiency improvements. Net income fell by 8.4% to CHF 1,528 million due to the absence of one-off effects in income tax expense of the previous year.

Thanks to outstanding performance and rigorous cost management

Excellent networks, innovative products and services and a committed customer service team form the basis for a high level of customer satisfaction and thus our success in the market. However, the pace of digitisation and intense competition are also calling for rigorous cost management. As announced in 2016, Swisscom plans to lower its cost base by CHF 100 million annually. In 2020, we even exceeded this target with a reduction of CHF 129 million. We are planning further cost reductions of CHF 100 million per year up to 2022.

And thanks to Fastweb

In 2020, Fastweb continued its successful path in Italy. In the fixed-network business, it increased the number of broadband customers to 2.75 million (+4.2%) and the number of mobile customers to a total of 1.96 million (+12.3%), despite considerable price pressure. As a result, Fastweb achieved total revenue of EUR 2,304 million (+3.9%) and operating income before depreciation and amortisation (EBITDA) of EUR 784 million (+4.5%).

Fastweb is the clear number two in the Italian broadband market thanks to its market share of around 16% among residential customers, 34% among large companies and 40% among public authorities. Europe's fourth-largest market continues to offer exciting growth opportunities. Fastweb signed a co-investment agreement in August for the nationwide rollout of FTTH in Italy. In the mobile market, Fastweb is working with Wind Tre to build a 5G mobile network that will provide 30% coverage by 2023 and even 90% coverage by 2026.

Increased demands on networks due to the Covid-19 pandemic

Demands on network stability and availability rose sharply in the year under review as a result of the Covid-19 pandemic, making the network outages at the beginning of the year all the more painful. These fell far short of our high standards, but were resolved quickly thanks to efficient and immediate action. Our networks were fully available again during the lockdown and coped with the massively higher load without any problems.

Swisscom is proactively expanding its network infrastructure. In the year under review, Swisscom invested CHF 2.2 billion in the expansion of its IT and infrastructure, around CHF 1.6 billion of which was spent in Switzerland.

Thanks to the over 4.4 million ultra-fast broadband connections installed to date, Swisscom is on course to meet its expansion target of delivering speeds of at least 80 Mbps to 90% of all businesses and homes in every Swiss community by 2021. And that is by no means the limit of its ambitions. As set out in its network strategy for the period to the end of 2025, which was unveiled in 2020, Swisscom intends to double its fibre-to-the-home (FTTH) coverage and provide up to 60% of homes and businesses with bandwidths of 10 Gbps.

Winner in all Swiss mobile tests, but…

Swisscom provides its customers with an excellent mobile network that came out on top in all of Switzerland's mobile tests in the year under review. We were also pleased to be rated the third-best mobile provider in Europe.

So far, so good, but mobile expansion can no longer keep up with the increasing volume of data traffic. While data traffic grew by 29% in 2020, we were only able to increase the capacity of our networks by 5%. 5G could ease the situation with the necessary hardware adjustments, but expansion is stalling as a result of resistance and regional moratoria. The concerns about 5G lack a factual basis: international expert organisations, such as the World Health Organisation (WHO), confirmed once again in 2020 that the recommended international limits ensure there are no health risks associated with 5G.

inOne – bundled success

The attractive inOne bundled offering is performing well in a largely saturated and heavily promotion-driven residential customers market. Swisscom had 2.45 million inOne customers at the end of 2020 (+4.8%). In total, Swisscom has 3.6 million broadband and TV customers (–0.4%) and 6.22 million mobile customers (–1.7%). There was strong growth in home networking (smart home) solutions for controlling lighting, music or alarm systems via the Swisscom Home app, with customer numbers rising by 39%.

blue – Swisscom's new world of entertainment

In September 2020, Swisscom bundled its entertainment services – Bluewin, Swisscom TV, Teleclub and Kitag – to create the new "Swisscom blue" product family. The blue entertainment package is now also available via an app on any smartphone and tablet, not only for Swisscom customers but also for those of our competitors, thus enabling us to extend the reach of the blue offering.

The broadest blue TV package is still only available in combination with the Swisscom Box. This now also allows access to the streaming services of Amazon and the "MySports" channels with the ice hockey matches of the Swiss National League.

Tough competition in corporate business

The Covid-19 pandemic has been an additional catalyst driving digitisation in companies. As an integrated telecommunications and IT company, Swisscom is ideally positioned to meet the growing demand for cloud, security and unified communication & collaboration solutions (e.g. conferencing services). Revenue from the solutions business was almost unchanged in 2020, at CHF 1,058 million (+0.9%).

"We were especially pleased to see Swisscom named the world's most sustainable telecommunications company and to witness Fastweb's growth in all segments."

Swisscom offers small businesses "inOne SME", a standardised yet individual bundled package for Internet and telephony. Larger SMEs or those with more complex needs can use "Smart Business Connect", an individualised communication solution with collaboration and networking features.

Ready together – especially in the extraordinary year 2020

Swisscom launched the brand platform "ready" in order to revitalise its brand both internally and externally. During the lockdown we supported our customers with a "ready together" package of measures: residential customers without a flat-rate mobile subscription received additional data allowances and higher Internet speeds of at least 50 Mbps, while customers stranded abroad were given additional roaming credit. SMEs and schools benefited from home working solutions offering faster Internet speeds. Swisscom also helped SMEs create online offerings.

Sustainability is an integral element of Swisscom's DNA

Swisscom's recognition as the world's most sustainable telecommunications company is not only confirmation of our 20-year journey, but above all an incentive to continue on this path. The key milestones in 2020 were converting to climate-neutral operations, providing a carbon offsetting offer on the purchase of new smartphones, and becoming the first listed Swiss company to place a green bond, with a volume of EUR 500 million.

Network innovations and new growth

Swisscom unveiled two important network innovations in 2020. In the fixed network, Swisscom achieved a bandwidth of 50 Gbps in the access network under real conditions – a world first that should be ready for the market in two years. In mobile communications, Swisscom achieved download speeds of over 1.2 Gbps for the first time in a moving train – important for passengers and safety-critical rail applications.

Swisscom is targeting further growth in its core business and related areas, such as Fastweb in Italy and digital entertainment services with blue, Smart Life and artificial intelligence and security for companies, banks and the healthcare sector.

Shareholder return

Swisscom pursues a return policy with a stable dividend. In 2020, Swisscom paid an ordinary dividend of CHF 22 per share. The Swiss Market Index (SMI) rose by 0.8% compared with the previous year, while the Swisscom share price fell by 6.9% to CHF 477.10.

"Swisscom came out on top in all of Switzerland's mobile tests last year. We were also pleased to be rated the third-best mobile provider in Europe."

Outlook

Swisscom expects net revenue of around CHF 11.1 billion, EBITDA of around CHF 4.3 billion and capital expenditure of around CHF 2.3 billion (around CHF 1.6 billion of which in Switzerland) for 2021. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2021 financial year at the 2022 Annual General Meeting.

Sincerest thanks

The motto of this annual report is "ready". This year, our employees demonstrated that they are ready to serve their customers even in extraordinary situations and from their home office. This commitment and motivation deserve our respect. Many thanks!

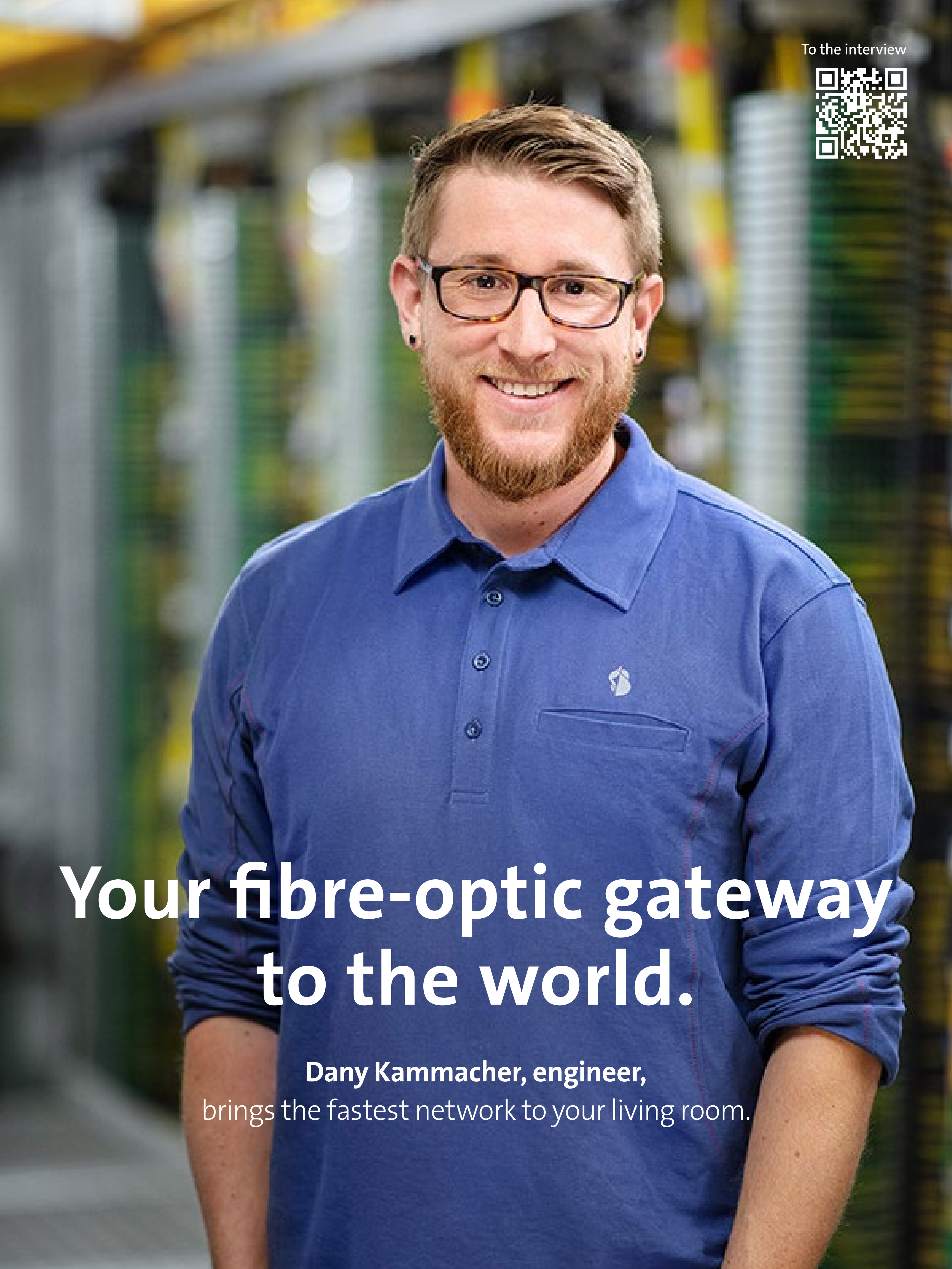
You too, dear shareholders, can rely on this Swisscom spirit – in the current crisis, but also as we continue on our journey to a successful future. We would like to thank you for your loyalty and hope that you remain ready and willing to place your trust in us.

Kind regards

Hansueli Loosli
Chairman of the Board of Directors
Swisscom Ltd

Urs Schaeppi
CEO Swisscom Ltd

From left: Stefan Kuch, Sebnem Kaslack, Lorenz Inglin, Florian Badertscher, Florian Leibenzeder


To the interview
Your fibre-optic gateway to the world.
Dany Kammacher, engineer,
brings the fastest network to your living room.

Management Commentary

Strategy and environment

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

Corporate strategy

Swisscom is Switzerland's largest telecom provider and through its subsidiary Fastweb it has an alternative telecom service provider in the Italian market.

Swisscom is the market leader in Switzerland for mobile telecommunications, fixed network and television. It also occupies a leading market position in a wide range of IT business segments.

Swisscom operates in a very dynamic environment. Megatrends such as demographic change, customisation and altered perceptions regarding health are indelibly shaping and altering our society and the economy and therefore have a long-term impact on the activities of Swisscom. The rollout of the 5G mobile communications standard, the increasing penetration of cloud and edge computing, the growing importance of voice recognition and the advancements made in the field of artificial intelligence are short- to medium-term trends that impact Swisscom's business. Finally, the global Covid-19 pandemic has left its mark on the year under review. Not only has it had a direct impact on Swisscom's business performance, it is also affecting some of the trends mentioned above. The pandemic has shown how important good network performance is for customers. Expectations regarding the stability and availability of the networks will continue to increase. The pandemic will further accelerate digitisation as it penetrates more and more into all spheres of life. This will increase the acceptance and share of teleworking, accelerate the digitisation of supply chains and boost automation efforts. The pandemic has also permanently changed the usage behaviour of customers, 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.

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.

Swisscom is a market, technology and innovation leader in Switzerland with high quality standards, connecting both residential and corporate customers. It is at the heart of digitisation and enables its customers to seize the opportunities presented by the networked world without difficulty. In everything it does, Swisscom focuses on people's needs. Its employees work in concert to provide inspirational experiences. Swisscom is committed and trustworthy in its actions and consistently seeks to learn new things and develop itself further, without ever losing sight of what is important when pursuing its goals. What matters most to Swisscom is its customers' trust in it. That trust is strengthened by Swisscom's 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. These aspirations define its strategy.

Swisscom strategy

Best customer experience

Swisscom wants to inspire its customers by providing them with the best service at all times, regardless of their location. The customer experience is based on a high-performance infrastructure: Swisscom offers its customers the latest IT and communications infrastructure and develops these on an ongoing basis. Customer requirements for networks are constantly growing. As a result, Swisscom is setting up and operating high-performance networks that are top in terms of security, availability and coverage. In the year under review, the Swisscom network again won numerous tests. Moreover, as experience with the Covid-19 lockdown has shown, Swisscom's network infrastructure coped very well with the massive increase in usage intensity. Swisscom has set 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 set to double to up to 60% compared with 2019. 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. Restrictions, such as moratoria in some cantons, are currently hindering the creation of urgently needed capacity for 4G and 5G. The Swisscom Cloud forms the basis for new, scalable offerings produced in Switzerland. Swisscom complements its own cloud with global solutions (such as Amazon Web Services and Microsoft Azure), thereby operating as a service provider that integrates solutions into hybrid environments.

The relationship with customers is at the heart of Swisscom's success. Swisscom's main guiding principles are to provide the best service and inspirational experiences across the board. Swisscom provides customers with expert guidance. They enjoy a local, flexible and personalised service and an easy online user experience. Swisscom is reducing complexity and providing relevant, advanced offerings. The flexible, modular inOne subscription continues to enjoy growing popularity among retail customers and is thus a key driver of convergence. In the area of entertainment propositions, Swisscom launched the "Swisscom blue" product family: a comprehensive entertainment experience with new offers and new content that can be accessed from anywhere. The basis for this new offering is blue TV. This is available via the Swisscom Box and via an app for smart TV sets as well as on the set-top boxes of competitors. Bluewin now functions as blue News, and blue+ is becoming the leading Swiss streaming and pay TV provider. Kitag cinemas will also become part of the new world of experience as blue Cinema.

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. For example, Swisscom has expanded its cloud offering for SMEs with Microsoft Azure.

Microsoft Azure is distributed through local Swisscom partners and provides SMEs with the required capacities flexibly and without prior IT investments. During the nationwide Covid-19 lockdown, one of the ways in which Swisscom supported business customers was with free home office solutions as a quick and pragmatic response to changing needs. In the business customer segment, customer needs are shifting towards standardised products. Thanks to the new organisation, in place since 1 January 2020, and the establishment of the Business Customers division, Swisscom is able to offer business customers an even more consistent product and customer experience.

Operational excellence

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

New growth

The market for telecommunications in Switzerland is saturated, especially for broadband and TV, but Swisscom expects further moderate volume growth in the postpaid segment of mobile communications. Price pressure will remain high in all markets, and Swisscom therefore expects revenue to decline slightly in the telecommunications market as a whole. Market experts believe the IT services market will continue to enjoy moderate growth over the next few years, being driven by the growing use of ICT in many industries. Due to the Covid-19 pandemic, any forecast of economic development is subject to very considerable unknowns, leading to uncertainties particularly with regard to the development of the market for IT services.

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, Swisscom intends to exploit growth opportunities, e.g. in the Internet of Things (for both residential and business customers), in the area of wholesale and in respect of secondary and third-party brands. In the IT sector, the focus is on security, cloud and ICT consulting. Growth in new business areas will come from fintech activities, digital services for SMEs provided by localsearch (Swisscom Directories Ltd), trust services and blockchain-based services. Swisscom actively 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 growth and makes increased use of partnerships.

Fastweb

The subsidiary Fastweb is an infrastructure-based, alternative provider for residential and business customers in Italy. It offers fixed-line and mobile services. In Italy, Swisscom expects further market growth in broadband, especially as broadband penetration in Italy remains relatively low, whereas the mobile communications market is highly saturated.

Fastweb is making a significant contribution to growth in Italy in the areas of broadband and mobile communications – among both residential and business customers. It is strengthening its market position through targeted investments, particularly in mobile communications. Swisscom maintains Fastweb's growth course and further develop the company profitably. Fastweb is positioning itself as a convergent 5G provider. The partnership forged with Wind Tre in 2019 has an important role to play in making the acquired mobile spectrum commercially viable and is accelerating the launch of 5G. Fastweb's convergent offerings are characterised by transparency, fairness and simplicity. High quality of service and the use of partnerships are also important. For business customers, Fastweb is making strategic expansions to its portfolio 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 ultra-fast broadband or with the connection of mobile communications sites to the fibre-optic network. Fastweb is continuing to expand its own ultra-fast broadband network. Thanks to the use of 5G Fixed Wireless Access (FWA) technology, Fastweb can reach significantly more homes and businesses with its own network than before.

Transformation

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

Sustainability strategy

Digitisation is having a growing impact on the economy and society. As one of Switzerland's leading ICT companies, Swisscom bears a special responsibility in this respect. Swisscom wants to recognise the opportunities and risks of digitisation and play as full a role as possible in helping shape the future of the country. Swisscom has defined three fields of activity in which it wants to make contributions: promoting digital competency, contributing to climate protection and providing a reliable and secure ICT infrastructure. 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. These objectives also make a contribution towards the 17 Sustainable Development Goals of the United Nations. Further information can be found in the separate Sustainability Report.

See www.swisscom.ch/sustainability

Promoting digital competency

While technologies advance at great speed, people's skills do not simply change without help. Competent handling of digital media is important in all areas of life. Whether at school, at work, as parents, in politics or in retirement – all areas of life come into contact with the networked world, and people have to keep pace with the new demands so that they can exploit the opportunities that arise.

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 two million people annually to improve their skills in the digital world. New educational opportunities for schools, the adults, 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. This action area also includes the commitment to barrier-free access to all of the company's services.

Contributing to climate protection

Climate change is affecting the basic resources needed to sustain life in Switzerland. All countries must contribute to climate protection. Digitisation brings with it promising opportunities for this purpose.

Ready for the environment

Swisscom cares about the environment. It is working with its customers to reduce net CO_2 emissions by 500,000 tonnes by 2025. This corresponds to 1% of Switzerland's greenhouse gas emissions.

Reliable and secure ICT infrastructure

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

Ready for Switzerland

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

Objectives and achievement of targets

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

	Objectives	Target achievement 2020
Financial targets		
Net revenue	Net revenue for the year 2020 [1] of around CHF 11.0 billion	CHF 11,100 million
Operating income before depreciation and amortisation (EBITDA)	EBITDA for the year 2020 of around CHF 4.3 billion	CHF 4,382 million
Capital expenditure	Capital expenditure for the year 2020 of around CHF 2.3 billion	CHF 2,229 million
Operational Excellence	Reduction of cost base 2020 in Swiss business by CHF 100 million	CHF 129 million
Other targets		
Ultra-fast broadband in Switzerland [2]	Coverage 95% by the end of 2025 with more than 80 Mbps and up to 500 Mbps	82%
Ultra-fast broadband in Switzerland [2]	Coverage 50–60% by the end of 2025 with up to 10 Gbps	32%

1 As communicated during 2020, the 2020 financial targets have been adjusted as follows, primarily as a result of Covid-19: Net revenue from around CHF 11.1 billion to CHF 11.0 billion.

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

General conditions

Market environment

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

	Unit	2016	2017	2018	2019	2020
Change GDP Switzerland	in %	1.4	1.0	2.8	0.9	(3.3)[1]
Change GDP Italy	in %	0.9	1.5	0.1	0.2	(8.9)[2]
Yield on government bonds (10 years)	in %	(0.14)	(0.07)	(0.24)	(0.46)	(0.53)
Closing rate CHF/EUR	in CHF	1.07	1.17	1.13	1.09	1.08
Closing rate CHF/USD	in CHF	1.02	0.98	0.99	0.97	0.88

1 Forecast SECO

2 Forecast Istat

Economy

Economic development in Switzerland and worldwide in 2020 was shaped by the measures taken to contain the Covid-19 pandemic. After a sharp slump in the first half of the year, the economy recovered as the year progressed. Nevertheless, GDP in Switzerland and Italy will have fallen for the year 2020 as a whole, and for 2021 the economic risks remain high. Economic developments are having a wide range of impacts on customer segments in Swisscom's core business. 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 in 2020 led to lower revenues and lower costs in the roaming business. Furthermore, the Covid-19 pandemic resulted in a negative business trend in the cinema and event 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 three bonds totalling CHF 719 million in 2020. The average interest expense on these financial liabilities (excl. lease liabilities) was 0.9% at the end of 2020. 88% of these financial liabilities were charged a fixed interest rate. The average maturity is 5.8 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. In recent years, the share of the funding denominated in EUR has gradually increased to 35%. The net assets of foreign subsidiaries, especially 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 CHF 3.4 billion (EUR 3.1 billion) at the end of 2020. 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 has been classified as a currency hedge of the Fastweb net assets.

Legal environment

Swisscom's legal framework

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

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

The TEA requires the Swiss Confederation to hold a majority of the capital and voting rights in Swisscom. Were the government to dispose of the majority holding, this would require a change in the corresponding law, which would be subject to a facultative referendum. Every four years, the Federal Council defines the goals which the Confederation as principal shareholder aims to achieve. These 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 2017, the Federal Council approved the goals for the period from 2018 to 2021.

See **www.swisscom.ch/ziele_2018-2021** (in German)

Telecommunications Act (TCA)

The TCA and the associated legislation primarily govern network access, basic service provision and the use of radio frequencies. In March 2020, the consultation process for the ordinances of the revised TCA was concluded. The implementation of the new provisions will entail numerous system adjustments and, correspondingly, additional operating expenses. The Federal Council put the new legal framework in place on 1 January 2021 with various transitional periods.

See **www.admin.ch**

Network access

The legislator has confirmed that network access regulation should remain limited 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 aim of the basic service is to provide reliable, affordable basic telecommunications to all sections of the population in all regions of the country. The scope of services as well as the related quality and pricing requirements are determined periodically by the Federal Council. The current licence (2018 to 2022) comprises a multifunctional telephone line, Internet access, and barrier-free services such as transcription, SMS messaging and directory services for people with disabilities. Since 1 January 2020, Internet access speed (guaranteed minimum bandwidth) has been 10 Mbps (download) and 1 Mbps (upload).

Mobile phone licence

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

Federal Cartel Act (CartA)

Particularly as a result of Swisscom's market position, competition law (the Federal Cartel Act) is highly relevant for several of its products and services. The Federal Cartel Act allows for direct sanctions to be imposed for unlawful conduct by market-dominant companies. The Swiss competition authority (Competition Commission, COMCO) has classified Swisscom as being market-dominant in a wide range of submarkets. There are currently proceedings open for three issues, within the context of which 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 broadcast of live sporting events on pay TV, the broadband connections of post office locations and the broadband connections of business customers. In other proceedings concerning ADSL services, the Federal Supreme Court ruled, as the court of last instance, in 2019. There are still outstanding civil-law claims in these proceedings. In December 2020, COMCO opened an investigation into Swisscom's optical fibre expansion and ordered precautionary measures. 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 handling of personal data and had been undergoing revision since 2016. The revised version was adopted by the Federal Assembly in the autumn 2020 session. It is not yet known when it will come into force. Swisscom believes the new FADP will come into force either on 1 January 2022 or on 1 July 2022. Swisscom has begun implementing the new FADP.

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

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

Legal and regulatory environment in Italy

The legal framework for Fastweb's business activities is determined primarily by Italy's telecommunications legislation and the EU. 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. The decision also concerned a reduction in prices for virtual unbundled access (VULA) based on FTTS (Fibre to the Street) for the period from 2019 to 2021. In addition, in July 2020 AGCOM approved TIM's annual reference offers for fixed network-based access services for 2019 and 2020.

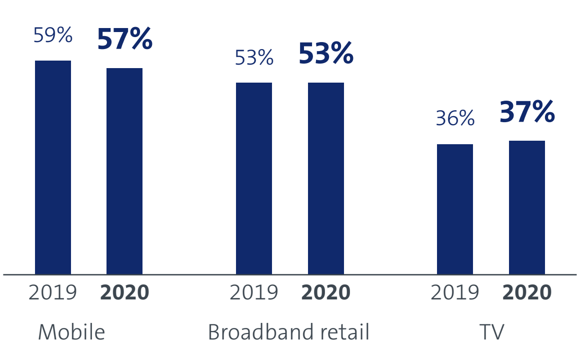
Swiss market trends in telecoms and IT services

The Swiss telecommunication market is characterised by a wide range of voice and data products and services. The continuing advance of digitisation and connectivity is a key trend. In addition to the established regional and national telecommunications companies, internationally active companies are entering the Swiss telecommunications market, offering both free and paid-for Internet-based services around the world, including telephony, SMS messaging and streaming services. Overall, this is generating constant growth in demand for high bandwidths that enable fast, high-quality access to data and applications. The uninterrupted availability of data and services, as well as the security involved in ensuring this availability, play a key role. Modern, highly effective network infrastructures provide the ideal foundations for this. Swisscom is therefore building the networks of the future for both fixed-line and mobile communications. The dynamics of market consolidation increased again in 2020. In mid-2020, Liberty Global, the parent company of UPC Switzerland, submitted a takeover bid to the shareholders of Sunrise. The acquisition was completed at the end of 2020 with the approval of the competent Swiss authorities. The merger of the two competitors, UPC Switzerland and Sunrise, is scheduled for 2021. This is intended to create a single convergent provider with its own gigabit broadband network and its own mobile network. This will enable the combined entity to offer convergent bundled packages based on its own networks. As a result, competitive pressure in the market will remain high.

The Swiss telecoms market is broken down into the submarkets of relevance to Swisscom – mobile communications and fixed network. The total revenue it generates is estimated at around CHF 11 billion. Price pressure will remain high in all markets, and Swisscom therefore expects revenue to decline slightly in the telecommunications market as a whole. Market 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 convergent offerings which can contain one or more mobile lines, in addition to a fixed broadband connection with Internet, TV and fixed-line telephony. Swisscom also offers products and services from the core business using secondary and third-party brands.

Market share Swisscom

Swiss telecommunication market



Mobile communications market

Switzerland has three separate, wide-area mobile networks on which the operators of those networks market their own products and services. Other market players also offer their own mobile services as MVNOs (mobile virtual network operators) on these networks. Swisscom makes its mobile communications network available to selected third-party providers so that they can offer proprietary products and services to their customers via the Swisscom network. Due to the high level of market penetration, the mobile communications market in Switzerland is showing signs of saturation. The number of mobile lines (SIM cards) in Switzerland is thus stagnating at around 11 million, and mobile access line penetration in Switzerland remains at 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 77% (prior year: 75%). Swisscom's market share is 57% (postpaid: 57%; prepaid: 59%). This represents a decrease of 1.5 percentage points 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. Fixed broadband connections are the basis for a wide-ranging product offering from both national and global competitors.

Broadband market

The most widespread access technologies for fixed broadband connections in Switzerland are infrastructures based on the networks of telecommunications providers and cable network operators. At the end of 2020, the number of retail broadband access lines in Switzerland totalled 3.9 million, corresponding to around 85% of homes and offices. Due to market saturation, the number of broadband connections remained virtually constant, as in the previous year. The competitive pressure in the market remains high. The growth in broadband connections supplied by telecommunications providers in the year under review contrasted with a decrease in connections supplied by cable network operators. Swisscom's market share remains unchanged at 53%.

TV market

In Switzerland, TV signals are transmitted via cable, broadband, satellite and mobile. This enables consumers to watch television programmes on a very wide variety of devices. The Swiss TV market features a wide range of offerings from established national market participants. Offerings from other national and international companies are also available on the market, including TV and streaming services that can be used over an existing broadband connection, regardless of the Internet provider. The competitive dynamics in the saturated TV market remains high, driven by the large number of different offerings. In the second half of 2020, Swisscom brought together all its entertainment offerings comprising TV services, pay TV, cinemas and news within the "Swisscom blue" product family. In order to increase its own reach, Swisscom also added a new TV service (OTT) to its existing TV offering. As a result, customers of other providers can use paid Swisscom subscriptions on different devices in addition to TV services, regardless of the platform. The large majority of TV connections is provided via cable or broadband networks. Swisscom has steadily increased its market share in recent years. It is the market leader, and as at the end of 2020 it had further expanded this leading position with a market share of 37% (prior year: 36%).

Fixed-line telephony market

Fixed-line telephony is mainly based on lines running over the fixed networks of the telecom service providers and the cable networks. The use of fixed-line telephony is steadily declining as it is increasingly being substituted by mobile communications. This trend continued in 2020, with the number of Swisscom fixed-line connections falling by around 5% to 1.5 million.

IT services market in Switzerland

In 2020, the IT services market (IT services and software) generated revenue of around CHF 18 billion. Due to the Covid-19 pandemic, the trend in 2020 was slightly downward and companies were reluctant to invest in IT. For the coming years, Swisscom expects the market as a whole to grow again due to increasing digitisation. However, a high degree of uncertainty remains, with current market scenarios predicting slight growth for 2021. The areas in which Swisscom expects the most growth are the cloud, 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 a growing willingness on the part of companies to procure more external services in order to cope with the elevated complexity and the increasing transformation into a hybrid cloud. Further growth drivers are also the increasing threats in the area of IT security and new technological possibilities in the area of IoT (e.g. through new sensors and improved connectivity). Customers usually expect services customised to their individual sector and business processes with appropriate advice.

In a difficult market environment, Swisscom maintained revenue at the previous year's level. This resulted in a slight increase in market share compared with 2019. This was mainly attributable to the positive performance by growth areas, with market revenues rising for the cloud, data centres and security services.

Italian market trends in telecoms services

Italian broadband market

Italy's fixed-line market is Europe's fourth largest, with a stable revenue of around EUR 15 billion including wholesale. Broadband provision for homes and offices has increased steadily in past years. The broadband market comprises more than 16 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% 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 14 billion. Competition and price pressure are substantial. Despite the difficult environment, Fastweb's customer base in mobile communications grew by 12% to 2.0 million customers. Fastweb's market share is around 3%.

Data protection

Swisscom attaches great importance to the legally compliant and responsible processing of personal data. For this reason, in the year under review Swisscom further expanded the measures for the protection of personal data and introduced a framework to ensure data ethics.

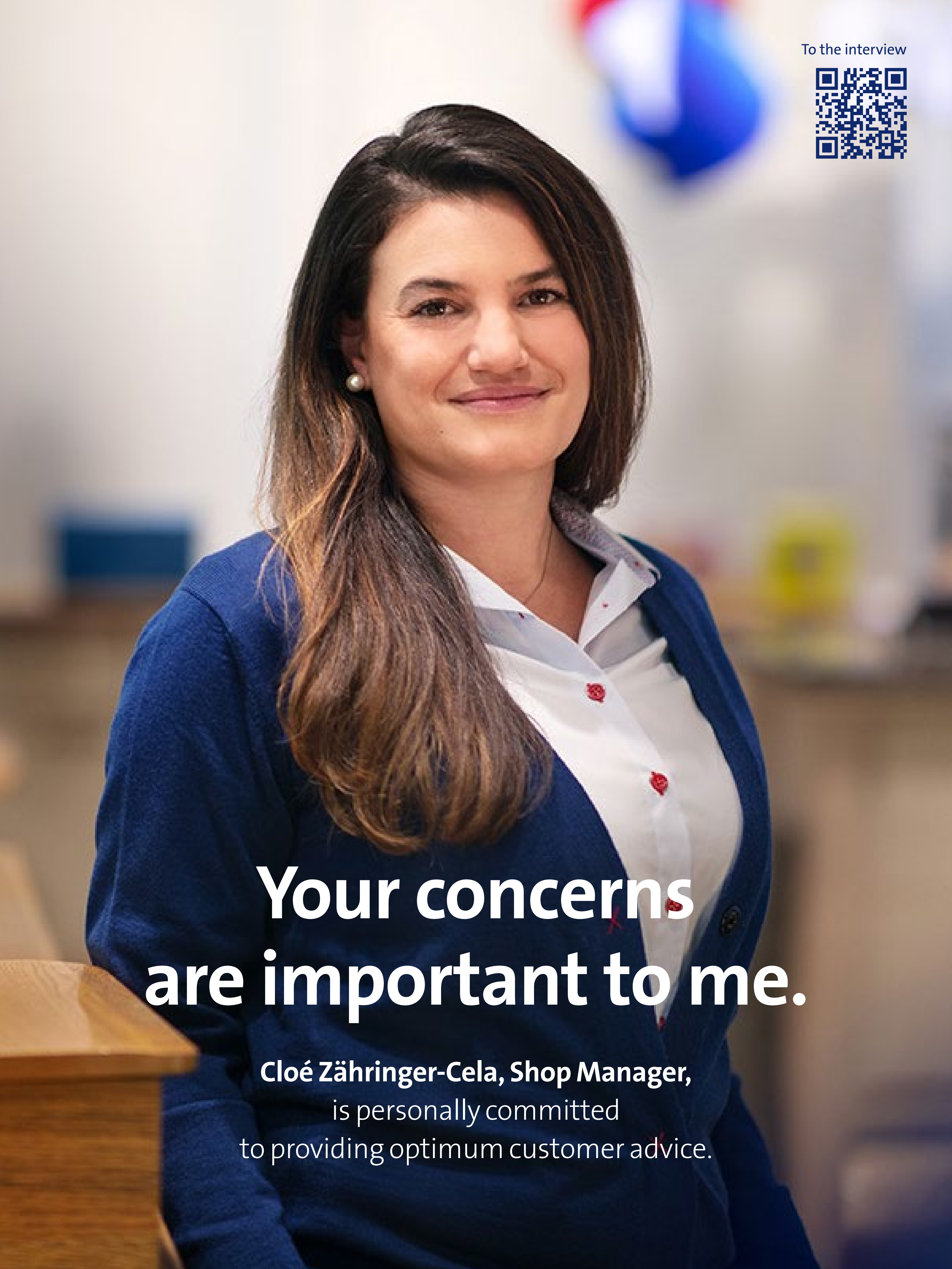
Data protection within Swisscom is controlled and monitored by a central data governance unit, which works closely with all the relevant divisions and other staff units. In order to ensure adequate data governance, the responsible unit issued several directives and information sheets in the year under review. In addition, employees with a data governance role at Swisscom received in-depth job-specific training. Appropriate learning content further developed and sharpened the awareness of the rest of the workforce with regard to data protection and confidentiality. What is more, Swisscom significantly expanded the testing of systems and applications for their compliance with legal data protection and confidentiality requirements. It also made further progress with the development of technical tools to support data governance.

Swisscom began implementing the new Federal Act on Data Protection (FADP) in the year under review. The Federal Act on Data Protection (FADP) regulates the treatment of personal data. It had been under revision since 2016, and a revised version was adopted by Parliament in autumn 2020. It is not yet known when the new FADP will come into force. Swisscom is assuming that this will happen in 2022.

To ensure data ethics, a newly created, diversely composed Data Ethics Board has reviewed a variety of cases to ensure that they comply with Swisscom's ethical principles. The framework for data ethics has proven itself and will be continued.

See www.swisscom.ch/dataprotection

To the interview
Your future is our everyday life.
Patrick Weibel
with his team ensures that you are always on the best network.
From left: Barbara Pytlik, Klaus Liechti, Patrick Weibel


To the interview
Your concerns are important to me.
Cloé Zähringer-Cela, Shop Manager,
is personally committed
to providing optimum customer advice.

Infrastructure

Telecommunications networks form the foundations for digital Switzerland. This was evident in the extraordinary situation that arose in 2020, with economic life and social life maintained seamlessly. Swisscom continues to invest heavily in infrastructure to meet the growing broadband needs of the Swiss fixed and mobile network. By the end of 2021, every Swiss municipality should have access to greater bandwidths. In addition, Swisscom will expand its fibre-optic coverage to homes and offices to up to 60% by the end of 2025. By the end of 2019, Swisscom had already provided 90% of the Swiss population with basic 5G coverage, 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. At the beginning of 2020, Swisscom experienced several network failures. Swisscom subjected these to a thorough analysis and adopted immediate measures to reduce disruptions to a minimum. Swisscom gave top priority to emergency numbers. Together with the emergency service organisations, a dynamic routing system ensures that emergency numbers can be reached at all times. At the same time, Swisscom is continuously improving the stability of its networks and services. This hast led to a decrease in the number of residential customers affected by interruptions and downtime in recent years. The trend for customer satisfaction is correspondingly positive.

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.

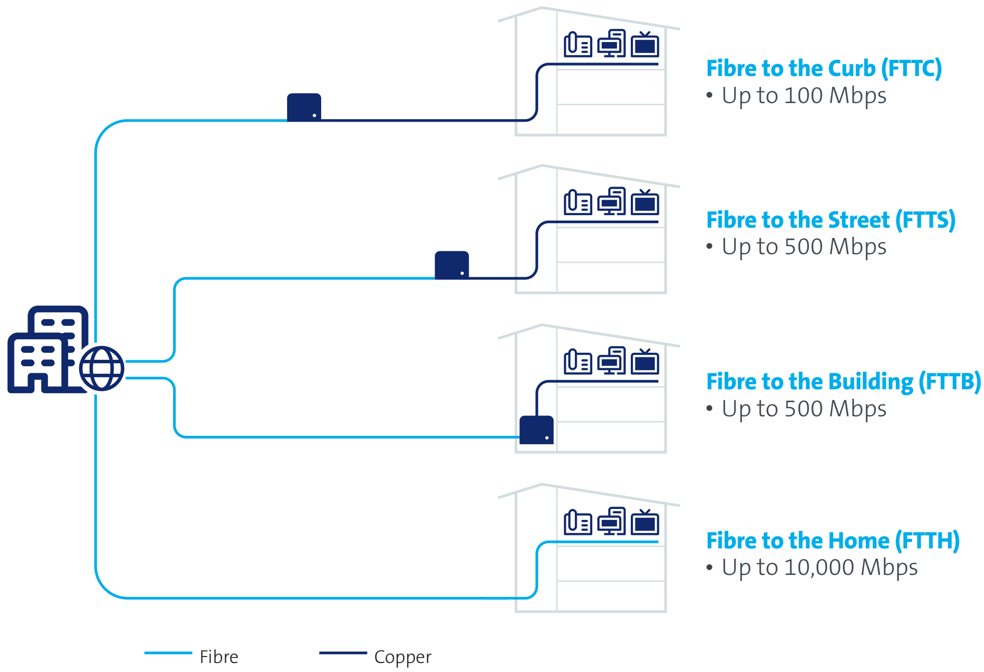
Leading international position thanks to constant expansion

Switzerland boasts one of the best IT and telecoms infrastructures worldwide, as international studies carried out by the OECD and IHS (Information Handling Services) regularly show. Rural regions benefit in particular from the high level of capital expenditure, almost two thirds of which is financed by Swisscom. According to a study carried out by IHS (Broadband Coverage in Europe 2019), the availability of broadband in rural regions of Switzerland is significantly higher than the EU average. At the end of 2020, Swisscom over 4.4 million or 82% of homes and businesses were connected with speeds in excess of 80 Mbps. More than 3.1 million or 59% of homes and offices have connections of more than 200 Mbps, and 32% have coverage of 10 Gbps. Swisscom's mobile network is one of the best networks in the world, as confirmed by independent network tests such as those conducted by connect, Ookla, PC Magazin and CHIP. It currently supplies around 99% of the Swiss population with 4G and 3G coverage. Likewise, 99% of the population currently has 4G+ with speeds of up to 300 Mbps, 96% 4G+ with speeds of up to 500 Mbps, and 55% 4G+ with speeds of up to 700 Mbps.

Network expansion

Bandwidth requirements in the Swiss fixed and mobile telephone network continue to grow. In order to maintain such a high level of service provision, further investments in the networks are necessary. Swisscom therefore invests around CHF 1.6 billion in IT and infrastructure in Switzerland every year.

By the end of 2021, every Swiss municipality should have access to greater bandwidths in the fixed network: some 90% of all homes and offices in Switzerland will have a minimum bandwidth of 80 Mbps – with around 85% of connections even achieving speeds of 100 Mbps or higher. To achieve this, Swisscom is focusing on a mix of fibre-optic technologies and convergent approaches that intelligently combine different network technologies.



Compared to 2019, FTTH coverage will also nearly double by the end of 2025. This means that up 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 90% 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.

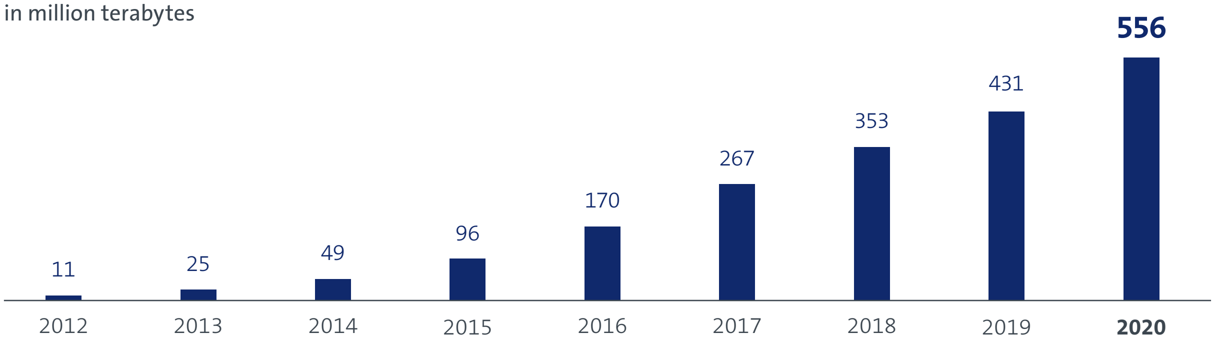
Customer demand for data in the mobile network continues to rise: in the year under review, it grew by 29% year on year. For this reason, and owing to the stringent legal framework conditions that apply, the mobile network has to be expanded by the addition of new mobile telephony sites. Progress continues to be made on expanding 4G+. The further expansion of the fifth generation of mobile communications (5G) will be a key topic for Swisscom in the coming years. By contrast, 2G technology was only available until the end of 2020 and is being taken out of service in a matter of weeks. Swisscom is using the freed-up capacity for the more efficient technologies.

See www.swisscom.ch/networkcoverage

5G is the mobile communication standard of digitisation and is therefore vitally important to Switzerland as a business centre, enabling speeds of up to 10 Gbps, real-time response and much larger capacities than current standards.

50 times higher data volume in eight years

in million terabytes



Change in data volumes in Swisscom networks in million terabytes

Swisscom has been working together with Ericsson since 2015 on the introduction of 5G in Switzerland. In 2019, Swisscom was the first provider in Europe to put a 5G network into operation and is constantly expanding it. It currently provides 96% 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 500 locations. The 5G expansion is progressing, with some restrictions, and is gradually extending the network with necessary additional capacity.

This expansion is being hindered by concerns and resistance among the population. The arguments for opposing expansion vary widely, with the underlying speculation and assumptions about 5G often lacking a factual basis. In the year under review in particular, major expert organisations such as the World Health Organization (WHO), the International Commission on Non-Ionizing Radiation Protection (ICNIRP) and the U.S. Food and Drug Administration (FDA) once again confirmed that the internationally applicable limits ensure safe protection against any harmful effects of mobile radio emissions. This statement also applies to the new 5G standard. The resistance to further mobile communication expansion has led to numerous political initiatives at communal, cantonal and national level and to the issuance of, in some cases unlawful, moratoria calling for a halt to building permits. Popular initiatives are also being prepared that would in any event make mobile communications in Switzerland impossible if they were accepted. Already today, the controversy surrounding mobile communications has considerably delayed numerous network expansion projects, which is also affecting the expansion of the 4G network.

Moreover, the new 5G technology is currently not exploiting its full potential, due to the strict legal limits in Switzerland. If Switzerland is to make full use of the possibilities offered by 5G, the legal environmental framework will need to be adjusted. In order to improve the level of information, Swisscom provides information on its channels and supports the industry association asut in its information campaigns, most recently with the establishment of the information platform CHANCE5G.

See www.chance5g.ch

The Internet of Things (IoT) has long connected an immense number of objects and devices to one another and to users. Swisscom has further expanded its IoT portfolio and introduced the dedicated IoT technologies Narrowband IoT and LTE-M throughout Switzerland. The low-power network (LPN) now offers coverage of 97%. The entry of international cloud providers into the IoT market has given new impetus to the integration and scaling of IoT. Thanks to strong partnerships with Amazon and Microsoft, Swisscom is well positioned in this respect. It is already the leading provider of IoT system solutions required for cloud and analytics implementations and their operation. “Data as a Service” rounds off Swisscom’s portfolio and, thanks to plug-and-play for IoT applications, makes it even easier for many customers to enter the IoT.

Swisscom is continually expanding its broadband network, extending the product range and increasing the number of antenna sites. It coordinates site expansions with other mobile providers wherever feasible, and now shares nearly a quarter of its approximately 9,000 antenna sites with other providers. At the end of 2020, Swisscom had around 6,100 exterior units and 2,900 mobile communication antennas in buildings. With around 6,600 hotspots in Switzerland, it is also the country’s leading provider of public wireless local area networks.

Mobile frequencies

Transmission of mobile signals requires the availability of suitable frequencies. In Switzerland, such frequencies are allocated on a technology-neutral basis, i.e. any mobile communications technology can be transmitted on the available frequencies. In 2012, the Federal Communications Commission (ComCom) allocated the frequencies 800 MHz, 900 MHz, 1,800 MHz, 2,100 MHz and 2,600 MHz. Swisscom currently uses these frequencies to offer its customers services via the 4G 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 140,000 virtual servers and physical 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. Not only are bandwidths in the networks constantly increasing, but so is the usage of cloud services. Swisscom is positioning itself as a trustworthy provider of private, public and hybrid cloud services and expanding its portfolio with the help of internationally renowned partners and in-house developments.

Swisscom has positioned 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 collaboration with the major public cloud providers (such as Amazon Web Services and Microsoft Azure). In addition, it is continuously adding new container-based services to platforms established on the Swiss market, such as the Enterprise Service Cloud.

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

Swisscom consistently uses its cloud platforms to provide internal and external communication services. It operates these cloud platforms in its own geographically redundant data centres, which thus enables efficient, automated use and improves the customer experience in a targeted manner. Swisscom is expanding its existing connectivity offering to include modern software-defined networking (SDN), managed security and managed LAN, paying special attention to the combination of modern and established services. During the Covid-19 pandemic and in response to changing needs, Swisscom provided its customers with short-term cloud-based services to support working from home in the year under review. Customers made extensive use of remote access services and cloud connectivity services. The constant state of change on the market backs up Swisscom's efforts to use the latest technologies both internally and externally for the benefit of its customers. Instead of developing its own infrastructure, Swisscom is increasingly making use of the standardised systems created by its partners. The focus on the development of market-specific, value-adding services based on such infrastructure has proven sound. The industrialisation of IT continues to make headway, as does the development of modern applications that benefit from the opportunities offered by the platforms, cut costs and ensure maximum stability. 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

Coverage with fixed-network ultra-fast broadband (UBB) connections has increased considerably in Italy. Fastweb has made a significant contribution to this development through extensive investments in its own network infrastructure. Fastweb's ultra-fast broadband network with the network technologies FTTH and FTTS can be used by 8 million homes and businesses, which corresponds to a share of 30% of the population. Fastweb offers UBB services to a further 10 million homes and offices based on upstream services provided by other network operators. Fastweb will continue to invest in its own network infrastructure and increase UBB coverage to 90% by 2026. This is to be achieved partly with the 5G Fixed Wireless Access (FWA) connection technology and partly by setting up a 5G mobile network together with an existing network operator. Fastweb has set up the following strategic partnerships to achieve these objectives:

- In November 2019, Fastweb and Linkem, an established player in the field of Fixed Wireless Access (FWA), signed a long-term cooperation agreement. This partnership is based on existing resources (5G spectrum, radio planning capacities, existing and new sites). It is designed to enable the rapid, cost-effective market launch of two independent 5G FWA access networks, reaching 8 million homes and offices in small and medium-sized cities. The introduction should be completed by June 2023. In July 2020, the two companies extended their cooperation to include a further 4 million households in rural areas. The market launch should be completed by June 2024. The agreement provides for the mutual provision of wholesale services. However, assets, services and commercial offerings remain separate.
- In August 2020, Fastweb, Telecom Italia (TIM) and the private equity company KKR signed an agreement to establish FiberCop S.p.A. TIM is contributing its secondary access network (the network extending from cable junction boxes to building complexes). The partners will also integrate Flash Fiber, a company jointly owned by TIM (80%) and Fastweb (20%), into the new company. FiberCop will gradually upgrade the access network with FTTH technology. By 2025, the partners aim to reach 14 million homes and businesses using FTTH, which corresponds to 56% of the population. Flash Fiber was founded in 2016 by TIM and Fastweb to jointly invest in FTTH coverage in Italy's 29 largest cities. In return for contributing its 20% stake in Flash Fiber to the new company, Fastweb will receive a 4.5% stake in FiberCop. The other shares will be held by TIM (58%) and KKR (37.5%). The closing of the transaction is subject to review by the competition authorities.

IT infrastructure

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

Employees

In an environment that is changing at a rapid pace, Swisscom is getting to grips with the working models of the future, making targeted investments in professional training for its employees in order to maintain and improve their employability and the company's competitiveness in the long term. At the end of 2020, Swisscom had 19,062 full-time equivalent employees, of whom 16,048 or 84% were employed in Switzerland. Swisscom is also training around 900 apprentices in Switzerland.

Employees in Switzerland

The digital transformation is happening everywhere – it presents many opportunities as well as great challenges for employees and companies. To take advantage of these opportunities and to overcome the challenges requires motivated employees who use their individual skills and experience to inspire people in the networked world on a daily basis. Swisscom supports its employees in enhancing and supplementing their skills so that the necessary competencies and resources will continue to be available in the future. In turn, it is essential for employees to continuously develop and educate themselves. For this reason, Swisscom grants all employees five training and development days per year. The One Swisscom Academy offers a wide range of training and development opportunities. For the most part, the Academy relies on digitalised learning methods, thanks to which employees can build their knowledge irrespective of location and time. These offerings are aimed at strengthening the employability of employees.

Swisscom positions itself on the ICT job market as an attractive employer, offering its employees the opportunity to assume responsibility, utilise their potential and further develop their abilities. Swisscom staff are employed under private law on the basis of the Code of Obligations. Swisscom management employees in Switzerland are subject to general terms and conditions of employment, while all other employees are subject to Swisscom's Collective Employment Agreement (CEA). The terms and conditions of employment exceed the minimum standard defined by the Code of Obligations. In the year under review, 98.1% of the employees in Switzerland were on open-ended contracts (prior year: 98.7%). Part-time employees made up 21.4% (prior year: 20.1%). The fluctuation rate, representing departing employees in Switzerland, was 7.8% of the workforce (prior year: 6.8%). Further information on HR matters can be found in the Sustainability Report.

See www.swisscom.ch/sustainability

The Covid-19 pandemic has presented the company and its employees with a variety of challenges. Swisscom therefore set up a Covid-19 task force to make rapid decisions in line with developments, to decide on protective measures for employees and to provide transparent information. When the virus emerged, more than 80% of employees were able to work from home temporarily within a very short space of time. The changeover worked well, as Swisscom had already played a pioneering role in working from home throughout Switzerland even before the Covid-19 pandemic. According to the results of an internal survey, employees appreciate the opportunity to work from home. Swisscom will therefore continue to promote and expand this working model in the future. Swisscom employees were also assisted through the Covid-19 pandemic with up-to-date information and offerings. These included continuously updated information on the intranet as well as the internal Care Gate contact and advisory point. Although the order situation declined in some business areas due to the Covid-19 pandemic, Swisscom largely refrained from applying for short-time working, instead aiming to reallocate resources internally. This was successful, with the exception of the Kitag cinemas, which remained completely closed for an extended period.

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 2020, 81% of the workforce in Switzerland were covered by the Swisscom CEA (unchanged from the prior year). 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 10 days of additional holiday time. The CEA also accords the social partners and employee representations rights of co-determination of varying degrees in the form of information, participation and co-decision making in various areas.

Social plan

The objective of the social plan is to formulate socially acceptable restructuring measures and avoid job cuts. It sets out the benefits provided to employees covered by the CEA who are affected by redundancy. The social plan also makes use of instruments to increase the employability of employees and provides for retraining measures in the event of long-term job cuts. Responsibility for implementing the social plan lies with 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 2020, 80% of those affected by personnel reduction measures had found a new job before the social plan programme ended (prior year: 83%). 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, customer loyalty and the implementation of Swisscom's strategy. Details on remuneration paid to members of the Group Executive Board are provided in the Remuneration Report.

In 2020, Swisscom and its social partners signed an agreement on the pay round for the year under review. With effect from April 2020, salaries for employees subject to the CEA were increased by 1.0% of the total payroll, dependent on performance. Employees with salaries in the entry-level or market segment received a salary increase of at least 0.3%, subject to their performance. The performance of employees whose salaries are in the upper range of the respective salary band was rewarded by a one-off payment. Specific adjustments were made to salaries that needed to be brought into line with the market. The payroll for managers increased by 0.95% to allow for individual salary adjustments.

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 2020, every Swisscom employee spent an average of 2.9 days on learning, training and development. It is also a declared aim to fill as many Swisscom 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 competitiveness in the ICT market and helps Swisscom to become agile and respond quickly to changing markets. Although the Swiss labour market remains a priority, Swisscom decided to open a DevOps centre in Riga in the year under review – in addition to the existing centre in Rotterdam. The main objective is to maintain access to international talent in addition to the Swiss labour market, if required.

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 is constantly rising: a total of 74% of employees participated in the 2020 survey (2019: 70%). More than 90% of the employees participating in the survey said they were highly likely to recommend Swisscom as an employer.

Diversity

The different points of view, experiences, ideas and skills that every single employee brings to bear on their everyday work are what make Swisscom a successful and innovative company. To promote diversity, Swisscom focuses in its activities on the factors of gender, inclusion, generations and language regions. In relation to gender, for example, Swisscom also endeavours to make work compatible with family life. Flexible working models and the option of reducing working hours on an experimental basis are making part-time working more acceptable. Swisscom is also committed to making jobs available to people with physical or psychological impairments in order to (re)integrate them into the workforce (inclusion). The proportion of such posts increased from 0.97% to 1.06% versus the previous year. Swisscom tries to earmark at least 1% of jobs for inclusion employment solutions. Swisscom also works towards integration where generation management is concerned, with flexible working models and many development measures in place to help older employees keep working for as long as possible. Swisscom 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. The is largely due to the following measures, which were set out in an agreement concluded with the trade unions in 2001: 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.

To the interview

For exciting movie nights.

Markus Gisi, Scheduling Director for blue TV,
offers top entertainment whenever you want.


To the interview
For all of our futures.
Saskia Günther, Head of Sustainability Team,
makes sure that Swisscom
remains world leader in sustainability.

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 biggest innovation in the year under review was the creation of the "Swisscom blue" product family, which combines the entertainment offerings previously available under different brands into a world of experience.

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 potential staff.

The Swisscom brand is implemented across all units in a consistent and high-quality manner. At the same time, it has to be extremely flexible, bridging the gap between 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	swisscom	
New product family	blue	
Secondary brand	wingo	
Tertiary brand	Budget M MOBILE	coop mobile
Other brands (excerpt)	FASTWEB	
	cablex	localsearch

Swisscom brand portfolio

Society, technology and the environment are changing ever more rapidly. A brand must absorb these changes while offering direction and stability. Vision, values and the Swisscom promise define the positioning of the Swisscom brand. To revitalise its brand both internally and externally, Swisscom has created the brand platform "ready". Swisscom expects its employees to demonstrate trustworthiness, commitment and curiosity in everything they do. Based on these foundations, Swisscom presents itself as a reliable provider, builds on its position as market leader and opens up new business areas. Swisscom offers its customers the opportunity to make easier use of the networked future and prepares them for this.

The year under review was significantly shaped by a brand-strategic decision: the bundling of the entertainment offering within the "Swisscom blue" product family. Up to then, Cinetrade, Teleclub, Kitag cinemas and Bluewin had appeared as separate brands. For customers, the connection to Swisscom was hardly noticeable. Swisscom therefore dissolved these brands in the year under review and bundled its entire entertainment offering within the "Swisscom blue" product family. "Swisscom blue" comprises blue TV (formerly Swisscom TV), blue Cinema (formerly Kitag cinemas) and blue News (formerly Bluewin). Teleclub's services now come under blue+. This bundling makes the connection between the individual offerings clear, enables new offerings and makes the Swisscom brand with even more appealing and dynamic. All this is in line with Swisscom's one-brand strategy. The design of "Swisscom blue" draws heavily on the best-known brand colour blue and conveys the impression of light, which plays a central role in the existing corporate design.

Trustworthiness and service remain important factors in confirming to existing customers that they made the right decision in opting for Swisscom and in winning new customers, while also helping to underscore the importance of Swisscom for Switzerland: Swisscom is part of a modern Switzerland, is always recognisable as a Swiss company and positions itself clearly and credibly through its stance on responsibility. All this rounds off the positive image of the Swisscom brand and enriches the Group's multi-faceted customer relationships. This is one reason why the reputation values achieved by Swisscom are exceptionally high for a company in the telecommunications sector by global standards.

External rankings also confirm this image. In the "Switzerland 50" survey carried out by Brand Finance, Swisscom ranks in ninth place. This makes it one of the most valuable brands in Switzerland, worth around CHF 5 billion according to Brand Finance.

Products and services in Switzerland

Residential Customers

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

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

Swisscom is also 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.

Home networking (smart home) for controlling lighting, music or alarm systems also grew strongly in 2020. At the end of 2020, some 250,000 customers (+39%) were using around 340,000 devices via the Swisscom Home app. This means that almost three times more devices were connected than a year earlier.

In the area of entertainment, Swisscom launched "Swisscom blue" in September 2020. "Swisscom blue" offers a comprehensive entertainment experience with new offers, new content and the freedom to access it anywhere. The basis for the new offering is blue TV, the most popular TV service in Switzerland. It is available, as before, via the Swisscom Box (or its predecessor models), but it is also available via an app for every smartphone and tablet, via a web player for laptops at blue.ch and via a smart TV app on devices of the Samsung brand

and, coming soon, on devices of other manufacturers such as LG as well. The app is also available with the complete blue+ offering on the TV boxes of upc TV. blue TV is thus not only accessible to Swisscom customers, but also to customers of other cable network operators.

The broadest blue TV package is still only available in combination with the Swisscom Box. This is because only the Swisscom Box (or its predecessor model, the UHD Box) integrates the attractive streaming services of Netflix, Sky, OCS, Spotify, DAZN, YouTube and many other providers alongside the traditional medium of television. In addition, the Swisscom Box now also offers access to Prime Video, Amazon's streaming service, as well as to the MySports channels, which among other things broadcast the games of Switzerland's top ice hockey leagues.

Swisscom targets its other brands – Wingo, Coop Mobile and M-Budget – at customers who do not want the high-quality service and extensive range offered by Swisscom products. M-Budget and Wingo offer customers straightforward and attractive mobile, Internet and fixed-line services. Coop Mobile is exclusively a mobile subscription. What sets it apart is that the data allowance does not expire at the end of the month.

Customers can now hand their damaged mobile phones into Swisscom Repair Centres and have them repaired without the phone leaving the Swisscom Shop, while myCloud offers Swisscom customers a Swiss solution for the secure management and sharing of their personal data, such as photos, videos and documents. Swisscom is also continually expanding its service offerings to cater to changing customer needs.

Business customers

The digital transformation continues to be a key issue for companies and is changing their business processes, business models, customer experiences and working environments. The digital transformation depends on solid communication networks. Swisscom makes use of its many years of experience as an integrated telecommunications and IT company in supporting 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.

Standardised yet individual: Swisscom offers small businesses a bundled package for Internet and telephony called inOne SME. Larger SMEs or those with more complex needs can use "Smart Business Connect", an individualised communication solution with collaboration and networking features. Both bundled offerings include integrated services such as Internet failure protection and can be supplemented with blue TV, blue TV Public or blue TV Host for hotels and homes. SMEs also depend on a reliable IT infrastructure for their business operations, because IT infrastructure is increasingly becoming the lifeline of companies. SMEs are dependent on IT functioning flawlessly throughout and being able to adapt easily and flexibly to market and company changes at any time. Smart ICT thus provides customers with a complete IT outsourcing package as a modular integrated solution. Together with IT partners in the regions, Swisscom handles the operation of the customer's ICT infrastructure and takes care of data security in a professional manner. In the year under review, Swisscom launched the ICT Assessment and My Service Business as new services for SMEs in the digital world and added Microsoft Azure to the cloud portfolio to address customer needs even more individually. Through the information channel as well as the in-house channel, blue TV Host brings new infotainment offerings to hotels and homes. The SME portfolio is completed by mobile subscriptions tailored to the needs of business customers along with software and Internet services.

Swisscom also gives SMEs access to information and directory services in the form of localsearch, which makes it easy to find addresses, telephone numbers and detailed information on companies – on the Internet, via the mobile app and in the printed telephone directory (Local Guide). In addition, localsearch operates the directories local.ch, with a booking platform for 4,500 restaurants, and search.ch. Through Swisscom Broadcast Ltd, Swisscom offers broadcasting services ranging from platform-independent services for media customers to private mobile radio and security radio. Through cablex Ltd, Swisscom also offers telecommunications services relating to the construction and maintenance of network infrastructure.

Wholesale

Swisscom provides a variety of copper- and fibre-optic-based connectors as per customer requirements. With its Carrier Ethernet and Carrier Line services and lines leased under the TCA, Swisscom Wholesale offers telecoms service providers high-quality, transparent, point-to-point connections tailored to their needs with a range of bandwidths and interfaces and/or a flexible Ethernet service allowing tailored bandwidths and service level agreements. Swisscom Wholesale also provides basic offerings for the connection (interconnection) of telecoms systems and services, 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 further strengthened its fixed-mobile convergent business and its go-to-market approach by a focus on transparency and simplicity. The company thus held onto its leading position in terms of customer satisfaction with fixed-line services and also achieved a high ranking with mobile customers.

In the business customer segment, Fastweb defended its leading position, particularly against large companies (Fastweb market share of 34%) and in the public sector (Fastweb market share of 40%), where the company won major national public framework contracts for wireline and ICT services. In order to expand its offerings in the ICT and security markets, Fastweb acquired 100% of Cutaway and 70% of 7Layers in 2020. Thanks to Cutaway, Fastweb is expanding its offering for end-to-end cloud solutions and is now less dependent on third-party solutions. The acquisition of 7Layers increases capacities in terms of cyber security (high-quality services). Fastweb is thus further expanding its customer base and portfolio. In wholesale, Fastweb offers UBB services to other telecommunications companies for their residential and business customers.

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 regularly 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, optimises its processes and thereby secures its long-term market position.

Innovation as an important driver

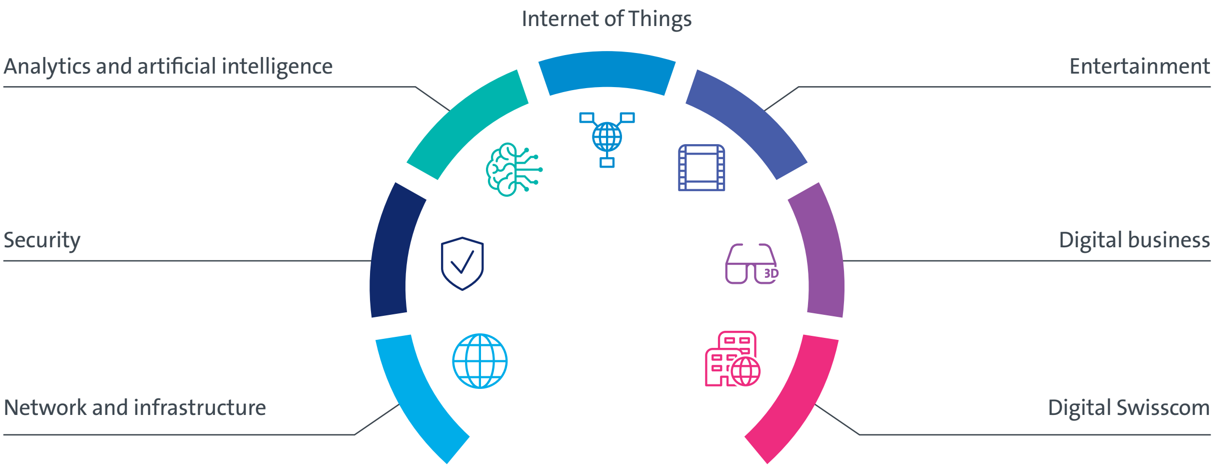
Innovation has been steadily gaining in importance for many years. In addition to the ongoing optimisation of existing resources, Swisscom is investing in disruptive innovations, thereby creating new markets and maintaining its corporate value in the long term. Swisscom strives to anticipate strategic challenges, new growth areas and future customer needs early on and to formulate solutions that create added value and inspire people. To this end, it works closely with partners, universities, start-ups and established technology companies.

Swisscom Outposts in Silicon Valley and Shanghai conduct technology scouting and transfers for Swisscom. Swisscom Ventures networks start-ups with Swisscom's business units in order to stimulate innovation. Investments in over 65 new companies since 2007 have already helped to create more than 1,000 jobs in Switzerland and to further strengthen the Switzerland as a business location. In the year under review, Swisscom Ventures made investments in seven new companies and ten follow-up investments in existing holdings. Swisscom also launched the Digital Transformation Fund in 2018. Swisscom StartUp supports 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 2020 was dedicated to the topic of 5G. Start-ups or research teams were able to qualify for a partnership with Swisscom or financing through Swisscom Ventures and received mentoring from Swisscom, Venturelab, Ericsson and Qualcomm. Finally, the internal intrapreneurship programme Kickbox supports the internal innovation process by providing employees with tools, a clear process and resources for innovation projects. The programme is available to other corporate customers via getkickbox.com.

See www.swisscom.ch/innovation

Innovation focused on specific topics

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



Within these areas of innovation, Swisscom continually invests in progressive solutions to meet its strategic goals. In doing so, its primary goal is to provide the best ICT infrastructure for a digital Switzerland, tap new growth markets, and offer its customers the best services and products.

Network and infrastructure

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

Mobile communications

In 2020, Swisscom continued to push ahead strongly with the introduction of 5G. Among other things, it developed a 5G in-house solution that brings the network of the future directly into buildings and allows users to benefit directly from this modern technology. In April 2020, Swisscom put the first Swiss 5G in-house installations into operation in the Swisscom Shop in Lucerne railway station and in the Lucerne station concourse. The 4x4 MIMO (Multiple Input Multiple Output) technology used increases the speed and capacity of the network enormously. Swisscom also carried out research on a test track at Lake Walen to find out how 5G mobile communications coverage in trains can be improved significantly with the aid of an antenna corridor along the railway line. It achieved a breakthrough, realising download speeds of over 1 Gbps in a moving train with response times of only 8 milliseconds.

Fixed network

The further development of digital applications will lead to a similar growth in bandwidth need in the coming years as in previous years. Demand has increased more than tenfold within ten years. This is why Swisscom continually invests in network expansion and relies on the latest advanced technologies. In this way it ensures that Switzerland's digital competitiveness remains at a high level. Swisscom reached the next milestone on this path in the year under review: it was the first telecommunications company in the world to achieve a bandwidth of 50 Gbps download and 25 Gbps upload in the access network in a real network environment. Swisscom estimates that the corresponding technology will be ready for the market in about two years and will then be available for use in everyday life.

Internet of Things (IoT)

Smart Life

The innovation potential of IoT accelerates lucrative business models, automated processes and the creation of novel customer interactions and intelligent products. Swisscom supports companies and start-ups through various formats to successfully enter the IoT and to develop it further. 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 already controls over 50 devices from eight manufacturers – including devices from leading international manufacturers such as Philips Hue and Sonos as well as Swiss manufacturers like myStrom. Swisscom has also expanded the functionality of the Home app and introduced new types of control. For example, the light switches off automatically as soon as the user leaves home and switches on automatically just before sunset. The Swisscom Voice Assistant also makes controlling smart devices even easier and more versatile. Smart household appliances such as the iRobot vacuum cleaner robot can now be controlled via the app. The new Swisscom Smart Switch is an ideal entry-level product for all users who are interested in smart home applications.

Analytics and artificial intelligence

The use of artificial intelligence (AI)

Swisscom makes targeted use of artificial intelligence to offer its customers an even better service. AI is used in areas such as customer service to detect network faults and to enhance the efficiency of internal processes. For example, customers will in future be able to control the automated voice dialogue on the Swisscom hotline via AI-based voice recognition instead of using traditional numeric input. This will allow customer concerns to be identified more quickly and customers to be forwarded directly to the appropriate agent. In the case of a call-back with an open incident ticket, the call will be routed directly to a suitable agent. Consequently, customers will not have to explain their issues again before they are forwarded. Swisscom is continuously optimising the AI-supported chatbot used in the written channels in terms of user experience and automation rate. The chatbot now uses a customer-centric recognition model for concerns.

Security

Expansion of security platform

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. 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. Swisscom further strengthened its Cyber Security division by acquiring United Security Providers AG in 2019. The expansion of the security platform planned for 2021 will ensure that Swisscom's security services are always based on the latest technology and offer customers 360-degree protection. The new dashboard with extended self-care services will enable customers to use the security platform to deal with simple issues quickly and easily, such as blocking their employees from certain websites or checking their own line utilisation. This will allow Swisscom to improve customer service and give it more time to address complex customer issues.

Entertainment

Launch of "Swisscom blue"

In the year under review, Swisscom combined all its entertainment offerings under the new "Swisscom blue" product family. The offerings are now available on all devices. This means that blue TV can now be received not only on the Swisscom Box, smartphone and tablet apps and a web player, but also on a smart TV app for Samsung devices. Apps for other manufacturers like LG will follow. Furthermore, blue TV is available on competitors' devices, e.g. UPC's TV boxes. In addition to the streaming packages from Netflix, Sky, OCS, Spotify, DAZN and YouTube, the Swisscom Box now offers access to Amazon Prime. "Swisscom blue" is also setting new standards in the field of gaming & eSports and is gradually expanding the Swisscom Box into a gaming platform. For the first time, Twitch, the leading streaming platform for live gaming and eSports, is available on a Swiss TV platform.

Digital Swisscom

My Swisscom app

In 2020, Swisscom again took further steps to digitise its network, jobs and processes and to consolidate its role as the leading service provider among Swiss telecommunications providers. Since April 2020, for example, the new My Swisscom app has been available for download from the Google Play Store and the Apple App Store. With its fresh look, simplified login via fingerprint or face recognition and personalised content on the homepage, the app provides extremely easy access to Swisscom. It offers an overview of running costs, bills and orders, allows subscriptions and products to be managed and adjusted, provides information on faults and maintenance, and enables direct contact with Swisscom – via chat, message or callback. Other innovations will follow. For example, Swisscom is planning to integrate a chatbot into the My Swisscom app and to make communication on the progress of work in the event of reported faults even more transparent.

Digital business

In the field of digital business innovation, Swisscom supported developments within and outside its own company in 2020, 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 blockchain-based services. It is also continuously researching other segments 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) therefore offers efficient marketing products that are geared to the needs of the SME segment. The focus is on 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 areas of digital assets and trust services. In the digital assets segment, Swisscom is working together with daura ltd (minority holding) and Custodigit Ltd (subsidiary) on the future of the Swiss financial infrastructure. Using the digital share platform of daura ltd, the existing share register can be easily digitised and capital increases can be processed quickly and inexpensively, practically at the push of a button. Starting in the year under review, companies can also hold digital general meetings via daura ltd. Custodigit Ltd offers regulated financial service providers an easy-to-integrate and secure platform to store and manage digital assets. 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. With the majority takeover of Ajila AG in December 2019, Swisscom took a first step towards fully digitising all processes and conclusions of new contracts. In this way, Swisscom provides companies and administrations with significant support with the complete digitisation of their business processes. Ajila AG launched the “Digital Deals” platform in 2020. This platform aims to handle all processes and conclusions of new contracts digitally as a cloud solution. It eliminates the need to print, sign and rescan documents.

Intelligent automobile networking

autoSense AG, a joint venture of Swisscom with AMAG and Zurich Insurance, focuses on the development of advanced automotive services. It has quickly established itself as one of the main players in this segment. autoSense offers services related to the intelligent networking of cars for private individuals and companies as well as partner services, which are constantly being expanded. These include a driver’s logbook, remote diagnosis with warnings in the event of engine problems, an app for cashless refuelling, pay-per-kilometre insurance and digital assistance for driving instructors and learners.

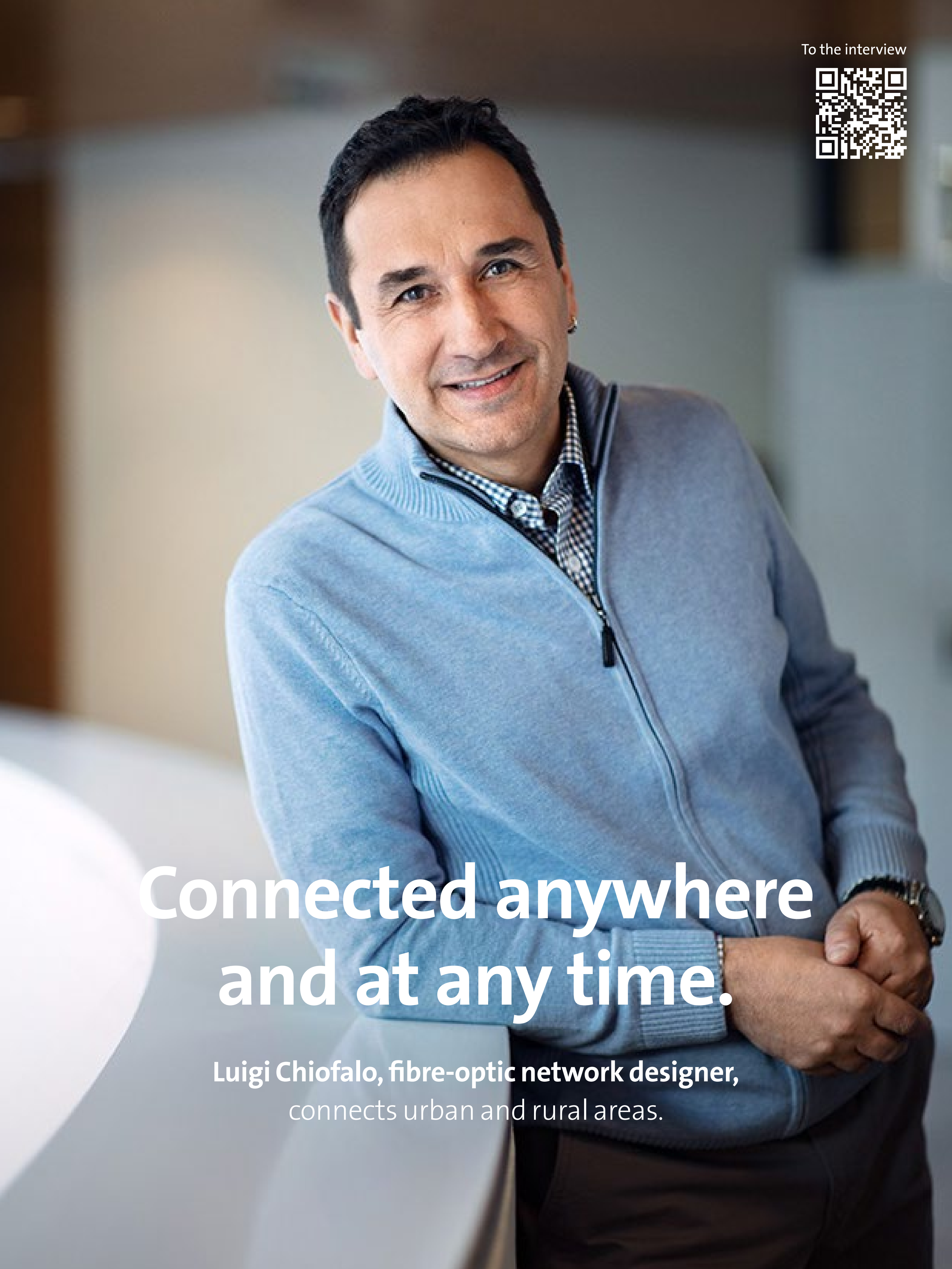
Digital identity

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

To the interview

Customers know their own way.

Reto Jost, online designer, motivates his team to provide the best online customer experience.


To the interview
Connected anywhere and at any time.
Luigi Chiofalo, fibre-optic network designer,
connects urban and rural areas.

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 2020 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 2020 are translated at the 2019 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	2020	2019	Change reported	Change at constant currencies
Net revenue				
Net revenue	**11,100**	**11,453**	**–3.1%**	**–2.3%**
Operating income before depreciation and amortisation (EBITDA)				
EBITDA	4,382	4,358	0.6%	1.3%
Termination benefits	–	56	–	–
EBITDA adjusted	**4,382**	**4,414**	**–0.7%**	**0.0%**
Capital expenditure				
Capital expenditure in property, plant and equipment and intangible assets	2,188	2,390	–8.5%	–7.9%
Payments for indefeasible rights of use (IRU)	41	48	–14.6%	–
Capital expenditure	**2,229**	**2,438**	**–8.6%**	**–8.0%**

In CHF million	2020	2019	Change
Operating free cash flow proxy			
Cash inflow from operating activities	4,069	3,981	88
Capital expenditure	(2,229)	(2,438)	209
Depreciation of right-of-use assets	(286)	(282)	(4)
Depreciation of indefeasible rights of use (IRU)	24	30	(6)
Impairment losses on right-of-use assets	7	–	7
Change in deferred gain from the sale and leaseback of real estate	16	12	4
Change in operating assets and liabilities	(178)	(112)	(66)
Change in provisions	22	(46)	68
Change in defined benefit obligations	(65)	(48)	(17)
Gain on sale of property, plant and equipment	10	13	(3)
Expense for share-based payments	(1)	(1)	–
Revenue from finance leases	101	101	–
Interest received	(24)	(25)	1
Interest paid on financial liabilities	93	88	5
Dividends received	(15)	(18)	3
Income taxes paid	309	371	(62)
Operating free cash flow proxy	**1,853**	**1,626**	**227**
Free cash flow			
Cash inflow from operating activities	4,069	3,981	88
Cash flow used in investing activities	(2,231)	(2,733)	502
Repayment of lease liabilities	(287)	(276)	(11)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	39	394	(355)
Sale of subsidiaries, net of cash and cash equivalents sold	–	3	(3)
Purchase of equity-accounted investees	15	15	–
Purchase of other financial assets	121	13	108
Proceeds from other financial assets	(20)	(52)	32
Free cash flow	**1,706**	**1,345**	**361**

Summary

In CHF million, except where indicated	**2020**	2019	Change
Net revenue	11,100	11,453	–3.1%
Operating income before depreciation and amortisation (EBITDA)	4,382	4,358	0.6%
EBITDA as % of net revenue	39.5	38.1	
Operating income (EBIT)	1,947	1,910	1.9%
Net income	1,528	1,669	–8.4%
Earnings per share (in CHF)	29.54	32.28	–8.5%
Operating free cash flow proxy	1,853	1,626	14.0%
Capital expenditure	2,229	2,438	–8.6%
Net debt	6,218	6,758	–8.0%
Equity ratio	39.1	36.6	
Full-time equivalent employees	19,062	19,317	–1.3%

Swisscom's net revenue decreased by 3.1% or CHF 353 million to CHF 11,100 million, while operating income before depreciation and amortisation (EBITDA) rose by 0.6% or CHF 24 million to CHF 4,382 million. On a like-for-like basis and at constant exchange rates, revenue declined by 2.3% while EBITDA remained stable. The overall impact of the Covid-19 pandemic on operating income remained low. The restrictions on travel led to a substantial decline in both roaming revenue and costs. Profit before tax increased by 4.4% or CHF 75 million. However, due to special effects in the previous year's income tax expense, net profit fell by 8.4% or CHF 141 million to CHF 1,528 million. Payment of an unchanged dividend of CHF 22 per share for the 2020 financial year will be proposed to the Annual General Meeting.

Swisscom Switzerland saw a continued decline in revenue from telecom services (service revenue). The 3.5% or CHF 298 million decline in net revenue to CHF 8,275 million was primarily driven by continued pricing pressure and roaming. Roaming accounted for CHF 89 million or about one-third of the decline in revenue. In contrast, revenue at Italian subsidiary Fastweb increased in local currency by EUR 86 million or 3.9% to EUR 2,304 million, driven by revenue growth in all three customer segments (Residential Customers, Business Customers and Wholesale). The number of customers in the broadband business rose by 4.2% to 2.75 million, and in mobile telephony by 12.3% to 1.96 million.

In the Swiss core business, EBITDA increased by 1.2% or CHF 43 million to CHF 3,527 million; on an adjusted basis (termination benefits), EBITDA decreased by 0.5%. The decline in revenue was largely offset by ongoing cost-cutting measures. At Fastweb, EBITDA rose in local currency by 4.5% to EUR 784 million as a result of the growth in revenue.

Swisscom's capital expenditure decreased by 8.6% or CHF 209 million to CHF 2,229 million. The previous year's figure included expenditure of CHF 196 million for mobile radio frequencies in Switzerland. Excluding expenditure for mobile radio frequencies, capital expenditure in Switzerland increased by 1.3% or CHF 22 million to CHF 1,596 million due to the further expansion of network infrastructure. At Fastweb, capital expenditure decreased by 2.0% or EUR 12 million to EUR 587 million and thus remained at a high level.

The operating free cash flow proxy increased by CHF 227 million or 14.0% to CHF 1,853 million. The previous year's figure was affected by the expenditure of CHF 196 million for mobile radio frequencies in Switzerland. Net debt decreased by 8.0% to CHF 6,218 million, while the net debt/EBITDA ratio after lease expense fell to 1.5.

The number of employees declined by 1.3% year-on-year to 19,062 FTEs. In Switzerland, headcount fell by 580 FTEs or 3.5% to 16,048 FTEs as a result of the declining core business. Over half of the reduction was achieved through natural fluctuation, retirements and alternative solutions.

Swisscom expects net revenue of around CHF 11.1 billion, EBITDA of around CHF 4.3 billion and capital expenditure of around CHF 2.3 billion for 2021. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2021 financial year at the 2022 Annual General Meeting.

Segment results

In CHF million, except where indicated	2020	2019	Change
Net revenue			
Residential Customers	4,564	4,736	–3.6%
Business Customers	3,100	3,240	–4.3%
Wholesale [1]	976	968	0.8%
IT, Network & Infrastructure	85	85	0.0%
Intersegment elimination	(450)	(456)	–1.3%
Swisscom Switzerland	**8,275**	**8,573**	**–3.5%**
Fastweb	2,470	2,468	0.1%
Other Operating Segments	1,020	1,079	–5.5%
Group Headquarters	–	1	–100.0%
Intersegment elimination	(665)	(668)	–0.4%
Revenue from external customers	**11,100**	**11,453**	**–3.1%**
Operating income before depreciation and amortisation (EBITDA)			
Residential Customers	2,701	2,770	–2.5%
Business Customers	1,344	1,394	–3.6%
Wholesale	524	511	2.5%
IT, Network & Infrastructure	(1,042)	(1,191)	–12.5%
Swisscom Switzerland	**3,527**	**3,484**	**1.2%**
Fastweb	840	834	0.7%
Other Operating Segments	185	189	–2.1%
Group Headquarters	(62)	(66)	–6.1%
Reconciliation pension cost [2]	(65)	(47)	38.3%
Intersegment elimination	(43)	(36)	19.4%
Operating income before depreciation and amortisation (EBITDA)	**4,382**	**4,358**	**0.6%**

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. Group Headquarters, which includes non-allocated costs, is reported separately. Swisscom Switzerland comprises the customer segments Residential Customers, Business Customers and Wholesale, as well as the IT, Network & Infrastructure division. Fastweb is a telecommunications provider for residential and business customers in Italy. Other Operating Segments primarily comprises the Digital Business division, Swisscom Broadcast Ltd (radio transmitters) and cablex Ltd (network construction and maintenance).

The IT, Network & Infrastructure segment does not charge any network costs to other segments, nor does Group Headquarters charge any management fees to other segments. Any other services between the segments are charged at market prices. Network costs in Switzerland are budgeted, monitored and controlled by the IT, Network & Infrastructure division, which is managed as a cost centre. For this reason, no revenue is credited to the IT, Network & Infrastructure segment within the segment reporting, with the exception of the rental and administration of buildings and vehicles. The results of the Residential Customers, Business Customers and Wholesale segments thus correspond to a contribution margin before network costs.

Swisscom Switzerland

In CHF million, except where indicated	2020	2019	Change
Net revenue and results			
Telecom services	5,667	5,952	–4.8%
Solution business	1,058	1,049	0.9%
Merchandise	759	807	–5.9%
Wholesale	661	643	2.8%
Revenue other	48	33	45.5%
Revenue from external customers	**8,193**	**8,484**	**–3.4%**
Intersegment revenue	82	89	–7.9%
Net revenue	**8,275**	**8,573**	**–3.5%**
Direct costs	(1,747)	(1,897)	–7.9%
Indirect costs	(3,001)	(3,192)	–6.0%
Segment expenses	**(4,748)**	**(5,089)**	**–6.7%**
Segment result before depreciation and amortisation (EBITDA)	**3,527**	**3,484**	**1.2%**
Margin as % of net revenue	42.6	40.6	
Lease expense	(230)	(224)	2.7%
Depreciation and amortisation	(1,509)	(1,515)	–0.4%
Segment result	**1,788**	**1,745**	**2.5%**
Operating free cash flow proxy			
Segment result before depreciation and amortisation (EBITDA)	3,527	3,484	1.2%
Lease expense	(230)	(224)	2.7%
EBITDA after lease expense (EBITDA AL)	**3,297**	**3,260**	**1.1%**
Capital expenditure	(1,599)	(1,761)	–9.2%
Operating free cash flow proxy	**1,698**	**1,499**	**13.3%**
Operational data in thousand and full-time equivalent employees			
Fixed telephony access lines	1,523	1,594	–4.5%
Broadband access lines retail	2,043	2,058	–0.7%
TV access lines	1,554	1,555	–0.1%
Mobile access lines	6,224	6,333	–1.7%
Revenue generating units (RGU)	11,344	11,540	–1.7%
Broadband access lines wholesale	555	515	7.8%
Headcount	12,591	13,055	–3.6%

Net revenue for Swisscom Switzerland fell by CHF 298 million or 3.5% to CHF 8,275 million as a result of continuing competitive and price pressure and lower roaming revenues. To contain the Covid-19 pandemic, international travel was severely restricted. This led to a total decline in revenue of CHF 89 million in both telecommunications services and Wholesale. Revenue from telecommunications services decreased by CHF 285 million or 4.8% to CHF 5,667 million. Of this decline, CHF 164 million (–4.0%) was attributable to the Residential Customers segment and CHF 121 million (–6.6%) to the Business Customers segment. Revenue from the solutions business in Business Customers remained largely stable at CHF 1,058 million (+0.9%). Revenue was also affected by the high level of promotions. Sales of merchandise were unable to match the high volumes seen in 2019, with revenue falling by 5.9% to CHF 759 million. In Wholesale, revenue from external customers increased by 2.8%, with the increase in revenue due to higher demand for broadband connections and additional mobile network customers outweighing the decline in inbound roaming.

The number of inOne customers continues to grow. As at the end of 2020, Swisscom had 2.45 million inOne customers in the Residential Customers segment. In this segment, inOne accounts for 68% of postpaid mobile subscriptions and 76% of broadband connections. The market is showing signs of saturation in the area of mobile communications and fixed-network services, with the mobile subscriber base falling by 109,000 (–1.7%) to 6.22 million. The number of postpaid lines grew by 81,000, while the number of prepaid lines fell by

190,000. The number of broadband connections fell by 15,000 (–0.7%) to 2.04 million. There was also a shift to second and third brands. The number of TV connections remained stable at 1.55 million. In fixed-line telephony, the downward trend is slowing as the switch to IP technology has been completed. The number of fixed telephony access lines fell by 71,000 or 4.5% to 1.52 million.

Segment expense fell by CHF 341 million or 6.7% to CHF 4,748 million. Direct costs decreased by CHF 150 million or 7.9% to CHF 1,747 million, with costs for acquiring and retaining customers, roaming and purchasing merchandise all falling. In addition, the cost of broadcasting sporting events decreased because either such events were cancelled or will not take place until 2021 due to Covid-19. Indirect costs were CHF 191 million or 6.0% lower at CHF 3,001 million. Excluding the expense for headcount reductions, costs were reduced by CHF 129 million or 4.1%. This was mainly attributable to the declining headcount and lower advertising costs, while fewer customer service deployments as a result of the stable networks and platforms also reduced costs. Headcount fell as a result of efficiency measures by 464 FTEs or 3.6% to 12,591. The segment result before depreciation and amortisation was CHF 43 million or 1.2% higher at CHF 3,527 million. On an adjusted basis, EBITDA fell by CHF 19 million or 0.5% The decline in revenue was largely offset by ongoing cost-cutting measures.

Capital expenditure fell by 9.2% to CHF 1,599 million. The figure for the previous year included expenditure of CHF 196 million for mobile radio frequencies. Adjusted for this, capital expenditure increased by CHF 34 million or 2.2% due to higher spending on mobile network expansion and on the expansion of fibre-optic broadband in the fixed network. As at the end of 2020, 82% of all Swiss homes and businesses were connected with ultra-fast broadband exceeding 80 Mbps. 59% of all homes and businesses benefit from fast connections with bandwidths of more than 200 Mbps. Of these, more than 1.7 million have been upgraded to FTTH. Swisscom intends to make ultra-fast broadband available in every Swiss municipality by the end of 2021, even in remote locations. Swisscom also plans to double FTTH coverage for homes and businesses to up to 60% by the end of 2025 compared with 2019 levels.

Fastweb

In EUR million, except where indicated	2020	2019	Change
Net revenue and results			
Residential Customers	1,133	1,104	2.6%
Corporate Business	907	862	5.2%
Wholesale	257	245	4.9%
Revenue from external customers	**2,297**	**2,211**	**3.9%**
Intersegment revenue	7	7	0.0%
Net revenue	**2,304**	**2,218**	**3.9%**
Segment expenses	(1,520)	(1,468)	3.5%
Segment result before depreciation and amortisation (EBITDA)	**784**	**750**	**4.5%**
Margin as % of net revenue	34.0	33.8	
Lease expense	(52)	(50)	4.0%
Depreciation and amortisation	(577)	(560)	3.0%
Segment result	**155**	**140**	**10.7%**
Operating free cash flow proxy			
Segment result before depreciation and amortisation (EBITDA)	784	750	4.5%
Lease expense	(52)	(50)	4.0%
EBITDA after lease expense (EBITDA AL)	**732**	**700**	**4.6%**
Capital expenditure	(587)	(599)	−2.0%
Operating free cash flow proxy	**145**	**101**	**43.6%**
Operational data in thousand and full-time equivalent employees			
Broadband access lines	2,747	2,637	4.2%
Mobile access lines	1,961	1,746	12.3%
Headcount	2,703	2,456	10.1%

Fastweb's net revenue rose by EUR 86 million or 3.9% year-on-year to EUR 2,304 million. Despite challenging market conditions, Fastweb's broadband customer base grew by 110,000 or 4.2% year-on-year to 2.75 million. Fastweb is also growing in the fiercely competitive mobile telephony market. The number of mobile access lines increased by 215,000 or 12.3% year-on-year to 1.96 million despite market saturation and strong competition. The company continues to focus on bundled offerings, with around 34% of subscribers using a bundled offering combining fixed network and mobile. Residential customer revenue rose by EUR 29 million or 2.6% to EUR 1,133 million as a result of customer growth. Fastweb maintained its strong position in the business customer market, Revenue from business customers was up by EUR 45 million or 5.2% to EUR 907 million as a result of higher revenue with both private companies and public administrations. Revenue from wholesale business increased by EUR 12 million or 4.9% to EUR 257 million.

The segment result before depreciation and amortisation increased by EUR 34 million or 4.5% to EUR 784 million as a result of the growth in revenue. Capital expenditure decreased by EUR 12 million or 2.0% to EUR 587 million. The volume of capital expenditure remained at a high level overall, driven by the further expansion of the ultra-fast broadband networks. Fastweb's headcount increased by 247 FTEs or 10.1% year-on-year to 2,703 FTEs as a result of acquisitions and the hiring of external staff.

Other Operating Segments

In CHF million, except where indicated	2020	2019	Change
Net revenue and results			
Revenue from external customers	445	509	–12.6%
Intersegment revenue	575	570	0.9%
Net revenue	**1,020**	**1,079**	**–5.5%**
Segment expenses	(835)	(890)	–6.2%
Segment result before depreciation and amortisation (EBITDA)	**185**	**189**	**–2.1%**
Margin as % of net revenue	18.1	17.5	
Lease expense	(12)	(13)	–7.7%
Depreciation and amortisation	(62)	(63)	–1.6%
Segment result	**111**	**113**	**–1.8%**
Operating free cash flow proxy			
Segment result before depreciation and amortisation (EBITDA)	185	189	–2.1%
Lease expense	(12)	(13)	–7.7%
EBITDA after lease expense (EBITDA AL)	**173**	**176**	**–1.7%**
Capital expenditure	(44)	(47)	–6.4%
Operating free cash flow proxy	**129**	**129**	**0.0%**
Full-time equivalent employees			
Headcount	3,558	3,605	–1.3%

The net revenue of Other Operating Segments decreased by CHF 59 million or 5.5% year-on-year to CHF 1,020 million. The decline in revenue from external customers was attributable to lower revenue at cablex and Swisscom Broadcast and the loss of Billag's mandate to collect national radio and television licence fees. The segment result before depreciation and amortisation decreased by CHF 4 million or 2.1% to CHF 185 million, while the profit margin rose to 18.1% (prior year: 17.5%). Headcount fell by 47 FTEs or 1.3% to 3,558 FTEs, driven primarily by lower headcounts at both cablex and Swisscom Directories Ltd (localsearch).

Group Headquarters and reconciliation

In CHF million, except where indicated	2020	2019	Change
Group Headquarters	(62)	(66)	–6.1%
Reconciliation pension cost	(65)	(47)	38.3%
Elimination	(43)	(36)	19.4%
Operating income before depreciation and amortisation (EBITDA)	**(170)**	**(149)**	**14.1%**

Net costs not allocated to the operating segments, which comprise Group Headquarters, pension cost reconciliation and inter-segment eliminations, increased by CHF 21 million year-on-year to CHF 170 million. The reconciliation item for pension cost is the difference between total employer contributions and the cost under IFRS. The increase of CHF 18 million in this item was primarily attributable to changes in assumptions (in particular regarding the discount rate). Inter-segment eliminations pertain to interim profits on capitalised work of other Group companies.

Depreciation and amortisation, non-operating results

In CHF million, except where indicated	2020	2019	Change
Operating income before depreciation and amortisation (EBITDA)	**4,382**	**4,358**	**0.6%**
Depreciation and amortisation of property, plant and equipment and intangible assets	(2,149)	(2,166)	–0.8%
Depreciation of right-of-use assets	(286)	(282)	1.4%
Operating income (EBIT)	**1,947**	**1,910**	**1.9%**
Net interest expense on financial assets and liabilities	(69)	(62)	11.3%
Interest expense on lease liabilities	(45)	(42)	7.1%
Other financial result	(38)	(54)	–29.6%
Result of equity-accounted investees	4	(28)	
Income before income taxes	**1,799**	**1,724**	**4.4%**
Income tax expense	(271)	(55)	392.7%
Net income	**1,528**	**1,669**	**–8.4%**
Attributable to equity holders of Swisscom Ltd	1,530	1,672	–8.5%
Attributable to non-controlling interests	(2)	(3)	–33.3%
Earnings per share (in CHF)	29.54	32.28	–8.5%

Swisscom’s net income fell by CHF 141 million or 8.4% to CHF 1,528 million, largely due to the higher income tax expense. Earnings per share decreased accordingly from CHF 32.28 to CHF 29.54. Profit before income taxes rose by 4.4%. The depreciation and amortisation of property, plant and equipment and intangible assets decreased by CHF 17 million or 0.8% year-on-year to CHF 2,149 million, mainly reflecting lower depreciation and amortisation at Swisscom Switzerland and Other Operating Segments. The higher depreciation at Fastweb in local currency was offset by the currency effect. Higher interest expense was offset by an improvement in the other financial result. The other financial result includes one-off income of CHF 31 million from valuation differences for financial assets that were exchanged. The significantly lower tax expense in the previous year was attributable to positive tax effects related to the Swiss tax reform. Income tax expense was CHF 271 million (prior year: CHF 55 million), corresponding to an effective income tax rate of 15.1%. This figure included positive tax effects of CHF 29 million resulting from the revaluation of deferred income tax items in connection with the Swiss tax reform (prior year: CHF 269 million). Swisscom anticipates a future effective consolidated tax rate of 19.0%.

Cash flows

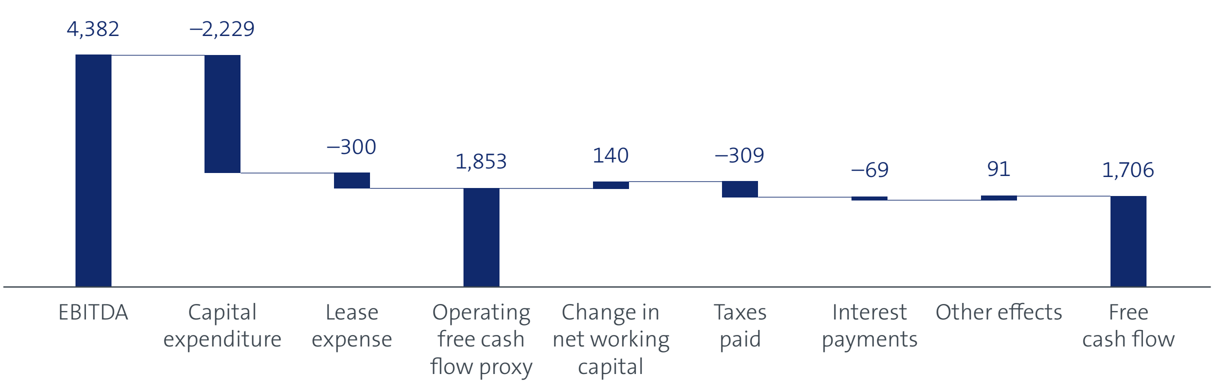
In CHF million	2020	2019	Change
Operating income before depreciation and amortisation (EBITDA)	4,382	4,358	24
Lease expense	(300)	(294)	(6)
EBITDA after lease expense (EBITDA AL)	**4,082**	**4,064**	**18**
Capital expenditure	(2,229)	(2,438)	209
Operating free cash flow proxy	**1,853**	**1,626**	**227**
Change in net working capital	140	83	57
Change in defined benefit obligations	65	48	17
Net interest payments on financial assets and liabilities	(69)	(63)	(6)
Income taxes paid	(309)	(371)	62
Other operating cash flow	26	22	4
Free cash flow	**1,706**	**1,345**	**361**
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Net expenditures for company acquisitions and disposals	(29)	(53)	24
Foreign currency translation adjustments	8	107	(99)
Other changes	(5)	(8)	3
Decrease in net debt	**540**	**251**	**289**

The operating free cash flow proxy increased by CHF 227 million year-on-year to CHF 1,853 million, mainly due to lower capital expenditure. Capital expenditure in the previous year included CHF 196 million for mobile radio frequencies in Switzerland. Excluding this expenditure, the operating free cash flow proxy increased by CHF 31 million or 1.7% as a result of higher operating income before depreciation and amortisation (EBITDA).

Free cash flow increased by CHF 361 million year-on-year to CHF 1,706 million. Adjusted for the expenditure for mobile radio frequencies, free cash flow increased by CHF 165 million. The increase was attributable in part to lower income tax payments of CHF 309 million (prior year: CHF 371 million). Net working capital fell by CHF 140 million compared with the end of 2019 (prior year: decrease of CHF 83 million). In 2020, an unchanged dividend per share of CHF 22 was paid. This corresponds to a total dividend payment of CHF 1,140 million. Overall, net debt decreased by CHF 540 million to CHF 6,218 million.

Development of free cash flow

in CHF million



Capital expenditure

In CHF million, except where indicated	2020	2019	Change
Fixed access and infrastructure	439	456	–3.7%
Expansion of the fibre-optic network	519	494	5.1%
Mobile network	306	272	12.5%
Mobile frequencies	–	196	
Customer driven	76	81	–6.2%
Projects and others	259	262	–1.1%
Swisscom Switzerland	**1,599**	**1,761**	**–9.2%**
Fastweb	629	667	–5.7%
Other Operating Segments	44	47	–6.4%
Group Headquarters and eliminations	(43)	(37)	16.2%
Total capital expenditure	**2,229**	**2,438**	**–8.6%**
Thereof Switzerland	1,596	1,770	–9.8%
Thereof foreign countries	633	668	–5.2%
Capital expenditure as % of net revenue	20.1	21.3	

Capital expenditure fell by CHF 209 million or 8.6% year-on-year to CHF 2,229 million, corresponding to 20.1% of net revenue (prior year: 21.3%). The figure for the previous year includes expenditure of CHF 196 million for mobile radio frequencies in Switzerland. Adjusted for this expenditure, capital expenditure was almost unchanged compared with the previous year. Switzerland accounted for CHF 1,596 million or 72% of the investments. Compared with the previous year, they increased by CHF 22 million or 1.4%, excluding mobile radio frequencies.

Capital expenditure incurred by Swisscom Switzerland increased by CHF 162 million or 9.2% year-on-year to CHF 1,599 million, corresponding to 19.3% of net revenue (prior year: 20.5%). The figure for the previous year includes expenditure of CHF 196 million for mobile radio frequencies. Capital expenditure on mobile network expansion and the expansion of fibre-optic broadband in the fixed network increased.

Fastweb reduced its capital expenditure by CHF 38 million or 5.7% to CHF 629 million. In local currency, capital expenditure decreased by EUR 12 million or 2.0% to EUR 587 million. The volume of capital expenditure remained at a high level overall, driven by the further expansion of the ultra-fast broadband networks. The ratio of capital expenditure to net revenue fell as a result to 25.5% (prior year: 27.0%).

Net asset position

In CHF million	31.12.2020	31.12.2019	Change
Property, plant and equipment	10,725	10,529	196
Intangible assets	1,745	1,842	(97)
Goodwill	5,162	5,163	(1)
Right-of-use assets	2,138	2,177	(39)
Trade receivables	2,132	2,183	(51)
Trade payables	(1,525)	(1,614)	89
Provisions	(1,216)	(1,134)	(82)
Deferred gain on sale and leaseback of real estate	(106)	(122)	16
Other operating assets and liabilities, net	(240)	(38)	(202)
Net operating assets	**18,815**	**18,986**	**(171)**
Net debt	(6,218)	(6,758)	540
Lease liabilities	(1,988)	(2,027)	39
Defined benefit obligations	(795)	(1,058)	263
Income tax assets and liabilities, net	(643)	(607)	(36)
Equity-accounted investees and other non-current financial assets	320	339	(19)
Equity	**9,491**	**8,875**	**616**
Equity ratio	39.1	36.6	

Operating assets

Net operating assets fell by CHF 0.2 billion to CHF 18.8 billion. The net carrying amount of goodwill was CHF 5.2 billion, the bulk of which relates to Swisscom Switzerland (CHF 4.2 billion). This goodwill arose primarily in 2007 in connection with the repurchase of the 25% stake in Swisscom Mobile Ltd sold to Vodafone in 2001. Following the repurchase, the mobile, fixed-network and solutions businesses were organisationally combined and merged to create the new company Swisscom (Switzerland) Ltd. The valuation risk of this goodwill item is extremely low. The net carrying amount of Fastweb's goodwill is EUR 0.5 billion (CHF 0.5 billion). The carrying amount of Fastweb's net assets totals EUR 3.1 billion (CHF 3.4 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 0.8 billion, which represents a CHF 0.3 billion decrease year-on-year. This was mainly due to the positive return on plan assets. Under the Swiss accounting standards applicable to the pension fund (Swiss GAAP FER), the funding surplus is CHF 1.2 billion, corresponding to a coverage ratio of 112% on the plan's assets of CHF 12.0 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 less the financing share of employees (risk sharing), has a net effect of CHF 1.4 billion. Secondly, the valuation method treats future salary levels, contribution rates scaled by age group and early retirement differently, resulting in a net effect of CHF 0.6 billion. The pension cost recognised in personnel expenses in accordance with IFRS is significantly higher than the actual contributions made. The difference amounts to CHF 65 million in the year under review (previous year CHF 47 million) and is not included in the segment results, but shown in the reconciliation to EBITDA according to the consolidated financial statements.

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	31.12.2020	31.12.2019
Ratio of net debt/EBITDA after lease expense		
Debenture bonds	6,110	5,915
Bank loans	484	1,080
Private placements	151	151
Other financial liabilities	297	314
Total financial liabilities	**7,042**	**7,460**
Cash and cash equivalents	(340)	(328)
Listed debt instruments	(271)	(139)
Certificates of deposit	–	(142)
Derivative financial instruments for financing	(79)	(84)
Other current financial assets	(134)	(9)
Net debt	**6,218**	**6,758**
EBITDA after lease expense (EBITDA AL)	4,082	4,064
Ratio of net debt/EBITDA after lease expense	**1.5**	**1.7**
Ratio of net debt incl. lease liabilities/EBITDA		
Net debt	6,218	6,758
Lease liabilities	1,988	2,027
Net debt incl. lease liabilities	**8,206**	**8,785**
EBITDA	4,382	4,358
Ratio of net debt incl. lease liabilities/EBITDA	**1.9**	**2.0**

The ratio of net debt including lease liabilities to EBITDA was 1.9 at the end of 2020 (prior year: 2.0). Without classification of the leases as financial liabilities, the ratio of net debt to EBITDA after lease expense is 1.5 (prior year: 1.7). Both ratios reflect a stable 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 the Group's variable interest-bearing financial liabilities is 12%. At the 2020, the average interest expense on all financial liabilities was 0.9%, and the average residual term to maturity was 5.8 years. Financial liabilities with a term of one year or less stood at CHF 0.8 billion at 31 December 2020.

Equity

Swisscom had equity of CHF 9.5 billion (prior year: CHF 8.9 billion) and an equity ratio of 39.1% (prior year: 36.6%). The increase of CHF 0.6 billion reported in equity resulted primarily from the fact that the net income of CHF 1.5 billion was higher than the dividend payment of CHF 1.1 billion. The foreign currency differences arising from the translation of foreign subsidiaries are recognised in equity. On 31 December 2020, the cumulative currency translation losses amounted to CHF 1.8 billion (after tax) and were unchanged on the previous year. 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 2020 separate financial statements of Swisscom Ltd was CHF 5.7 billion. The difference of CHF 3.8 billion versus the equity disclosed 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 2020, Swisscom Ltd held distributable reserves of CHF 5.6 billion.

Financial outlook

In CHF million, except where indicated	2020 reported	Change Swisscom without Fastweb	Change Fastweb	**2021 outlook** [1]
Net revenue				
Swisscom Group	**11,100**	**< 0**	**> 0**	**~ CHF 11.1 bn**
Swisscom w/o Fastweb				~ CHF 8.5 bn
Fastweb				~ EUR 2.4 bn
Operating income before depreciation and amortisation (EBITDA)				
Swisscom Group	**4,382**	**< 0**	**> 0**	**~ CHF 4.3 bn** [2]
Swisscom w/o Fastweb				~ CHF 3.4 bn
Fastweb				~ EUR 0.8 bn
Capital expenditure				
Swisscom Group	**2,229**	**> 0**	**0**	**~ CHF 2.3 bn**
Swisscom w/o Fastweb				> CHF 1.6 bn
Fastweb				~ EUR 0.6 bn

1 Exchange rate CHF/EUR 1.07 (2020: CHF/EUR 1.07).

2 2021 outlook for EBITDA after lease expense ~ CHF 4.0 billion

For 2021, Swisscom expects net revenue of around CHF 11.1 billion, EBITDA of around CHF 4.3 billion and capital expenditure of around CHF 2.3 billion. Due to strong competition and price pressure, Swisscom expects revenue to be lower excluding Fastweb. Fastweb's revenue is expected to increase slightly from 2020. For Swisscom excluding Fastweb, it will not be possible to fully make up for the decline in revenue through cost savings. In contrast, an increase in EBITDA is anticipated for Fastweb. Capital expenditure in Switzerland will be slightly higher than in 2020. In the case of Fastweb, the capital expenditure is expected to be at the level of 2020. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2021 financial year at the 2022 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 similar companies (European telecommunications companies) as well as with the prior year. The members of the Board of Directors and Group Executive Board are paid a portion of their remuneration in the form of Swisscom shares, which are blocked for a period of three years. They are also subject to a minimum shareholding requirement. Variable remuneration based on financial and non-financial targets, the partial settlement of remuneration in shares and the minimum shareholding requirement ensure that the financial interests of management are aligned with the interests of shareholders.

In CHF million, except where indicated	**31.12.2020**	31.12.2019
Enterprise value		
Market capitalisation	24,715	26,554
Net debt incl. lease liabilities	8,206	8,785
Defined benefit obligations	795	1,058
Income tax assets and liabilities, net	643	607
Equity-accounted investees and other non-current financial assets	(320)	(339)
Non-controlling interests	1	3
Enterprise value (EV)	**34,040**	**36,668**
Operating income before depreciation and amortisation (EBITDA)	4,382	4,358
Ratio enterprise value/EBITDA	**7.8**	**8.4**

Swisscom's enterprise value fell by 7.3% or CHF 2.7 billion to CHF 34.0 billion in 2020. The main reason for this was the decline of CHF 2.4 billion in the company's market capitalisation to CHF 24.7 billion. With EBITDA remaining stable, the ratio of enterprise value to EBITDA fell to 7.8 (prior year: 8.4). 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.

			2020			2019
In CHF million	Switzerland	Other countries	**Total**	Switzerland	Other countries	Total
Added value						
Net revenue	**8,614**	**2,486**	**11,100**	**8,969**	**2,484**	**11,453**
Capitalised self-constructed assets and other income	362	104	466	378	131	509
Direct costs	(1,784)	(885)	(2,669)	(1,925)	(890)	(2,815)
Other operating expense [1]	(1,147)	(641)	(1,788)	(1,314)	(662)	(1,976)
Lease expense	(244)	(56)	(300)	(238)	(56)	(294)
Depreciation and amortisation [2]	(1,531)	(618)	(2,149)	(1,542)	(624)	(2,166)
Intermediate inputs	**(4,344)**	**(2,096)**	**(6,440)**	**(4,641)**	**(2,101)**	**(6,742)**
Operating added value	**4,270**	**390**	**4,660**	**4,328**	**383**	**4,711**
Other non-operating result [3]			(110)			(154)
Total added value			**4,550**			**4,557**
Allocation of added value						
Employees [4]	2,428	224	2,652	2,522	231	2,753
Public sector [5]	317	14	331	317	11	328
Shareholders (dividends)			1,141			1,141
Third-party lenders (net interest expense)			69			62
Company (retained earnings) [6]			357			273
Total added value			**4,550**			**4,557**

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, 92% or CHF 4.3 billion was generated in Switzerland, which was 1.3% less than in the previous year. In 2020, the value added per full-time equivalent amounted to 263,000 (prior year: 257,000). 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 2020, with added value contributed by suppliers in Switzerland of approximately 60% or CHF 2.6 billion.


To the interview
Use opportunities to shape your own future.
Giulia Langhi went from trainee to head of the photo and graphics team in just one year.

To the interview

Sustainability is feasible.

Carmen Wäfler, financial specialist, and Pascal Salina, environmental manager, make sustainability appealing to investors.

Capital market

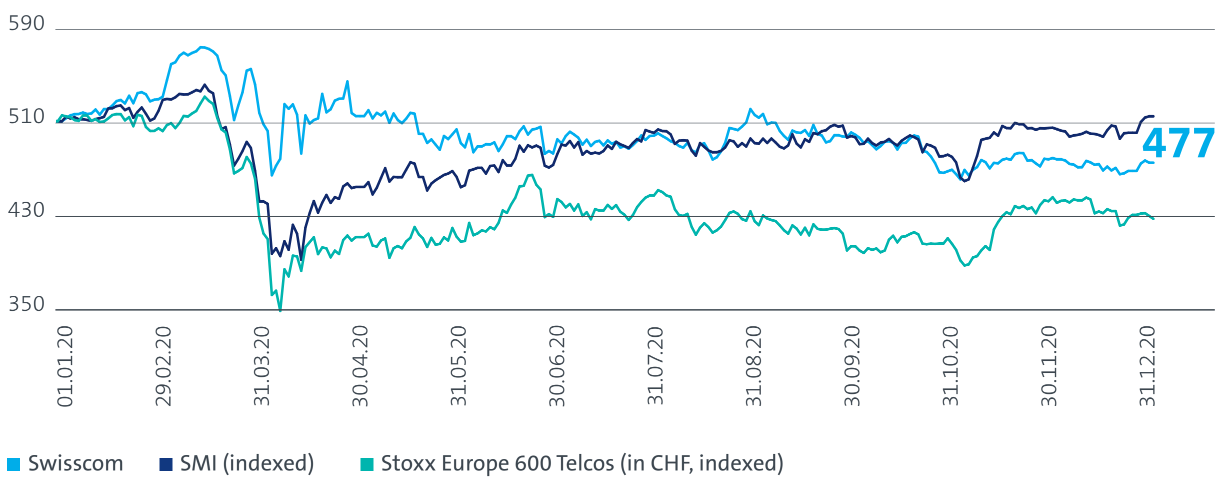
By consistently implementing its strategy, Swisscom has achieved its financial ambitions for 2020, which will enable it to create added value for shareholders once again this year. With ratings of A (stable) from Standard & Poor's and A2 (stable) from Moody's, Swisscom is one of the best-rated telecommunications companies in Europe.

Swisscom share

Swisscom's market capitalisation as at 31 December 2020 amounted to CHF 24.7 billion (previous year: CHF 26.6 billion). The number of shares issued remained the same at 51.8 million. Par value per registered share is CHF 1. Each share entitles the holder to one vote. Voting rights can only be exercised if the shareholder is entered in the share register of Swisscom Ltd with voting rights. The Board of Directors may refuse to enter a shareholder with voting rights if such voting rights exceed 5% of the company's share capital.

Share performance 2020

in CHF



The Swiss Market Index (SMI) rose by 0.8% compared with the previous year. The Swisscom share price fell by 6.9% to CHF 477.10, outperforming the Stoxx Europe 600 Telecommunications Index (–16.0% in EUR). The average daily trading volume increased by 21.4% year on year to 180,751 shares. The total trading volume of Swisscom shares in 2020 was CHF 23.0 billion.

See www.swisscom.ch/shareprice

Shareholder return

On 14 April 2020, Swisscom paid out an ordinary dividend of CHF 22 per share. Based on the closing price at the end of 2019, this equates to a return of +4.3%. Taking into account the decline in the share price, the Swisscom share achieved a total shareholder return (TSR) of –3.0% in 2020. The TSR for the SMI was +4.3% and for the Stoxx Europe 600 Telecommunications Index –12.0% in EUR.

Stock exchanges

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

Ownership structure

	31.12.2020			31.12.2019		
	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	69,308	4,817,812	9.3%	68,008	4,718,542	9.1%
Institutions	2,833	20,590,131	39.7%	2,733	20,689,401	39.9%
Total	**72,142**	**51,801,943**	**100.0%**	**70,742**	**51,801,943**	**100.0%**

The majority shareholder as at 31 December 2020 was the Swiss Confederation, which is obligated by current law to hold the majority of the capital and voting rights. The free float is divided between around 40% institutional investors and around 9% natural persons. As at 31 December 2020, some 19% of the shares were held in unregistered shareholdings.

Analysts' recommendations

Investment specialists analyse Swisscom's business performance, results and market situation on an ongoing basis. Their findings and recommendations offer valuable indicators for investors. Twenty-three analysts regularly publish studies on Swisscom. At the end of 2020, 16% of the analysts issued a buy rating for the Swisscom share, 48% a hold rating and 36% a sell rating. The average price target at 31 December 2020, according to the analysts' estimates, was CHF 490 per share.

Dividend policy

Swisscom pursues a return policy with a stable dividend. At the forthcoming Annual General Meeting on 31 March 2021, the Board of Directors will propose an unchanged ordinary dividend of CHF 22 per share for the 2020 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 34 billion to its shareholders: CHF 22 billion in dividend payments and CHF 12 billion in capital reductions and share buybacks. Swisscom has paid out a total of CHF 433 per share since the initial public offering. Together with the overall increase in share price of CHF 137 per share, this amounts to an average annual total return of 5.0%.

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 2020.

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 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 for sagging revenue from the core business. Market developments result in changes to the business model and demand profound transformation. The key risk factors are addressed below. The main risk factors arising in the supply chain are described in the Sustainability Report.

See **www.swisscom.ch/sustainability**

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 Swisscom's activities. 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 (e.g. those imposed on universal service provision) 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. 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 could have a detrimental impact on Fastweb's strategy and jeopardise projected revenue growth. 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. The wider the variety of opportunities for attack, the more difficult prevention becomes, making it even more important for potential threats to be recognised at an early stage, systematically understood and quickly averted.

Pandemic

The current pandemic has created uncertainties regarding future customer behaviour, reduced revenues for residential and business customers (including from lower roaming revenues, business development in entertainment and the events business, and bankruptcies of business customers). Furthermore, a very sharp increase in the number of cases could lead to disruptions in Swisscom's supply chains and service provision. Swisscom has taken appropriate measures to prevent potential negative effects.

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 those prescribed by the EU, and they apply to all mobile frequencies (including 5G). The public's wary attitude towards 5G, in particular when it comes to mobile communication antenna, is impeding Swisscom's network expansion. Even without stricter legislation, public concerns about the effects of electromagnetic radiation on the environment and health could further hamper the construction of wireless networks in the future and drive up costs.

Climate change poses risks for Swisscom. These risks are driven by changes in 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 (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. Full implementation of the recommendations of the TCFD is planned for the 2021 financial year.

See **www.swisscom.ch/climatereport2020**

Corporate Governance and Remuneration Report

Corporate Governance

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

1 Principles

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

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

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

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

See www.swisscom.ch/basicprinciples

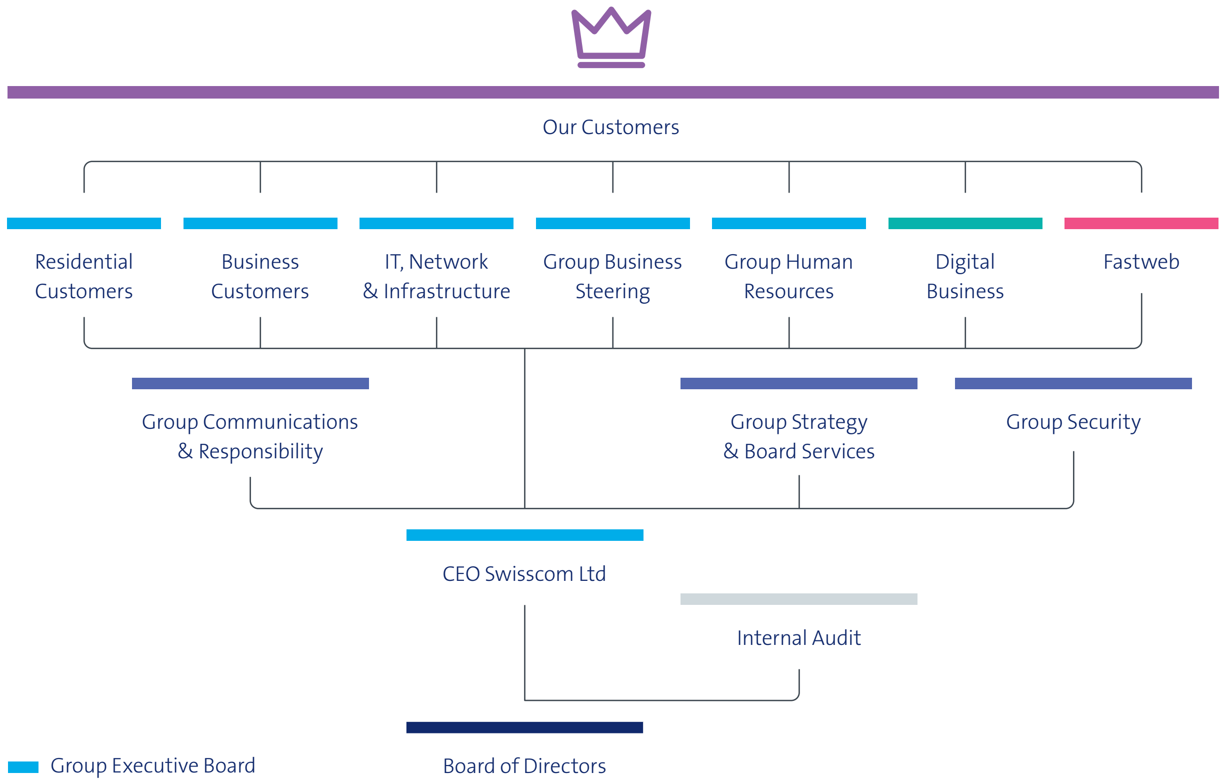
2 Group structure and shareholders

2.1 Group structure

Operational Group structure

Swisscom Ltd is a holding company and is responsible for the overall management of the Swisscom Group. It comprises five Group divisions: Group Business Steering, Group Human Resources, Group Strategy & Board Services, Group Communications & Responsibility and Group Security, which have staff functions. The Board of Directors delegates day-to-day business management to the CEO of Swisscom Ltd. The Group Executive Board is comprised of the CEO of Swisscom Ltd and the heads of the Group divisions Group Business Steering (CFO) and Group Human Resources (CPO), plus the heads of the business divisions Residential Customers, Business Customers, and IT, Network & Infrastructure. The Group also includes the Digital Business division and Group companies such as the Italian subsidiary Fastweb S.p.A.

The operational Group structure is shown in the organisational chart below.



Swisscom Ltd organisational chart

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

See report **pages 165–166**

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

See report **page 48**

Listed company

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

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

As at 31 December 2020, the stock market capitalisation of Swisscom Ltd was CHF 24,715 million. There are no other listed companies in the Swisscom Group.

2.2 Major shareholders

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

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

In the 2020 reporting year, no shareholdings subject to Article 120 FMIA were reported to Swisscom. In August 2017, BlackRock, Inc., New York, reported a shareholding of 3.44% of the voting rights in Swisscom Ltd. According to the Swisscom share register, Chase Nominees Ltd., London, held 4.67% of the voting rights in Swisscom Ltd on 31 December 2020.

The Swiss federal government (Swiss Confederation), as majority shareholder, held 50.95% of the issued share capital of Swisscom Ltd on 31 December 2020, which was unchanged from the previous year. The Telecommunications Enterprise Act (TEA) provides that the Swiss Confederation shall hold the majority of the share capital and voting rights of Swisscom Ltd. The Federal Council defines the goals which the Confederation as principal shareholder of the company aims to achieve in the next four years. As a rule, stakeholder talks with the Chairman of the Board and the CEO are conducted three times a year by the responsible federal government departments – the Federal Department of the Environment, Transport, Energy and Communications (DETEC) and the Federal Department of Finance (FEF) – led by the Head of DETEC. During these talks, the participants examine the status of target achievement. After the close of the business year, target achievement is assessed by the Federal Council.

See **www.swisscom.ch/ziele_2018-2021** (in German)

2.3 Cross-shareholdings

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

3 Capital structure

3.1 Capital

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

See report **page 182**

3.2 Shares, participation and profit-sharing certificates

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

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

The holder of an ADR possesses the rights listed in the Deposit Agreement (e.g. the right to issue instructions for the exercise of voting rights and the right to dividends).

The Bank of New York Mellon Corporation, which acts as the ADR depositary, is listed as the shareholder in the share register. ADR holders are therefore unable to directly enforce or exercise shareholder rights. The Bank of New York Mellon Corporation exercises the voting rights in accordance with the instructions it receives from the ADR holders. If it does not receive instructions, it does not exercise the voting rights.

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

Further information on the shares is available in Section 7 “Shareholders’ participation rights” as well as in the Management Commentary.

See report **page 93**

See report **page 64**

3.3 Limitations on transferability and nominee registrations

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

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

See report **page 93**

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

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

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

3.4 Convertible bonds, debenture bonds and options

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

See report **pages 129–131**

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

4 Board of Directors

4.1 Members of the Board of Directors

There were no personnel changes on the Board of Directors in the year under review. As of 31 December 2020, the Board of Directors comprised the following non-executive members:

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

1 Since 1 September 2011 Chairman.

2 Designated by the Swiss Confederation.

4.2 Education, professional activities and affiliations

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

See www.swisscom.ch/basicprinciples

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

Hansueli Loosli

Commercial apprenticeship; Swiss Certified Expert in Financial Accounting and Controlling

Career history

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

Mandates in listed companies

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

Mandates in non-listed companies

Mandates of the Coop Group: Chairman of the Board of Directors, Coop Group Association, Basel; Chairman of the Board of Directors, Transgourmet Holding AG, Basel; Chairman of the Board of Directors, Coop Mineraloel AG, Allschwil. Other mandates: member of the Advisory Board, Deichmann SE, Essen; since April 2020 Managing Director of Haselba und Partner GmbH, Baden; since August 2020 member of the Board of Directors of Pilatus Flugzeugwerke AG, Stans

Other significant activities

–

Roland Abt

Doctorate in Business Administration (Dr. oec.) University of St. Gallen (HSG)

Career history

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

Mandates in listed companies

Member of the Board of Directors of Conzzeta AG, Zurich

Mandates in non-listed companies

Member of the Board of Directors, Raiffeisenbank, Zufikon; Chairman of the Board of Directors, Eisenbergwerk Gonzen AG, Sargans; Chairman of the Board of Directors of Aargau Verkehr AG (AVA), Aarau

Other significant activities

–

Alain Carrupt

Swiss school-leaving certificate in economics

Career history

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

Mandates

–

Other significant activities

Since September 2020 President of the association Opération Boule à Zéro, Belfaux

Frank Esser

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

Career history

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

Mandates in listed companies

Until March 2020 Member of the Board of Directors of interXion Holding N.V., Amsterdam; since February 2020 Member and since April 2020 Chairman of the Board of Directors of SES S.A., Luxembourg

Other significant activities

–

Barbara Frei

Degree in Mechanical Engineering, ETH; Doctorate (Dr. sc. techn.), ETH Zurich; Master of Business Administration, IMD Lausanne

Career history

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

Mandates in listed companies

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

Mandates in non-listed companies

Mandate for Schneider Electric Group: Chair of the Board of Directors of Schneider Nordic Baltic A/S; since May 2020 member of the Board of Directors of Schneider Electric Industries SAS, Rueil-Malmaison

Other significant activities

–

Sandra Lathion-Zweifel

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

Career history

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

Mandates in listed companies

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

Other significant activities

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

Anna Mossberg

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

Career history

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

Mandates in listed companies

Member of the Board of Directors, Swedbank AB, Stockholm; member of the Board of Directors, Schibsted ASA, Oslo; since March 2020 member of the Board of Directors, Orkla ASA, Oslo

Other significant activities

–

Michael Rechsteiner

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

Career history

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

Mandates in non-listed companies

GE mandates: President of the Executive Board, General Electric (Switzerland) GmbH, Baden, Switzerland; until January 2021 member of the Supervisory Board, GE Power sp. z o.o., Warsaw

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

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

Other significant activities

Member of the Board of Swissmem

Renzo Simoni

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

Career history

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

Mandates in non-listed companies

Member of the Board of Directors, Gruner AG, Basel; member of the Board of Directors, Rhätische Bahn AG, Chur; Chairman of the Board of the Psychiatric Hospital of the University of Zurich; since November 2020 Chairman of Verkehrsbetriebe Luzern AG, Lucerne

Other significant activities

–

4.3 Composition of the Board of Directors

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

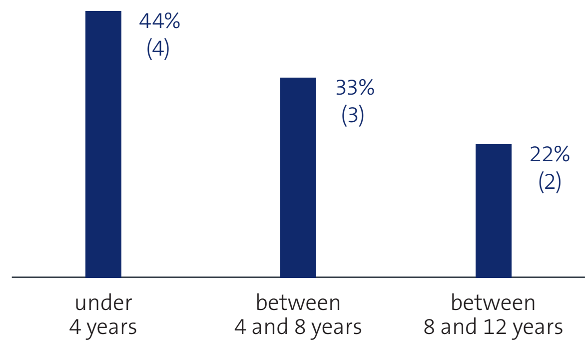
The following diagrams show breakdowns of the Board of Directors by competency, term of office and gender.

Board of Directors by career, experience, skills and knowledge

In % and (number of members) as of 31 December 2020

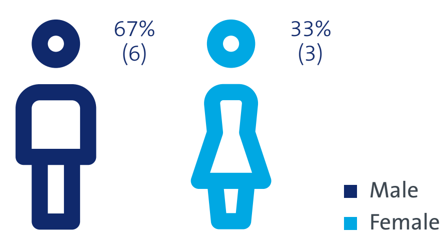
Board of Directors by length of term of office

In % and (number of members) as of 31 December 2020



Board of Directors by gender

In % and (number of members) as of 31 December 2020



The Board of Directors of Swisscom Ltd thus already complies with the requirements of Swiss company law regarding gender representation on the boards of directors of listed companies, which have been in force since 1 January 2021.

4.4 Independence

To establish the independence of its members, the Board of Directors applies the criteria set out in the Swiss Code of Best Practice for Corporate Governance published by economiesuisse. Independent members are thus understood to mean non-executive members of the Board of Directors who were never a member of the executive management or who have not been a member of the executive management for at least three years and who have no or only comparatively minor business relations with the company. The term of office of a member of the Board of Directors is not a criterion that can be used to assess independence. No members of the Board of Directors hold an executive role within the Swisscom Group or have held such a role in any of the three business years prior to the reporting year. The Board members have no significant commercial links with

Swisscom Ltd or the Swisscom Group. The Swiss Confederation, represented on the Board by Renzo Simoni, holds the majority of the capital and voting rights in Swisscom in accordance with the Telecommunications Enterprise Act (TEA). Customer and supplier relationships exist between the Swiss Confederation and Swisscom. Details of these are provided in Note 6.2 to the consolidated financial statements.

See report **page 170**

4.5 Election and term of office

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

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

4.6 Succession planning

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

4.7 Ongoing development and continuing education

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

Once a year, a one-day mandatory training course is held such as those in January 2020 and 2021. At least four times per year, the members of the Board of Directors also have the opportunity to explore the upcoming challenges facing the Group and business divisions in-depth as part of "company experience days". The majority of the Board members regularly take advantage of these opportunities. In addition, all the members of the Board of Directors attend the Swisscom Group's annual management meeting whenever possible. New Board members are given a task-specific introduction to their duties. At a one-day introduction, they are provided with an overview of Group management, the business and the current operational challenges. In addition, they are introduced to topics related to the Italian subsidiary Fastweb and attend task-related training courses.

4.8 Chairman of the Board of Directors

Hansueli Loosli has been a member of the Board of Directors since 2009 and Chairman of the Board since September 2011. He will reach the maximum term of office – usually twelve years – at the Annual General Meeting of 31 March 2021 and will therefore step down from the Board of Directors. The Board of Directors will propose that the Annual General Meeting elects Michael Rechsteiner as his successor. The tasks and responsibilities of the Chairman are defined in the Organisational Rules. In the event that the Chairman of the Board of Directors is unavailable or there is a potential conflict of interest, the Vice-Chairman, Frank Esser, takes over the Chairman's tasks and responsibilities.

See www.swisscom.ch/basicprinciples

4.9 Internal organisation and modus operandi

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

The Board of Directors is usually convened once per month by the Chairman (except in July and November) for a one-to-two-day meeting. Further meetings are convened as business requires. In the event that the Chairman is hindered, the meeting is convened by the Vice-Chairman. The Chairman sets the agenda. Any Board member may request the inclusion of further items on the agenda. The Board members receive the agenda and supporting documentation approximately ten days prior to the meetings, so that they can prepare. The CEO, the CFO and the Head of Group Strategy & Board Services always attend the Board meetings as well. At every Board meeting, the Chairman of the Board, the CEO and the Chief Personnel Officer report on particular events, on the general course of business and major business transactions, as well as on any measures that have been implemented. To further ensure appropriate reporting to the members of the Board, the Board of Directors invites members of the Group Executive Board and senior employees of Swisscom as well as auditors and other internal and external experts, as necessary, to all its meetings as dictated by the specific issues being addressed. In the year under review, the Board of Directors called on an external consultant to review the Group's incentive system, while the CEO also commissioned two external audits on network faults in consultation with the Board of Directors. The auditors presented their findings to the Board of Directors.

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

See www.swisscom.ch/basicprinciples

The following table gives an overview of the Board of Directors' meetings, conference calls and circular resolutions in 2020. Due to the measures implemented by the authorities as a result of the Covid-19 pandemic, the Board of Directors held some meetings exclusively via video conference or connected individual members to meetings via Skype.

	Meeting days	Conference calls	Circular resolutions
Total	11	1	3
Average duration (in hours)	07:13	00:50	–
Participation:			
Hansueli Loosli, Chairman	11	1	3
Roland Abt	11	1	3
Alain Carrupt	11	1	3
Frank Esser, Deputy Chairman	9	1	3
Barbara Frei	11	1	3
Sandra Lathion-Zweifel	11	1	3
Anna Mossberg	9	1	3
Michael Rechsteiner	11	1	3
Renzo Simoni	10	1	3

4.10 Committees of the Board of Directors

The Board of Directors has delegated individual tasks to committees. The standing committees of the Board of Directors of Swisscom Ltd were constituted as follows as at 31 December 2020:

Board of Directors

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

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

Compensation Committee
Barbara Frei [1]
Roland Abt
Frank Esser
Renzo Simoni
Hansueli Loosli [2]

1 Chairman/chairwoman of the Board of Director's committee
2 No voting rights

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

Finance Committee

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

See www.swisscom.ch/basicprinciples

The Finance Committee is convened by the Chairman or at the request of a Committee member as often as business requires, but as a rule once per quarter within the framework of a half-day meeting. The CEO, the CFO and the Head of Group Strategy & Board Services always attend the meetings of the Finance Committee. In 2020, all the meetings were also attended by other members of the Group Executive Board, members of the Management Boards of strategic Group companies or project managers, depending on the agenda items. The Finance Committee did not call on any external consultants during the reporting year.

The following table gives an overview of the Finance Committee's composition, meetings, conference calls and circular resolutions in 2020. Due to the measures implemented by the authorities as a result of the Covid-19 pandemic, the committee held one meeting exclusively via video conference and connected some individual members to meetings via Skype.

	Meetings	Conference calls	Circular resolutions
Total	3	–	–
Average duration (in hours)	04:50	–	–
Participation:			
Frank Esser, Chairman	2	–	–
Alain Carrupt	3	–	–
Anna Mossberg	2	–	–
Michael Rechsteiner	3	–	–
Hansueli Loosli	3	–	–

Audit Committee

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

See www.swisscom.ch/basicprinciples

The Audit Committee is composed of four independent members. The Chairman and one other member of the Committee are experts in the financial field, and the majority of the remaining Committee members are experienced in finance and accounting. The Audit Committee is convened by the Chairman or at the request of a Committee member as often as business requires, but at least once per quarter and one additional time in December. The meetings usually last between three and six hours. The CEO, CFO, Head of Group Strategy & Board Services, Head of Accounting, Head of Internal Audit and the external auditors always attend the Audit Committee meetings. In 2020, the Board of Directors called upon other members of the Group Executive Board and Swisscom management to attend, depending on the agenda. The Audit Committee can also involve independent third parties such as lawyers, public accountants and tax experts as required. The Audit Committee invited external consultants to one of its meetings during the reporting year.

The Chairman of the Committee also liaises closely with the Heads of Internal Audit and Accounting and the representatives of Swisscom's external auditors outside of the meetings. He and individual members of the Audit Committee also meet with Fastweb's internal and external auditors once a year to discuss the current challenges facing Fastweb.

The following table gives an overview of the Audit Committee's composition, meetings, conference calls and circular resolutions in 2020. The Committee held one meeting via videoconference due to the measures implemented by the authorities as a result of the Covid-19 pandemic.

	Meetings	Conference calls	Circular resolutions
Total	5	–	–
Average duration (in hours)	04:32	–	–
Participation:			
Roland Abt, Chairman [1]	5	–	–
Sandra Lathion-Zweifel	5	–	–
Renzo Simoni	5	–	–
Hansueli Loosli [1]	5	–	–

1 Financial expert.

Compensation Committee

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

See report **page 97**

Nomination Committee

The Nomination Committee is formed on an ad-hoc basis for the purpose of preparing the groundwork for electing new members to the Board of Directors and the Group Executive Board when needed. The Committee is presided over by the Chairman of the Board of Directors and its composition is determined on a case-by-case basis. The Committee carries out its work based on a specific requirements profile defined by the Board of Directors outlining the qualifications and experience sought. It then presents suitable candidates to the Board of Directors, but has no further decision-making authority. The Board of Directors appoints the members of the Group Executive Board and decides upon the motion to be proposed to the Annual General Meeting for the election and approval of members of the Board of Directors. The Nomination Committee is convened by the Chairman or at the request of a Committee member as often as business requires. In December 2019, the Board of Directors appointed a Nomination Committee composed of the following members to identify succession candidates for the Board of Directors: Hansueli Loosli (Chairman), Frank Esser, Anna Mossberg and Michael Rechsteiner. The Nomination Committee met twice in the 2020 financial year. The meetings lasted for an average of 1 hour and 50 minutes, with all members present. In February, the Board of Directors appointed a further Nomination Committee composed of the following members to identify candidates to succeed the CFO: Hansueli Loosli (Chairman), Frank Esser, Roland Abt and Sandra Lathion-Zweifel. The Committee held one meeting lasting 2 hours and 50 minutes, with all members present. The succession of the CPO was dealt with directly in the plenary session of the Board of Directors.

4.11 Assignment of powers of authority

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

See **www.swisscom.ch/ziele_2018-2021** (in German)

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

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

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

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

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

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

Risk management

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

See report **page 66**

Internal control system and financial reporting

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

Compliance management

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

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

Internal auditing

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

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

Internal Audit liaises closely and exchanges information with the external auditors. The external auditors have unrestricted access to the audit reports and audit files of Internal Audit. Internal Audit closely coordinates audit planning with the external auditors. The integrated strategic audit plan, which includes the coordinated annual plan of both the internal and external auditors, is prepared annually on the basis of a risk analysis and presented to the Audit Committee for approval. Notwithstanding the above, the Audit Committee can commission special audits based on information received on the whistle-blowing platform operated by Internal Audit. This reporting procedure, approved by the Audit Committee, ensures that objections raised relating to external reporting, financial reporting and assurance functions can be submitted anonymously and handled confidentially. At its meetings, which are held at least quarterly, the Audit Committee is briefed on audit findings, the reports submitted to the whistle-blowing platform and the status of any corrective measures implemented. The Head of Internal Audit took part in all five meetings of the Audit Committee in 2020. He reported on audit findings at two meetings of the full Board of Directors.

Group Executive Board, 1 March 2021.

5 Group Executive Board

5.1 Members of the Group Executive Board

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

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An overview of the composition of the Group Executive Board as at 31 December 2020 is given in the table below.

Name	Nationality	Year of birth	Function	Appointed to the Group Executive Board as of
Urs Schaeppi [1]	Switzerland	1960	CEO Swisscom Ltd	March 2006
Mario Rossi	Switzerland	1960	CFO Swisscom Ltd	January 2013
Hans C. Werner	Switzerland	1960	CPO Swisscom Ltd	September 2011
Urs Lehner	Switzerland	1968	Head of Business Customers	June 2017
Christoph Aeschlimann	Switzerland	1977	Head of IT, Network & Infrastructure	February 2019
Dirk Wierzbitzki	Germany	1965	Head of Residential Customers	January 2016

1 Since November 2013 CEO.

Amendments as at 1 February and 1 March 2021

The Board of Directors has appointed Klementina Pejic (1974, German citizen) as Head of Human Resources (CPO) and member of the Group Executive Board with effect from 1 February 2021. She takes over from Hans Werner, who stepped down with effect from 31 January 2021. The Board of Directors has also appointed Eugen Stermetz (1972, Austrian citizen) as Chief Financial Officer, Head of Group Business Steering and member of the Group Executive Board with effect from 1 March 2021. The current CFO, Mario Rossi, will relinquish his position on 28 February 2021.

As of 1 February 2021, the Group Executive Board thus complies with the requirements of Swiss company law regarding gender representation on the management boards of listed companies, which have been in force since 1 January 2021.

5.2 Education, professional activities and affiliations

Key details of the careers and qualifications of the members of the Group Executive Board are provided below along with a summary of the mandates they hold outside the Group and other significant activities. Pursuant to the Articles of Incorporation, the Group Executive Board members may perform no more than one additional mandate in listed companies and no more than two additional mandates in non-listed companies. In total, they may not perform more than two such additional mandates. These restrictions on the number of mandates do not apply to mandates performed by an Executive Board member by order of Swisscom or to mandates in interest groups, charitable associations, institutions and foundations or employee retirement-benefit foundations. The number of mandates held by order of Swisscom is limited to ten, while the number of mandates in interest groups, charitable associations, institutions and foundations, and employee retirement-benefit foundations is limited to seven. Prior to accepting new mandates and other duties outside the Swisscom Group, the members of the Group Executive Board are obligated to obtain the approval of the Chairman of the Board of Directors. Details on the regulation of external mandates, in particular the definition of the term "mandate" and information on other mandates that do not fall under the aforementioned numerical restrictions for listed and non-listed companies, are set out in Article 8.3 of the Articles of Incorporation. None of the members of the Group Executive Board exceeds the set limits for mandates. The members of the Group Executive Board perform most of their other significant activities by order of Swisscom.

See www.swisscom.ch/basicprinciples

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

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

Career history

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

Mandates by order of Swisscom

Member of the Executive Board, Association Suisse des Télécommunications (asut), Berne; member of the Foundation Board, IMD International Institute for Management Development, Lausanne; until January 2020 member of the Board of Directors, Admeira AG, Berne; member of the Board of Trustees of the Swiss Entrepreneurs Foundation

Other significant activities

Member of the Board of Directors, Swiss-American Chamber of Commerce, Zurich; member of the Executive Board, Glasfasernetz Schweiz, Berne; member of the Advisory Board of the Department of Economics of the University of Zurich; member of the Steering Committee of digitalswitzerland, Zurich (formerly Digital Zurich 2025); member of the international Advisory Committee of the ZHAW School of Management and Law, Zurich

Mario Rossi (stepping down with effect from 28 February 2021)
Commercial apprenticeship; Swiss Certified Public Accountant

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

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

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

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

Hans C. Werner (stepped down with effect from 31 January 2021)
Graduate in business management, PhD in business administration (Dr. oec.)

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

Mandates by order of Swisscom
Until January 2021 member of the Board of Trustees, comPlan, Berne

Mandate in non-listed company
Member of the Board of Directors, Kantonsspital Aarau AG

Mandates in interest groups, charitable associations, institutions and foundations, and employee retirement-benefit foundations
Since April 2020 member of the Foundation Board of the Careum Foundation, Zurich

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

Urs Lehner

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

Career history

1997–2013 Trivadis Group, most recently: 2004–2008 Solution Portfolio Manager, member of the Executive Board of Trivadis Group, 2008–2011 Chief Operating Officer (COO) of Trivadis Group, 2011–2013 member of the Board of Directors of Trivadis Holding AG; July 2011–June 2017 Swisscom (Switzerland) Ltd: July 2011–December 2013 Head of Marketing & Sales Corporate Business, 2014–2015 Head of Marketing & Sales Enterprise Customers, 2016–June 2017 Head of Sales & Services Enterprise Customers; since June 2017 Head of Business Customers (known as “Enterprise Customers” until 2019) and member of the Swisscom Group Executive Board

Mandates

–

Other significant activities

Since July 2020 member of the Advisory Board of BKW Innovation GmbH, Berlin

Christoph Aeschlimann

Degree in Computer Science (Dipl. Ing.), École polytechnique fédérale de Lausanne (EPFL); MBA, McGill University (Canada)

Career history

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

Mandates

–

Other significant activities

Since January 2020 member of the CIO Advisory Board, Dell

Dirk Wierzbitzki
Degree in Electrical Engineering (Dipl. Ing.)

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

Mandates by order of Swisscom
Member of the Board of Directors, SoftAtHome, Paris; until January 2020 member of the Board of Directors, Admeira AG, Berne

Other significant activities
–

Klementina Pejic (from 1 February 2021)
Dortmund University of Applied Sciences; École de Commerce ESSEC Cergy-Pontoise International Business M. A.

Career history
2001–2002 Watson Wyatt AG, Zurich, Consultant; 2003–2020 Clariant International AG: 2003–2004 Divisional HR Manager, 2005–2007 Global HR Business Partner, 2008–2009 Head of Management Development Europe, 2009-2011 Head of Global Talent Management, 2012–2013 Head of Senior Management Development, 2014–2017 Head of SMD & People Excellence, 2018–January 2021 Head of Human Resources; since 1 February 2021 Swisscom Ltd, CPO and member of the Group Executive Board

Mandates by order of Swisscom
Since February 2021 member of the Board of Trustees, comPlan, Berne

Other significant activities
–

Eugen Stermetz (from 1 March 2021)
Degree in Business Administration (lic. oec., University of St. Gallen (HSG)), PhD in Social and Economic Sciences (Dr. rer. soc. oec.)

Career history
1996–2000 Boston Consulting Group, Munich and Vienna; 2001–2005 Igeneon AG, Vienna, Chief Financial Officer; 2006–2008 F-star GmbH, Vienna, CFO and Managing Director; 2009–2011 SVOX AG, Zurich, CFO and member of the Executive Board; since 2012 Swisscom: 2012–2017 CFO Participations, 2017–2018 CFO Participations and Head of M&A, 2018–February 2021 Group Treasurer (Treasury, Insurance and M&A), since 1 March 2021 CFO and member of the Group Executive Board

Mandates by order of Swisscom
–

Other significant activities
Member of the Investment Committee of comPlan, Berne

5.3 Management agreements

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

6 Remuneration, shareholdings and loans

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

See report **page 97**

7 Shareholders' participation rights

7.1 Voting right restrictions and proxies

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

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

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

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

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

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

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

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

7.2 Statutory quorum requirements

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

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

7.3 Convocation of the Annual General Meeting and agenda items

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

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

See www.swisscom.ch/basicprinciples

7.4 Representation at the Annual General Meeting

Shareholders may be represented at the Annual General Meeting by another shareholder with voting rights or by the independent proxy elected by the Annual General Meeting. The law firm Reber Rechtsanwälte, Zurich, was appointed as independent proxy for the period up until the conclusion of the Annual General Meeting in March 2021. Partnerships and legal entities may be represented by authorised signatories, while minors and wards may be represented by their legal representative, even if the representative is not a shareholder.

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

In accordance with the measures prescribed by the Federal Council to combat the coronavirus (Covid-19 Ordinance 2 of 16 March 2020), the Annual General Meeting of 6 April 2020 took place without the physical participation of shareholders. Shareholders were able to authorise the independent proxy to cast their votes and execute their instructions on their behalf. The independent proxy cast the votes in person at the Annual General Meeting.

In accordance with Ordinance 3 of the Federal Council of 19 June 2020 on measures to combat the coronavirus (Covid-19) and the decision of Swisscom's Board of Directors, the Annual General Meeting of 31 March 2021 will also take place without the physical participation of shareholders. Shareholders can authorise the independent proxy to cast their votes and execute their instructions on their behalf. This can be done either in writing or electronically via the shareholder portal. The independent proxy will cast the votes in person at the Annual General Meeting.

7.5 Entries in the share register

Shareholders entered in the share register with voting rights are entitled to vote at the Annual General Meeting. To ensure due procedure, the Board of Directors defines a cut-off date at its own discretion for determining voting entitlements, which is normally three business days before the respective Annual General Meeting. Entries in and deletions from the share register can be made at any time, regardless of the cut-off date. The cut-off date is announced with the invitation to the Annual General Meeting and also published in the financial calendar on the Swisscom website. Shareholders entered in the share register with voting rights as of 5 p.m. on 31 March 2020 were entitled to vote at the Annual General Meeting of 6 April 2020. Shareholders entered in the share register with voting rights as of 5 p.m. on 26 March 2021 are entitled to vote at the Annual General Meeting of 31 March 2021.

8 Change of control and defensive measures

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

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

See report **page 97**

9 Auditor

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

The statutory auditor is appointed annually by the Annual General Meeting following a proposal submitted by the Board of Directors. Re-election is permitted. The policies for appointing the statutory auditor have been set forth in a policy by the Audit Committee. A new invitation to tender is issued for the statutory auditor's mandate at least every 10 to 14 years. The statutory auditor's tenure is limited to 20 years. As stipulated by the Swiss Code of Obligations, the auditor-in-charge may only perform the mandate for a maximum of seven years. A request for tenders for the audit mandate was issued in 2018. PricewaterhouseCoopers (PwC), Zurich, has performed the mandate since the 2019 financial year. The auditor-in-charge is Peter Kartscher.

9.2 Audit fees

The fees paid to PwC as auditors for the 2020 financial year amount to CHF 2,989 thousand (prior year: CHF 3,209 thousand).

9.3 Supplementary fees

The fees charged by PwC for additional audit-related services in the year under review amounted to CHF 802 thousand (prior year: CHF 718 thousand), and the fees for other services were CHF 34 thousand (prior year: CHF 229 thousand).

Audit-related services include audit services in connection with IT outsourcing orders from business customers, IT projects, bond issuance, risk management, a company acquisition and the reporting of financial information. Other services include consulting services in connection with the implementation of an ERP system, the reclaiming of foreign VAT and the preparation of financial information.

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

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

The statutory auditors, represented by the auditor-in-charge and his deputy, usually attend all Audit Committee meetings. They inform the Committee in detail on the performance and results of their work, in particular regarding the annual financial statement audit. They further submit a written report annually to the Board of Directors and the Audit Committee on the conduct and results of the audit of the annual financial statements, as well as on their findings with regard to accounting and the internal control system. Finally, the Chairman of the Audit Committee liaises closely with the auditor-in-charge beyond the meetings of the Committee and regularly reports to the Board of Directors. Representatives of PwC, the statutory auditors, attended all five meetings of the Audit Committee in 2020. They did not participate in the meetings of the full Board of Directors. The Head of Internal Audit took part in all five meetings of the Audit Committee in 2020. He reported on audit findings at two meetings of the full Board of Directors.

10 Information policy

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

See www.swisscom.ch/basicprinciples
See www.swisscom.ch/financialreports
See www.swisscom.ch/cr-report2020

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

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

See www.swisscom.ch/adhoc

The comprehensive minutes of the Annual General Meeting of 6 April 2020 and minutes from past meetings are available on the Swisscom website.

See www.swisscom.ch/generalmeeting

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

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11 Financial calendar

- Annual General Meeting for the 2020 financial year: 31 March 2021, in Volketswil, without the personal attendance of shareholders
- 1st Quarter Interim Report: 29 April 2021
- Half-Year Interim Report: 5 August 2021
- 3rd Quarter Interim Report: 28 October 2021
- Annual Report 2021: February 2022

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

See www.swisscom.ch/financialcalendar

Remuneration Report

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

1 Governance

1.1 General principles

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

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

See www.swisscom.ch/basicprinciples

As in previous years, the Remuneration Report will be put to a consultative vote at the Annual General Meeting on 31 March 2021.

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

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

- Remuneration of the Board of Directors (Articles 6.4 and 8.1)
- Compensation Committee (Article 6.5)
- Remuneration of the Group Executive Board (Articles 7.2 and 8.1)
- Contracts of the Board of Directors and the Group Executive Board (Article 8.2)
- Number of external mandates for the Board of Directors and Group Executive Board (Article 8.3)

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

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

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

See www.swisscom.ch/basicprinciples

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

Subject	Remuneration Committee	Board of Directors	Annual General Meeting
Maximum total amounts for remuneration of the Board of Directors and Group Executive Board	V [1]	A [2]	G [3]
Additional amount for remuneration of newly appointed members of the Group Executive Board	V	A	G
Personnel and remuneration policy	V	G [4]	–
Principles for performance-related and equity-participation schemes for the Board of Directors and the Group Executive Board	V	A	G
Principles underlying retirement-benefit plans and social security payments	V	G	–
Equity-share and performance-based participation plans of the Group	V	G [4]	–
General terms of employment of the Group Executive Board	V	G [4]	–
Definition of performance targets for the variable performance-related salary component	V	G [4]	–
Concept of remuneration to members of the Board of Directors	V	G [4]	–
Remuneration of the Board of Directors	V	G [5]	–
Remuneration of the CEO Swisscom Ltd	V	G [5]	–
Total remuneration of the Group Executive Board	V	G [5]	–
Remuneration of the members of the Group Executive Board (excl. CEO)	G [5,6]	–	–
Remuneration report	V	A	G [7]

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

1.3 Election, composition and modus operandi of the Compensation Committee

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

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

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

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

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The following table gives an overview of the composition of the Committee, the Committee meetings, conference calls and circular resolutions in 2020.

	Meetings	Conference calls	Circular resolutions
Total	4	–	–
Average duration (in hours)	02:11	–	–
Participation:			
Barbara Frei, Chairwoman	4	–	–
Roland Abt	4	–	–
Frank Esser	3	–	–
Renzo Simoni [1]	4	–	–
Hansueli Loosli [2]	4	–	–

1 Representative of the Confederation.

2 Participation without voting rights.

2 Remuneration of the Board of Directors

2.1 Principles

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

See www.swisscom.ch/basicprinciples

2.2 Amendments as at 1 January 2020

The Board of Directors has amended its remuneration system as of 1 January 2020, with the aim of simplifying the system without significantly changing the level of the fees paid to members, including meeting attendance fees. The remuneration is made up of a Director's fee that varies in relation to the member's function (basic emolument plus functional allowances), statutory and regulatory employer contributions to social security and, as of now, to the occupational pension, as well as any additional benefits. Additional remuneration is no longer given for attendance at meetings. Instead, the attendance fees have been incorporated into the basic emolument and functional allowances based on past values. In addition, the basic emolument and functional allowances have been increased by the amount of the statutory employee contributions to social security. The fees are now therefore gross amounts from which employee contributions to social security and the occupational pension are deducted. As before, no variable performance-related emoluments are paid. The members of the Board of Directors are still obligated to draw a portion of their fee in the form of equity shares and to comply with the requirements on minimum shareholdings, thus ensuring they directly participate financially in the performance of Swisscom's shares.

The remuneration is normally reviewed every December for the following year for ongoing appropriateness. In December 2019, the Board of Directors assessed the appropriateness of the remuneration as part of a discretionary decision. The Board of Directors compared Swisscom's remuneration with that of other listed companies domiciled in Switzerland, which, like Swisscom, must fulfil Swiss and foreign legal requirements, including full personal liability. The Board of Directors used as a comparison the remuneration paid by Compagnie Financière Richemont, Geberit, Givaudan, Lonza, SGS, Sika and Swatch Group. The Board of Directors did not call on any external consultants with regard to the structuring of the remuneration.

2.3 Remuneration components

Director's fee

The Director's fee is made up of a basic emolument and functional allowances as compensation for the individual functions. The increased amounts from 2020 are due to the incorporation of meeting attendance fees and the change from net to gross fees. The following amounts are paid per year:

in CHF	2020 Gross	2019 Net
Base salary per member	146,000	110,000
Functional allowances [1]		
Presidium	308,000	255,000
Vice presidium	25,000	20,000
Representative of the Confederation	48,000	40,000
Audit Committee, Chair	61,000	50,000
Audit Committee, Member	17,000	10,000
Finance Committee, Chair	25,000	20,000
Finance Committee, Member	17,000	10,000
Remuneration Committee, Chair	25,000	20,000
Remuneration Committee, Member	15,000	10,000

1 No functional allowance is paid for membership of an ad hoc committee appointed on a case-by-case basis.

Under the Management Incentive Plan, the members of the Board of Directors are obligated to draw one third of their Director's fee in the form of shares. For members who resign from the Board of Directors at the Annual General Meeting, the fee is paid fully in cash on a pro rata basis. The shares are allocated on the basis of their tax value, rounded up to whole numbers of shares. Shares are blocked from sale for three years. This restriction on disposal also applies if members leave the company during the blocking period. The shares, which are allocated in April of the reporting year for the reporting year, are recorded at market value on the date of allocation. The share-based remuneration is augmented by a factor of 1.19 in order to take account of the difference between the tax value and the market value. In April 2020, a total of 1,548 shares were allocated to the members of the Board of Directors (prior year: 1,409 shares) with a tax value of CHF 439 per share (prior year: CHF 411). Their market value was CHF 522.80 (prior year: CHF 489.50) per share.

Contributions to social security and occupational pension as well as additional benefits

Swisscom pays the statutory and regulatory employer contributions to social security and occupational pension on the fee. The contributions are disclosed separately and are included in the total remuneration.

If required by law, the individual members of the Board of Directors are insured against the economic consequences of old age, death and disability; their basic emolument is covered through the comPlan pension plan and their functional allowances are covered as part of a 1e plan with VZ Sammelstiftung (see www.pk-complan.ch for the regulations). The reported pension benefits cover all savings, guarantee and risk contributions paid by the employer to the pension plan.

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

2.4 Total remuneration

The total remuneration paid to the individual members of the Board of Directors for the 2019 and 2020 financial years is presented in the tables below, broken down into individual components. The higher total compensation in 2020 is due in particular to the fact that the Board of Directors was temporarily composed of only eight members in 2019. In addition, Swisscom made statutory or regulatory contributions to the occupational pension plans of individual members in 2020.

	Base salary and functional allowances				
2020, in CHF thousand	Cash remuneration	Share-based payment	Employer contributions to PF	Employer contributions to SS	**Total 2020**
Hansueli Loosli	335	200	–	23	558
Roland Abt	159	95	35	15	304
Alain Carrupt	109	65	7	8	189
Frank Esser [1]	152	91	–	–	243
Barbara Frei	124	74	–	12	210
Sandra Lathion-Zweifel	109	65	22	10	206
Anna Mossberg [2]	109	65	–	32	206
Michael Rechsteiner	109	65	–	10	184
Renzo Simoni	151	90	33	14	288
Total remuneration to members of the Board of Directors	**1,357**	**810**	**97**	**124**	**2,388**

1 Frank Esser is subject to social security contributions in Germany.
2 Anna Mossberg is subject to social security contributions in Sweden.

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

1 Frank Esser is subject to social security contributions in Germany. Neither employer nor employee contributions are paid.
2 Elected to the Board of Directors on 2 April 2019.
3 Anna Mossberg is subject to social insurance contributions in Sweden. No employee contributions were included.
4 Left the Board of Directors on 2 April 2019.

The total remuneration paid to the members of the Board of Directors for the 2020 financial year is within the maximum total amount of CHF 2.5 million approved by the 2019 Annual General Meeting (AGM) for 2020.

2.5 Minimum shareholding requirement

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

2.6 Shareholdings of the members of the Board of Directors

As at 31 December 2019 and 2020, the members of the Board of Directors and/or related parties held blocked and non-blocked shares as shown in the table below. None of the individuals required to make notification holds voting shares exceeding 0.1% of the share capital.

Number	**31.12.2020**	31.12.2019
Hansueli Loosli	3,856	3,474
Roland Abt	726	544
Alain Carrupt	563	439
Frank Esser	972	798
Barbara Frei	1,189	1,047
Sandra Lathion-Zweifel	238	114
Anna Mossberg	346	222
Michael Rechsteiner	233	109
Renzo Simoni	652	480
Total shares held by the members of the Board of Directors	**8,775**	**7,227**

3 Remuneration of the Group Executive Board

3.1 Principles

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

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

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

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

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

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

Remuneration system
Remuneration components and determining factors

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

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

For the purpose of assessing market values, Swisscom relies on cross-sector market comparisons with Swiss companies as well as international sector comparisons. These two comparative perspectives allow Swisscom to form an optimal overview of the relevant employment market for managerial positions. In the year under review, Swisscom consulted a current national and international comparative study by Willis Towers Watson. The comparison with the Swiss market covers twelve major companies domiciled in Switzerland from various sectors, with the exception of the financial and pharmaceutical sectors. On average, these companies generate revenue of CHF 14.63 billion and employ 16,403 people. The international sector comparison covers telecommunications companies from eight western European countries with median revenue of CHF 7.5 billion and a median workforce of 19,500 employees. The evaluation of the two comparative studies takes into account the comparability of the extent of responsibility in terms of revenue, number of employees and international scope. No external consultants were called on with regard to the structuring of remuneration.

As a rule, the Compensation Committee reviews the individual remuneration paid to members of the Group Executive Board every three years of employment. Taking into account the benchmarks and transfer of tasks due to the reduction of the Group Executive Board, the Board of Directors adjusted the salaries of three members of the Group Executive Board during the course of the reporting year. The aim of this was to take account of their expanded roles and their experience and performance, while ensuring that remuneration was in line with the market.

3.2 Remuneration components

Base salary

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

Variable performance-related salary component

The members of the Group Executive Board are entitled to a variable performance-related salary component which represents 70% of the base salary if objectives are achieved in full (performance-related bonus). The amount of the performance-related component paid out depends on the extent to which the targets are achieved, as set by the Compensation Committee, taking into account the performance evaluation by the CEO. If targets are exceeded, up to 130% of the performance-related bonus may be paid. The maximum performance-related salary component is thus limited to 91% of the base salary. This ensures that the performance-related salary component does not exceed the annual base salary, even taking account of the market value of the component paid in shares.

Targets for the variable performance-related salary component

The targets underlying the variable performance-related salary component are adopted annually in December for the following year by the Board of Directors following a proposal submitted by the Compensation Committee. The targets relevant to the reporting year were left unchanged from the previous year, in line with the Group's continuing corporate strategy. The targets are based on the Swisscom Group's budget figures for 2020.

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

The targets relating to the business transformation include the net promoter score (NPS) for residential and business customers, which is a recognised indicator of customer loyalty, an availability coefficient, growth targets and net cost savings targets. Further information on customer satisfaction can be found in the Management Commentary.

See report **page 39**

Overall target achievement is determined based on the achievement of financial targets and the achievement of targets within the scope of the business transformation.

Determination of overall target achievement

As the decisive basis for the payment of the performance-related component

Financial performance factor

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

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Business transformation multiplier

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

=

Overall target achievement

(limited to 130%)

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

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

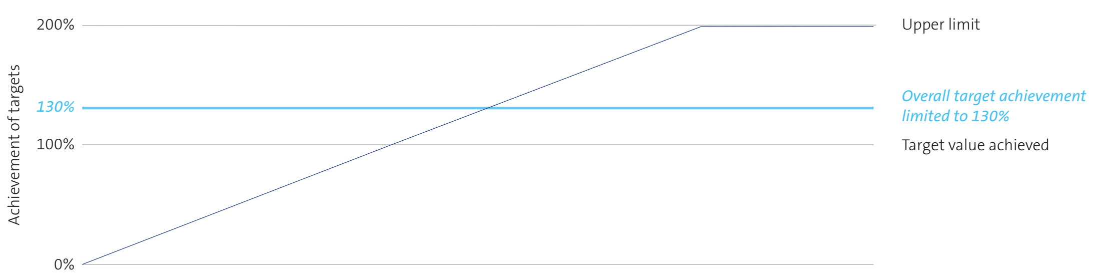
Target levels	Objectives	Weighting of targets level CEO	Weighting of targets level of other members of the Group Executive Board
Financial performance factor	Net revenue	24%	24–30%
	EBITDA margin	24%	24–30%
	Operating free cash flow proxy	32%	32–40%
	Financial objectives Fastweb	20%	0–20%
	Total financial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

Achievement of targets

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

Determination of achievement of targets

Per financial target



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

The overall achievement of targets governing the payment of the performance-related component is determined based on financial targets as well as targets relating to the business transformation. The weighted financial targets form the basis for calculating the achievement of financial targets, with an upper limit. Similarly, the weighted targets within the scope of the business transformation form the basis for calculating the achievement of business transformation targets, with a lower and upper limit. The two target achievements are multiplied by each other as factors and result in the overall target achievement. In determining the level of target achievement, the Compensation Committee can, under certain circumstances, exercise a degree of discretion in assessing the effective management performance, taking into account special factors such as fluctuations in exchange rates. The overall achievement of targets is limited to a maximum of 130%.

Based on the overall achievement of targets, the Compensation Committee submits a proposal for the approval of the Board of Directors for the amount of the performance-related salary component to be paid to the Group Executive Board and the CEO.

In the year under review, the targets relevant to remuneration were fully met. The resulting payment of the performance-related component is 103% of the target bonus for the CEO and for the other members of the Group Executive Board.

Payment of the variable performance-related salary component

The variable performance-related salary component for a given financial year is paid in April of the following year, with 25% being paid in the form of Swisscom shares, in accordance with the Management Incentive Plan. Group Executive Board members may opt to increase the share component up to a maximum of 50% of the total variable performance-related compensation. The remaining portion of the performance-related component is settled in cash. In the event of a departure from the Group Executive Board during the course of the year, the payment of the performance-related component for the current year is generally made in cash only. The decision as to what percentage of the variable performance-related salary component is to be drawn in the form of shares must be communicated prior to the end of the reporting year, but no later than in November following the publication of the third-quarter results. In the year under review, one member of the Group Executive Board opted for a higher share component. The shares are allocated on the basis of their tax value, rounded up to whole numbers of shares. Shares are blocked from sale for three years. This restriction on disposal also applies if the employment relationship is terminated during the blocking period. The share-based remuneration disclosed in the year under review is augmented by a factor of 1.19 in order to take account of the difference between the market value and the tax value. The market value is determined as of the date of allocation. The allocation of shares for the 2020 reporting year will be made in March 2021.

In April 2020, a total of 1,452 shares (prior year: 1,815 shares) with a tax value of CHF 439 (prior year: CHF 411) per share and a market value of CHF 522.80 (prior year: CHF 489.50) per share were allocated for the 2019 financial year to the members of the Group Executive Board.

Pension fund and fringe benefits

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

See report **pages 156–161**

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

3.3 Total remuneration

The following table shows the total remuneration paid to the members of the Group Executive Board for the 2019 and 2020 financial years, broken down into individual components and including the highest amount paid to one member. In the year under review, the variable performance-related salary component for members of the Group Executive Board (CHF 2,439 thousand in total) was around 76% of the base salary (CHF 3,221 thousand in total). The total remuneration paid to the highest-earning member of the Group Executive Board (CEO, Urs Schaeppi) increased by 5.3% compared to the prior year. The decrease in total remuneration paid to the Group Executive Board is primarily attributable to the lower number of Group Executive Board members compared to the previous year.

In CHF thousand	**Total Group Executive Board 2020**	Total Group Executive Board 2019	**Thereof Urs Schaeppi 2020**	Thereof Urs Schaeppi 2019
Fixed base salary paid in cash	3,221	3,606	882	882
Variable performance-related remuneration paid in cash	1,708	1,636	477	417
Variable performance-related remuneration paid in shares [1]	731	757	189	165
Service-related and non-cash benefits	109	105	18	15
Employer contributions to social security [2]	510	539	139	132
Retirement benefits	796	873	148	148
Total remuneration to members of the Group Executive Board	**7,075**	**7,516**	**1,853**	**1,759**
Benefits paid following retirement from Group Executive Board [3]	190	–	–	–
Total remuneration paid to Group Executive Board, incl. benefits paid following retirement from Board	**7,265**	**7,516**	**1,853**	**1,759**

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

Total remuneration paid to the members of the Group Executive Board for the 2020 financial year is within the maximum total amount approved by the 2019 Annual General Meeting (AGM) for 2020 of CHF 9.7 million.

3.4 Minimum shareholding requirement

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

3.5 Shareholdings of the members of the Group Executive Board

Blocked and non-blocked shares held by members of the Group Executive Board and/or related parties as at 31 December 2019 and 2020 are shown in the table below. None of the individuals required to make notification holds voting shares exceeding 0.1% of the share capital.

Number	31.12.2020	31.12.2019
Urs Schaeppi (CEO)	5,069	4,752
Mario Rossi	1,897	1,707
Hans C. Werner	1,588	1,440
Marc Werner [1]	–	1,364
Urs Lehner	821	509
Christoph Aeschlimann	145	–
Dirk Wierzbitzki	1,122	969
Total shares held by the members of the Group Executive Board	**10,642**	**10,741**

1 Left the Group Executive Board on 31 December 2019.

3.6 Employment contracts

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

4 Other remuneration

4.1 Remuneration for additional services

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

See www.swisscom.ch/basicprinciples

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

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

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

4.3 Loans and credits granted

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

In the 2020 financial year, Swisscom did not grant any collateral, loans, advances or credit facilities of any kind either to former or current members of the Board of Directors or related parties, or to former or current members of the Group Executive Board or related parties. There are therefore no corresponding receivables outstanding.

Report of the statutory auditor

to the General Meeting of Swisscom Ltd

Ittigen

We have audited the remuneration report of Swisscom Ltd for the year ended 31 December 2020. The audit was limited to the information according to articles 14 - 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the sections 2.4, 2.6, 3.3, 3.5 and 4.1 to 4.3 on pages 97 to 108 of the remuneration report.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the remuneration report of Swisscom Ltd for the year ended 31 December 2020 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Peter Kartscher	Petra Schwick
Audit expert Auditor in charge	Audit expert

Zürich, 3 February 2021

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zürich, Switzerland
Telefon: +41 58 792 44 00, Telefax: +41 58 792 44 10, www.pwc.ch

Consolidated Financial Statements

Consolidated Financial Statements

Notes to the consolidated financial statements

Consolidated statement of comprehensive income

In CHF million, except for per share amounts	Note	2020	2019
Income statement			
Net revenue	1.1	**11,100**	**11,453**
Direct costs	1.2	(2,669)	(2,815)
Personnel expense	1.2, 4.1	(2,717)	(2,800)
Other operating expense	1.2	(1,798)	(1,989)
Capitalised self-constructed assets and other income	1.2	466	509
Operating income before depreciation and amortisation		**4,382**	**4,358**
Depreciation and amortisation of property, plant and equipment and intangible assets	3.2, 3.3	(2,149)	(2,166)
Depreciation of right-of-use assets	2.3	(286)	(282)
Operating income		**1,947**	**1,910**
Financial income	2.4	41	33
Financial expense	2.4	(193)	(191)
Result of equity-accounted investees	5.3	4	(28)
Income before income taxes		**1,799**	**1,724**
Income tax expense	6.1	(271)	(55)
Net income		**1,528**	**1,669**
Other comprehensive income			
Actuarial gains and losses from defined benefit pension plans	2.1	261	146
Change in fair value of equity instruments	2.1	(9)	2
Items that will not be reclassified to income statement		**252**	**148**
Foreign currency translation adjustments of foreign subsidiaries	2.1	(5)	(55)
Change in cash flow hedges	2.1	(3)	7
Other comprehensive income from equity-accounted investees	2.1	(5)	2
Items that may be reclassified to income statement		**(13)**	**(46)**
Other comprehensive income		**239**	**102**
Comprehensive income			
Net income		1,528	1,669
Other comprehensive income		239	102
Comprehensive income		**1,767**	**1,771**
Share of net income and comprehensive income			
Equity holders of Swisscom Ltd		1,530	1,672
Non-controlling interests		(2)	(3)
Net income		**1,528**	**1,669**
Equity holders of Swisscom Ltd		1,769	1,774
Non-controlling interests		(2)	(3)
Comprehensive income		**1,767**	**1,771**
Earnings per share			
Basic and diluted earnings per share (in CHF)	2.1	**29.54**	**32.28**

Consolidated balance sheet

In CHF million	Note	31.12.2020	31.12.2019
Assets			
Cash and cash equivalents		340	328
Trade receivables	3.1	2,132	2,183
Other operating assets	3.1	1,029	1,156
Other financial assets		170	73
Current income tax assets	6.1	4	4
Total current assets		**3,675**	**3,744**
Property, plant and equipment	3.2	10,725	10,529
Intangible assets	3.3	1,745	1,842
Goodwill	3.4	5,162	5,163
Right-of-use assets	2.3	2,138	2,177
Equity-accounted investees	5.3	155	156
Other financial assets		479	484
Deferred tax assets	6.1	183	152
Total non-current assets		**20,587**	**20,503**
Total assets		**24,262**	**24,247**
Liabilities and equity			
Financial liabilities	2.2	792	1,411
Lease liabilities	2.3	226	232
Trade payables	3.1	1,525	1,614
Other operating liabilities	3.1	1,269	1,194
Provisions	3.5	144	163
Current income tax liabilities	6.1	186	174
Total current liabilities		**4,142**	**4,788**
Financial liabilities	2.2	6,250	6,049
Lease liabilities	2.3	1,762	1,795
Defined benefit obligations	4.3	795	1,058
Provisions	3.5	1,072	971
Deferred gain on sale and leaseback of real estate	2.3	106	122
Deferred tax liabilities	6.1	644	589
Total non-current liabilities		**10,629**	**10,584**
Total liabilities		**14,771**	**15,372**
Share capital		52	52
Capital reserves		136	136
Retained earnings	2.1	11,085	10,454
Foreign currency translation adjustments	2.1	(1,791)	(1,781)
Hedging reserves	2.1	8	11
Equity attributable to equity-holders of Swisscom Ltd		**9,490**	**8,872**
Non-controlling interests		1	3
Total equity		**9,491**	**8,875**
Total liabilities and equity		**24,262**	**24,247**

Consolidated statement of cash flows

In CHF million	Note	2020	2019
Net income		1,528	1,669
Income tax expense	6.1	271	55
Result of equity-accounted investees	5.3	(4)	28
Financial income	2.4	(41)	(33)
Financial expense	2.4	193	191
Depreciation and amortisation of property, plant and equipment and intangible assets	3.2, 3.3	2,149	2,166
Depreciation of right-of-use assets	2.3	286	282
Gain on sale of property, plant and equipment	1.2	(10)	(13)
Expense for share-based payments		1	1
Revenue from finance lease		(101)	(101)
Change in deferred gain from the sale and leaseback of real estate	2.3	(16)	(12)
Change in operating assets and liabilities	3.1	178	112
Change in provisions	3.5	(22)	46
Change in defined benefit obligations	4.3	65	48
Interest received		24	25
Dividends received	5.3	15	18
Interest payments on financial liabilities	2.2	(93)	(88)
Interest payments on lease liabilities	2.3	(45)	(42)
Income taxes paid	6.1	(309)	(371)
Cash flow from operating activities		**4,069**	**3,981**
Purchase of property, plant and equipment and intangible assets	3.2, 3.3	(2,188)	(2,390)
Sale of property, plant and equipment and intangible assets		16	31
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5.2	(39)	(394)
Sale of subsidiaries net of cash and cash equivalents sold	5.2	–	(3)
Payments for equity-accounted investees	5.2	(15)	(15)
Proceeds from finance lease receivables		100	38
Purchase of other financial assets		(121)	(13)
Proceeds from other financial assets		20	52
Remaining cash flows from investing activities		(4)	(39)
Cash flow used in investing activities		**(2,231)**	**(2,733)**
Issuance of financial liabilities	2.2	732	417
Repayment of financial liabilities	2.2	(1,110)	(374)
Repayment of lease liabilities	2.3	(287)	(276)
Dividends paid to equity holders of Swisscom Ltd	2.1	(1,140)	(1,140)
Dividends paid to non-controlling interests		(1)	(1)
Acquisition of non-controlling interests		(1)	(1)
Other cash flows from financing activities		(17)	(15)
Cash flow used in financing activities		**(1,824)**	**(1,390)**
Net increase (decrease) in cash and cash equivalents		**14**	**(142)**
Cash and cash equivalents at 1 January		328	474
Foreign currency translation adjustments in respect of cash and cash equivalents		(2)	(4)
Cash and cash equivalents at 31 December		**340**	**328**

Consolidated statement of changes in equity

In CHF million	Share capital	Capital reserves	Retained earnings	Foreign currency translation adjustments	Hedging reserves	Equity attributable to equity holders of Swisscom	Non-controlling interests	**Total equity**
Balance at 1 January 2019	**52**	**136**	**9,781**	**(1,728)**	**4**	**8,245**	**(15)**	**8,230**
Net income	–	–	1,672	–	–	1,672	(3)	1,669
Other comprehensive income	–	–	148	(53)	7	102	–	102
Comprehensive income	**–**	**–**	**1,820**	**(53)**	**7**	**1,774**	**(3)**	**1,771**
Dividends paid	–	–	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	–	–	(7)	–	–	(7)	22	15
Balance at 31 December 2019	**52**	**136**	**10,454**	**(1,781)**	**11**	**8,872**	**3**	**8,875**
Net income	–	–	1,530	–	–	1,530	(2)	1,528
Other comprehensive income	–	–	252	(10)	(3)	239	–	239
Comprehensive income	**–**	**–**	**1,782**	**(10)**	**(3)**	**1,769**	**(2)**	**1,767**
Dividends paid	–	–	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	–	–	(11)	–	–	(11)	1	(10)
Balance at 31 December 2020	**52**	**136**	**11,085**	**(1,791)**	**8**	**9,490**	**1**	**9,491**

Notes to the consolidated financial statements

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

General information and changes in accounting policies

General information

The Swisscom Group (hereinafter referred to as “Swisscom”) provides telecommunication services, and is active primarily in Switzerland and Italy. The consolidated financial statements for the year ended 31 December 2020 comprise Swisscom Ltd, as the parent company, and its subsidiaries. Swisscom Ltd is a public limited company with special status under Swiss law and has its registered office in Ittigen (Berne). Its address is: Swisscom Ltd, Alte Tiefenaustrasse 6, 3048 Worblaufen. Swisscom is listed on the SIX Swiss Exchange. The number of issued shares is unchanged from the prior year and totals 51,801,943. The shares have a nominal value of CHF 1 and are fully paid-up. Each share entitles the holder to one vote. The majority shareholder of Swisscom Ltd remains, as in the prior year, the Swiss Confederation (“Confederation”). The Confederation is obligated by current law to hold the majority of the capital and voting rights. The Board of Directors of Swisscom approved the issuance of these consolidated financial statements on 3 February 2021. As of this date, no material events after the reporting date have occurred. The consolidated financial statements are subject to approval by the shareholders of Swisscom Ltd in its Annual General Meeting to be held on 31 March 2021.

Basis of preparation

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

Significant judgements, estimates and assumptions in applying the accounting policies

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

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

Impact of the Covid-19 pandemic

In March 2020, government measures against the spread of Covid-19 restricted economic activities in the key regions for Swisscom, Switzerland and Italy. With the exception of international roaming, the impact on Swisscom's telecommunications business is minimal. The international roaming business recorded a sharp decline as a result of reduced travel activity. Furthermore, Covid-19 resulted in a negative business trend in the cinema and event business. Covid-19 does not have a significant impact on the key estimation uncertainties and assumptions. It is not possible to definitively quantify the potential financial impact of Covid-19 as there is a high degree of uncertainty as regards relevant various factors (especially the extent and duration of the pandemic, government support measures to benefit the economy, customer behaviour in Switzerland and Italy, etc.).

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

Standard	Name
Amendments to IFRS 3	Definition of a business
Amendments to IFRS 16	Rent concessions in connection with Covid-19
Amendments to IAS 1 and IAS 8	Definition of material
–	Amendments to the references to the framework in the IFRS standards

As of 1 January 2020 onwards, Swisscom adopted various amendments to existing International Financial Reporting Standards (IFRS) and Interpretations, which have no material impact on the results or financial position of the Group. Further information regarding the changes to the IFRS which must be applied in 2021 or later are set out in Note 6.3.

1 Operating performance

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

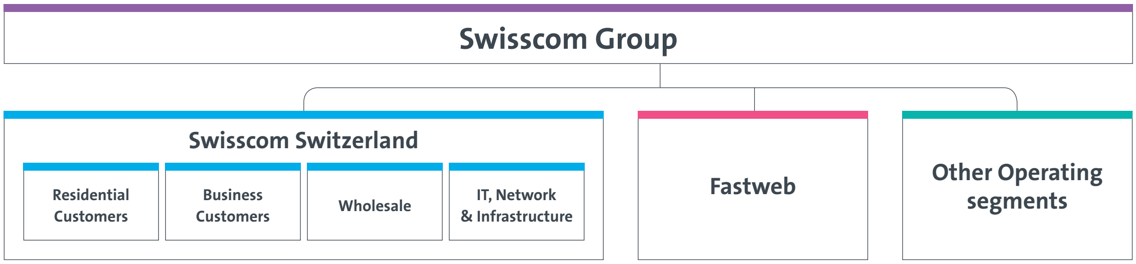
1.1 Segment information

Changes in segment reporting

As of 1 January 2020, Swisscom amended its organisational structure in Switzerland and the segment formerly known as Enterprise Customers was renamed Business Customers. In order to provide all business customers with a customer experience tailored to their needs, Swisscom has merged the SME and Corporate Customer segments. As a result, segment reporting now includes the telecommunications and solutions business with small and medium-sized enterprises in the Business Customers segment (previously reported under Residential Customers). In addition, Swisscom has bundled Customer Field Services in Switzerland, some of which were previously reported in the Residential Customers segment, at its subsidiary cablex Ltd (Other Operating Segments). Finally, Swisscom has transferred various areas between Swisscom Switzerland and Group Headquarters as of 1 January 2020. The prior-year amounts have been restated as follows:

In CHF million	Reported	Adjustment	**Restated**
Net revenue			
2019 financial year			
Residential Customers	5,691	(955)	4,736
Business Customers (previously Enterprise Customers)	2,312	928	3,240
Wholesale	968	–	968
IT, Network & Infrastructure	85	–	85
Elimination	(493)	37	(456)
Swisscom Switzerland	**8,563**	**10**	**8,573**
Fastweb	2,468	–	2,468
Other Operating Segments	929	150	1,079
Group Headquarters	1	–	1
Elimination	(508)	(160)	(668)
Total net revenue	**11,453**	**–**	**11,453**
Segment result			
2019 financial year			
Residential Customers	3,264	(631)	2,633
Business Customers (previously Enterprise Customers)	603	673	1,276
Wholesale	525	(14)	511
IT, Network & Infrastructure	(2,642)	(33)	(2,675)
Swisscom Switzerland	**1,750**	**(5)**	**1,745**
Fastweb	155	–	155
Other Operating Segments	114	(1)	113
Group Headquarters	(74)	6	(68)
Elimination	(77)	–	(77)
Total segment result	**1,868**	**–**	**1,868**

General information



Segment	Activity
Residential Customers	The Residential Customers segment provides mobile and fixed-network services in Switzerland, such as telephony, broadband, TV and mobile offerings. The segment also includes the sale of terminal equipment.
Business Customers	The Business Customers segment focuses on telecom services and overall communications solutions for large corporations and customers from small and medium-sized enterprises in Switzerland. Its offering in the area of business ICT infrastructure covers the entire range from individual products to complete solutions.
Wholesale	This segment incorporates the use of the Swisscom fixed-line and mobile network by other telecommunications service providers and the use of external networks by Swisscom. In addition, Wholesale includes roaming by foreign operators whose customers use the Swisscom mobile network, as well as broadband services and regulated access services to the access network.
IT, Network & Infrastructure	The segment IT, Network & Infrastructure is responsible for the planning, operation and maintenance of Swisscom's network infrastructure and all IT systems. It is responsible for the development and production of IT and network services in Switzerland. In addition, IT, Network & Infrastructure also includes the support functions Finances, Human Resources and Strategy for Swisscom Switzerland as well as the management of real estate and the vehicle fleet in Switzerland.
Fastweb	Fastweb provides broadband and mobile services to residential, business and wholesale customers in Italy. The offering includes telephony, broadband and mobile offerings. For business customers, Fastweb offers comprehensive ICT solutions.
Other Operating Segments	Other Operating Segments mainly comprises Digital Business and Participations. Digital Business mainly comprises Swisscom Directories Ltd (localsearch), which operates in the field of online directories and telephone directories. Participations mainly comprises the subsidiaries cablex Ltd and Swisscom Broadcast Ltd. The operations of cablex Ltd are in the building and maintenance of wired and wireless networks in Switzerland, primarily in the field of telecommunications. Swisscom Broadcast Ltd is the leading provider in Switzerland of broadcast services, of cross-platform retail media services, and of security communications.

Reporting is divided into the segments Residential Customers, Business Customers, Wholesale, and IT, Network & Infrastructure, which are grouped under Swisscom Switzerland, as well as Fastweb and Other Operating Segments. Group Headquarters, which includes non-allocated costs, is reported separately.

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

Segment expense encompasses the direct and indirect costs, which include personnel expense and other operating costs less capitalised costs of self-constructed assets and other income. Pension cost includes ordinary employer contributions. The difference between the ordinary employer contributions and the pension cost as provided for under IAS 19 is reported in the column "Eliminations". In 2020, the Eliminations segment result of CHF –99 million (prior year: CHF –77 million) includes an expense of CHF 65 million (prior year: CHF 47 million) as a pension cost reconciliation item in accordance with IAS 19.

Leases between the segments are not recognised in the balance sheet in accordance with IFRS 16. The reported lease expense of the segments comprises depreciation and interest on right-of-use assets excl. depreciation of prepaid indefeasible rights of use (IRU) of CHF 24 million (prior year: CHF 30 million), impairments on right-of-use asserts of CHF 7 million (prior year: none) and the accounting for the rental of buildings between segments. The lease expense of assets of low value is presented as direct costs.

Capital expenditure consists of the purchase of property, plant and equipment and intangible assets and payments for indefeasible rights of use (IRU). In general, IRU are paid in full at the beginning of the usage period. If the criteria of IFRS 16 are met, they are classified as a lease. From an economic point of view, pre-paid IRU will be considered as capital expenditure in the segment information. IRU payments in 2020 amounted to CHF 41 million (prior year: CHF 48 million).

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

Segment information 2020

2020, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	**Total**
Residential customers	4,484	1,214	–	–	–	5,698
Corporate customers	3,048	973	445	–	–	4,466
Wholesale customers	661	275	–	–	–	936
Net revenue from external customers	**8,193**	**2,462**	**445**	**–**	**–**	**11,100**
Net revenue from other segments	82	8	575	–	(665)	–
Net revenue	**8,275**	**2,470**	**1,020**	**–**	**(665)**	**11,100**
Direct costs	(1,747)	(887)	(70)	–	35	(2,669)
Indirect costs	(3,001)	(743)	(765)	(62)	522	(4,049)
Segment result before depreciation and amortisation	**3,527**	**840**	**185**	**(62)**	**(108)**	**4,382**
Lease expense	(230)	(56)	(12)	(2)	–	(300)
Depreciation and amortisation	(1,509)	(618)	(62)	–	9	(2,180)
Segment result	**1,788**	**166**	**111**	**(64)**	**(99)**	**1,902**
Interest expense on lease liabilities						45
Operating income						**1,947**
Financial income and financial expense, net						(152)
Result of equity-accounted investees						4
Income before income taxes						**1,799**
Income tax expense						(271)
Net income						**1,528**
Segment result before depreciation and amortisation	3,527	840	185	(62)	(108)	4,382
Capital expenditure	(1,599)	(629)	(44)	–	43	(2,229)
Lease expense	(230)	(56)	(12)	(2)	–	(300)
Operating free cash flow proxy	**1,698**	**155**	**129**	**(64)**	**(65)**	**1,853**

Segment information Swisscom Switzerland 2020

2020, in CHF million	Residential Customers	Business Customers	Whole-sale	IT, Network & Infrastructure	Elimi-nation	**Total Swisscom Switzerland**
Fixed-line	2,012	960	–	–	–	2,972
Mobile	1,934	761	–	–	–	2,695
Telecom services	**3,946**	**1,721**	**–**	**–**	**–**	**5,667**
Solution business	–	1,058	–	–	–	1,058
Merchandise	524	235	–	–	–	759
Wholesale	–	–	661	–	–	661
Revenue other	14	12	–	22	–	48
Net revenue from external customers	**4,484**	**3,026**	**661**	**22**	**–**	**8,193**
Net revenue from other segments	80	74	315	63	(450)	82
Net revenue	**4,564**	**3,100**	**976**	**85**	**(450)**	**8,275**
Direct costs	(1,088)	(818)	(433)	(12)	604	(1,747)
Indirect costs	(775)	(938)	(19)	(1,115)	(154)	(3,001)
Segment result before depreciation and amortisation	**2,701**	**1,344**	**524**	**(1,042)**	**–**	**3,527**
Lease expense	(43)	(33)	(1)	(153)	–	(230)
Depreciation and amortisation	(72)	(76)	–	(1,361)	–	(1,509)
Segment result	**2,586**	**1,235**	**523**	**(2,556)**	**–**	**1,788**
Capital expenditure	(27)	(40)	–	(1,532)	–	(1,599)

Segment information 2019

2019, in CHF million, adjusted	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	Total
Residential customers	4,662	1,228	–	–	–	5,890
Corporate customers	3,179	958	509	–	–	4,646
Wholesale customers	643	274	–	–	–	917
Net revenue from external customers	**8,484**	**2,460**	**509**	**–**	**–**	**11,453**
Net revenue from other segments	89	8	570	1	(668)	–
Net revenue	**8,573**	**2,468**	**1,079**	**1**	**(668)**	**11,453**
Direct costs	(1,897)	(888)	(62)	–	32	(2,815)
Indirect costs	(3,192)	(746)	(828)	(67)	553	(4,280)
Segment result before depreciation and amortisation	**3,484**	**834**	**189**	**(66)**	**(83)**	**4,358**
Lease expense	(224)	(56)	(12)	(2)	–	(294)
Depreciation and amortisation	(1,515)	(623)	(64)	–	6	(2,196)
Segment result	**1,745**	**155**	**113**	**(68)**	**(77)**	**1,868**
Interest on lease liabilities						42
Operating income						**1,910**
Financial income and financial expense, net						(158)
Result of equity-accounted investees						(28)
Income before income taxes						**1,724**
Income tax expense						(55)
Net income						**1,669**
Segment result before depreciation and amortisation	3,484	834	189	(66)	(83)	4,358
Capital expenditure	(1,761)	(667)	(47)	–	37	(2,438)
Lease expense	(224)	(56)	(12)	(2)	–	(294)
Operating free cash flow proxy	**1,499**	**111**	**130**	**(68)**	**(46)**	**1,626**

Segment information Swisscom Switzerland 2019

2019, in CHF million, adjusted	Residential Customers	Business Customers	Whole-sale	IT, Network & Infrastructure	Elimi-nation	Total Swisscom Switzerland
Fixed-line	2,049	998	–	–	–	3,047
Mobile	2,061	844	–	–	–	2,905
Telecom services	**4,110**	**1,842**	**–**	**–**	**–**	**5,952**
Solution business	–	1,049	–	–	–	1,049
Merchandise	547	260	–	–	–	807
Wholesale	–	–	643	–	–	643
Revenue other	5	5	–	23	–	33
Net revenue from external customers	**4,662**	**3,156**	**643**	**23**	**–**	**8,484**
Net revenue from other segments	74	84	325	62	(456)	89
Net revenue	**4,736**	**3,240**	**968**	**85**	**(456)**	**8,573**
Direct costs	(1,172)	(876)	(426)	(11)	588	(1,897)
Indirect costs	(794)	(970)	(31)	(1,265)	(132)	(3,192)
Segment result before depreciation and amortisation	**2,770**	**1,394**	**511**	**(1,191)**	**–**	**3,484**
Lease expense	(49)	(29)	–	(146)	–	(224)
Depreciation and amortisation	(88)	(89)	–	(1,338)	–	(1,515)
Segment result	**2,633**	**1,276**	**511**	**(2,675)**	**–**	**1,745**
Capital expenditure	(32)	(43)	–	(1,686)	–	(1,761)

Disclosure by geographical regions

	2020		2019	
In CHF million	Net revenue	Non-current assets	Net revenue	Non-current assets
Switzerland	8,614	15,814	8,969	15,759
Italy	2,462	4,044	2,460	4,041
Other countries	24	67	24	67
Not allocated	–	662	–	636
Total	**11,100**	**20,587**	**11,453**	**20,503**

Disclosure by products and services

In CHF million	2020	2019
Telecom services	7,770	8,012
Solution business	1,058	1,021
Merchandise	828	899
Wholesale	936	916
Revenue other	508	605
Total net revenue	**11,100**	**11,453**

Accounting policies

Telecommunication services

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

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

Solutions

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

Sales of merchandise

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

Wholesale

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

1.2 Operating expenses

Direct costs

In CHF million	2020	2019
Customer premises equipment and merchandise	980	1,095
Services purchased	646	642
Costs to obtain a contract	285	327
Costs to fulfil a contract	20	16
Network access costs of swiss subsidiaries	344	366
Network access costs of foreign subsidiaries	394	369
Total direct costs	**2,669**	**2,815**

Indirect costs

In CHF million	2020	2019
Salary and social security expenses	2,657	2,679
Other personnel expense	60	121
Total personnel expense [1]	**2,717**	**2,800**
Information technology cost	255	262
Maintenance expense	267	314
Energy costs	116	116
Advertising and selling expenses	186	223
Consultancy expenses and freelance workforce	130	149
Call centre services purchased	136	134
Administration expense	57	101
Allowances for receivables and contract assets	94	82
Miscellaneous operating expenses	557	608
Total other operating expense	**1,798**	**1,989**
Capitalised self-constructed tangible and intangible assets	(359)	(344)
Own work for capitalized contract costs	(40)	(66)
Gain on sale of property, plant and equipment	(11)	(13)
Miscellaneous income	(56)	(86)
Total capitalised self-constructed assets and other income	**(466)**	**(509)**
Total indirect costs	**4,049**	**4,280**

1 See Note 4.1.

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

Accounting policies

Costs to obtain a contract

Swisscom pays commissions to dealers for the acquisition and retention of mobile-phone customers. The commission payable is dependent on the type of subscription. Costs to obtain a contract are deferred and amortised over the related revenue-recognition period. In addition, Swisscom will reimburse the dealer for any handset subsidies they grant to customers when they take out a Swisscom mobile subscription at the same time. The associated costs are deferred and amortised on a straight-line basis over the contract term as the costs of obtaining a contract. The amortisation period corresponds to the related revenue-recognition period. See Note 1.1.

Costs to fulfil a contract

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

2 Capital and financial risk management

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

2.1 Capital management and equity

Ratio of net debt to EBITDA after lease expense

Swisscom has a single A credit rating with rating agencies Standard & Poor's and Moody's. Swisscom aims to maintain this single A credit rating. An important quantitative criterion for the credit rating and the assessment and control of the financial situation by the management is the ratio of net debt to operating result before depreciation, amortisation and impairment losses after lease expense (EBITDA AL). Net debt comprises 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. Lease expense includes depreciation and interest on right-of-use assets excluding depreciation on prepaid indefeasible rights of use (IRU) and impairment losses. The net debt to EBITDA AL ratio is as follows:

In CHF million	**31.12.2020**	31.12.2019
Net debt	**6,218**	**6,758**
EBITDA after lease expense (EBITDA AL)	4,082	4,064
Ratio net debt/EBITDA AL	**1.5**	**1.7**

Equity ratio

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

In CHF million	**31.12.2020**	31.12.2019
Equity	9,491	8,875
Total assets	24,262	24,247
Equity ratio in %	**39.1**	**36.6**

Dividend policy

Swisscom pursues a dividend policy with a stable dividend, taking into account its financial situation and cash flow generation. Distributable reserves are not determined on the basis of the equity as reported in the consolidated financial statements but rather on the basis of equity as reported in the statutory financial statements of the parent company, Swisscom Ltd. As at 31 December 2020, Swisscom Ltd's distributable reserves amounted to CHF 5,644 million. The dividend is proposed by the Board of Directors and must be approved by the Annual General Meeting of Shareholders. Treasury shares are not entitled to a dividend. Swisscom Ltd paid the following dividends in 2019 and 2020:

In CHF million, except where indicated	**2020**	2019
Number of registered shares eligible for dividend (in millions of shares)	51.802	51.802
Ordinary dividend per share (in CHF)	22.00	22.00
Dividends paid	**1,140**	**1,140**

The Board of Directors will propose the payment of an unchanged dividend of CHF 22 per share for the 2020 financial year to the Annual General Meeting of Shareholders of Swisscom Ltd on 31 March 2021. This equates to an aggregate dividend distribution of CHF 1,140 million. The expected dividend payment date is 8 April 2021.

Earnings per share

In CHF million, except where indicated	2020	2019
Share of net income attributable to equity holders of Swisscom Ltd	1,530	1,672
Weighted average number of shares outstanding (number)	51,800,587	51,801,540
Basic and diluted earnings per share (in CHF)	**29.54**	**32.28**

Supplementary information on equity

Development of retained earnings and other reserves as well as comprehensive income 2020

In CHF million	Retained earnings	Foreign currency translation adjustments	Hedging reserves	Equity holders of Swisscom	Non-controlling interests	Total
Balance at 1 January 2020	**10,454**	**(1,781)**	**11**	**8,684**	**3**	**8,687**
Net income	**1,530**	**–**	**–**	**1,530**	**(2)**	**1,528**
Actuarial gains and losses from defined benefit pension plans	330	–	–	330	–	330
Change in fair value of equity instruments	(10)	–	–	(10)	–	(10)
Income tax expense	(68)	–	–	(68)	–	(68)
Items that will not be reclassified to income statement	**252**	**–**	**–**	**252**	**–**	**252**
Foreign currency translation adjustments of foreign subsidiaries	–	(5)	–	(5)	–	(5)
Fair value losses of cash flow hedges transferred to income statement	–	–	(3)	(3)	–	(3)
Equity-accounted investees	–	(5)	–	(5)	–	(5)
Items that may be reclassified to income statement	**–**	**(10)**	**(3)**	**(13)**	**–**	**(13)**
Other comprehensive income	**252**	**(10)**	**(3)**	**239**	**–**	**239**
Comprehensive income	**1,782**	**(10)**	**(3)**	**1,769**	**(2)**	**1,767**
Dividends paid	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	(11)	–	–	(11)	1	(10)
Balance at 31 December 2020	**11,085**	**(1,791)**	**8**	**9,302**	**1**	**9,303**

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

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

2.2 Financial liabilities

In CHF million	2020	2019
Balance at 1 January	**7,460**	**7,861**
Issuance of bank loans	2	2
Issuance of debenture bonds	719	405
Issuance of other financial liabilities	11	10
Issuance of financial liabilities	**732**	**417**
Repayment of bank loans	(557)	(95)
Repayment of debenture bonds	(540)	–
Repayment of private placements	–	(278)
Repayment of other financial liabilities	(13)	(1)
Repayment of financial liabilities	**(1,110)**	**(374)**
Interest expense	75	73
Interest payments	(93)	(88)
Foreign currency translation adjustments	(41)	(146)
Change in fair value	6	30
Accrual of deferred purchase price margins from business combinations	–	9
Expenses for deferred consideration arising on business combinations [1]	(26)	(369)
Other changes	39	47
Balance at 31 December	**7,042**	**7,460**
Bank loans	484	1,080
Debenture bonds	6,110	5,915
Private placements	151	151
Derivative financial instruments [2]	90	84
Other financial liabilities	207	230
Total financial liabilities	**7,042**	**7,460**
Thereof current financial liabilities	792	1,411
Thereof non-current financial liabilities	6,250	6,049

1 Reported in the cash flow statement as cash flow used in investing activities. See Note 5.2.
2 See Note 2.5.

Credit lines

Swisscom has two confirmed lines of credit from banks each amounting to CHF 1,000 million, maturing in 2022 and 2024, respectively. As of 31 December 2020, none of these lines of credit had been drawn down, as in the prior year.

Bank loans

In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	Carrying amount 31.12.2020	Carrying amount 31.12.2019
Bank loans in EUR [1]	2019–2020	460	0.00%	–0.35% [4]	–	499
Bank loans in EUR [1,3]	2013–2020	60	Euribor +0.386%	0.00%	–	65
Bank loans in EUR [2]	2015–2020	200	0.76%	–0.58% [5]	–	219
Bank loans in CHF [1]	2020–2021	199	0.00%	0.00%	199	–
Bank loans in EUR [2,3]	2017–2024	150	0.67%	0.67%	163	163
Bank loans in USD [2]	2009–2028	56	8.30%	4.62%	66	72
Bank loans in USD [2]	2009–2028	49	7.65%	4.63%	56	62
Total bank loans					**484**	**1,080**

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

On 31 December 2020, Swisscom took on short-term bank loans on a weekly and monthly basis for CHF 199 million (prior year: EUR 460 million; CHF 499 million). Bank loans to the value of EUR 150 million (CHF 162 million) may become due for immediate repayment if the shareholding of the Confederation in the capital of Swisscom falls below one third, or if another shareholder can exercise control over Swisscom.

Debenture bonds

					Carrying amount	
In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	**31.12.2020**	31.12.2019
Debenture bond in EUR (ISIN: XS0972165848) [1]	2013–2020	500	2.00%	2.22%	–	544
Debenture bond in EUR (ISIN: XS1051076922) [1]	2014–2021	500	1.88%	2.06%	542	544
Debenture bond in CHF (ISIN: CH0114695379)	2010–2022	500	2.63%	2.81%	503	502
Debenture bond in CHF (ISIN: CH0268988174) [2]	2015–2023	250	0.25%	–0.44% [3]	255	256
Debenture bond in CHF (ISIN: CH0188335365)	2012–2024	500	1.75%	1.77%	504	504
Debenture bond in EUR (ISIN: XS1288894691)	2015–2025	500	1.75%	–0.12% [4]	578	575
Debenture bond in CHF (ISIN: CH0247776138)	2014–2026	200	1.50%	1.47%	202	202
Debenture bond in EUR (ISIN: XS1803247557) [1]	2018–2026	500	1.13%	1.25%	538	539
Debenture bond in CHF (ISIN: CH0344583783) [2]	2016–2027	200	0.38%	–0.49% [3]	208	206
Debenture bond in CHF (ISIN: CH0362748359)	2017–2027	350	0.38%	0.39%	351	351
Debenture bond in CHF (ISIN: CH0317921663)	2016–2028	200	0.38%	0.30%	202	202
Debenture bond in CHF (ISIN: CH0437180935)	2018–2028	150	0.75%	0.72%	151	151
Debenture bond in EUR (ISIN: XS21692434791) [1]	2020–2028	500	0.38%	0.53%	534	–
Debenture bond in CHF (ISIN: CH0254147504)	2014–2029	160	1.50%	1.47%	161	161
Debenture bond in CHF (ISIN: CH0419040982)	2019–2029	200	0.50%	0.43%	201	202
Debenture bond in CHF (ISIN: CH0515152467)	2020–2031	100	0.13%	0.15%	100	–
Debenture bond in CHF (ISIN: CH0336352775)	2016–2032	300	0.13%	0.14%	299	299
Debenture bond in CHF (ISIN: CH0373476164)	2017/ 2019–2033	230	0.75%	0.66%	233	233
Debenture bond in CHF (ISIN: CH0580291968)	2020–2034	100	0.25%	0.27%	100	–
Debenture bond in CHF (ISIN: CH0268988182) [2]	2015/ 2018–2035	300	1.00%	0.22% [3]	323	319
Debenture bond in CHF (ISIN: CH0494734335)	2019–2044	125	0.00%	0.00%	125	125
Total debenture bonds					**6,110**	**5,915**

1 Designated for hedge accounting of net investments in foreign operations.
2 Thereof CHF 575 million designated for fair value hedge accounting.
3 After hedging with interest rate swap.
4 After hedging with currency swap and taking hedge accounting into consideration.

In the second quarter of 2020, Swisscom became the first listed company in Switzerland to issue a Green Bond in EUR. The amount borrowed totalled EUR 500 million (CHF 519 million). The coupon was 0.375% and the bond has a maturity of 8.5 years. The funds raised will be used within Swisscom's Green Bond Framework. In the third quarter of 2020, Swisscom issued a CHF 100 million bond with a maturity of 11 years and a coupon of 0.125%. In the fourth quarter of 2020, Swisscom issued a CHF 100 million bond with a maturity of 14 years and a coupon of 0.245%. The funds received were used to repay existing debt. Swisscom repaid a EUR 500 million (CHF 540 million) bond upon maturity in the third quarter of 2020.

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

Private placements

In the fourth quarter of 2019, Swisscom repaid a private placement of CHF 278 million upon maturity. The outstanding private placements of CHF 150 million may become due for immediate repayment if the shareholding of the Confederation in the capital of Swisscom falls below 35% or if another shareholder can exercise control over Swisscom.

Other financial liabilities

As at 31 December 2020, the carrying amount of other financial liabilities was CHF 207 million (prior year: CHF 230 million), consisting primarily of loans. Repayments of other financial liabilities in 2019 includes the purchase price of CHF 240 million paid to Tamedia for the acquisition of the outstanding share of 31% in Swisscom Directories Ltd. See Note 5.2.

2.3 Leases

Lessee

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

Swisscom concluded two agreements in 2001 for the sale of real estate. At the same time, it entered into long-term agreements to lease back part of the real estate sold which, in part, qualify as finance leases. The gain realised on real estate classified as finance leases was deferred. As of 31 December 2020, the carrying amount of the deferred gains was CHF 106 million (prior year: CHF 122 million). The deferred gains are released to other income over the term of the individual leases.

Right-of-use assets

In CHF million	Land and buildings	Technical installations	Other right-of-use assets	Total
At cost				
Balance at 1 January 2019	**1,818**	**624**	**2**	**2,444**
Additions	262	430	6	698
Disposals	(72)	(17)	–	(89)
Foreign currency translation adjustments	(9)	(31)	–	(40)
Balance at 31 December 2019	**1,999**	**1,006**	**8**	**3,013**
Additions	202	53	3	258
Disposals	(29)	(9)	(1)	(39)
Business combinations	1	–	–	1
Foreign currency translation adjustments	(1)	(4)	–	(5)
Balance at 31 December 2020	**2,172**	**1,046**	**10**	**3,228**
Accumulated depreciation and impairment losses				
Balance at 1 January 2019	**(246)**	**(412)**	**–**	**(658)**
Depreciation	(219)	(62)	(1)	(282)
Disposals	72	17	–	89
Foreign currency translation adjustments	–	15	–	15
Balance at 31 December 2019	**(393)**	**(442)**	**(1)**	**(836)**
Depreciation	(223)	(53)	(3)	(279)
Impairments	(7)	–	–	(7)
Disposals	22	9	–	31
Foreign currency translation adjustments	–	1	–	1
Balance at 31 December 2020	**(601)**	**(485)**	**(4)**	**(1,090)**
Net carrying amount				
Net carrying amount at 31 December 2020	**1,571**	**561**	**6**	**2,138**
Net carrying amount at 31 December 2019	**1,606**	**564**	**7**	**2,177**
Net carrying amount at 1 January 2019	**1,572**	**212**	**2**	**1,786**

Lease liabilities

In CHF million	2020	2019
Balance at 1 January	**2,027**	**1,622**
Additions	258	698
Interest expense	45	42
Payments	(332)	(318)
Disposals	(8)	–
Business combinations	1	–
Foreign currency translation adjustments	(3)	(17)
Balance at 31 December	**1,988**	**2,027**
Land and buildings	1,624	1,642
Technical installations	356	377
Other leases	8	8
Total lease liabilities [1]	**1,988**	**2,027**
Thereof current lease liabilities	226	232
Thereof non-current lease liabilities	1,762	1,795

1 Note 2.5 shows the maturity analysis for lease liabilities.

Income and expenses arising from leases

In CHF million	2020	2019
Revenue		
Income from leases excluding subleases	187	184
Income from subleases	7	7
Other income		
Deferred gain on sale and leaseback of real estate	16	12
Financial income		
Interest income on finance lease	2	1
Direct costs		
Expense from leases of low value assets	(134)	(135)
Depreciation and impairment losses		
Depreciation of right-of-use assets	(279)	(282)
Impairment losses on right-of-use assets	(7)	–
Financial expense		
Interest expense on lease liabilities	(45)	(42)

Lessor

Swisscom supplies other providers of telecommunications services with access lines for use, which classify either as finance or operating lease. At the same time, Swisscom leases space in operations and offices buildings and at antenna sites, which is classified as an operating lease. Future lease payments in respect of receivables from finance leases as at 31 December 2019 and 2020 break down as follows:

In CHF million	31.12.2020	31.12.2019
Within 1 year	34	8
Between 1 and 2 years	22	54
Between 2 and 3 years	6	7
Between 3 and 4 years	4	3
Between 4 and 5 years	3	2
After 5 years	19	12
Total future payments from finance leases	**88**	**86**
Future interest income	(1)	(1)
Total receivables from finance leases	**87**	**85**

Future lease payments in respect of operating leases are as follows as at 31 December 2019 and 2020:

In CHF million	31.12.2020	31.12.2019
Within 1 year	62	57
Between 1 and 2 years	41	38
Between 2 and 3 years	39	34
Between 3 and 4 years	38	33
Between 4 and 5 years	15	33
After 5 years	16	14
Total future payments from operating leases	**211**	**209**

Significant judgements or estimates

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

Accounting policies

Financial liabilities

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

Leases

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

2.4 Financial result

In CHF million	2020	2019
Interest income on financial assets	6	11
Gain on exchange of financial assets	31	–
Other financial income	4	22
Total financial income	**41**	**33**
Interest expense on financial liabilities	(75)	(73)
Interest expense on lease liabilities	(45)	(42)
Interest expense on defined benefit obligations [2]	(2)	(8)
Foreign exchange losses	(5)	(12)
Change in fair value of interest rate swaps [1]	(9)	(23)
Present-value adjustments on provisions [3]	(39)	(16)
Other financial expense	(18)	(17)
Total financial expense	**(193)**	**(191)**
Financial income and financial expense, net	**(152)**	**(158)**
Interest expense on lease liabilities	(45)	(42)
Net interest expense on financial assets and liabilities	(69)	(62)

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

In the third quarter of 2020, Swisscom exchanged certificates of deposit for U.S. treasury bond strips (listed debt instruments). The exchange of financial assets resulted in a valuation difference of CHF 31 million, which was recognised as financial income.

2.5 Financial risk management

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

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

Foreign exchange risks

As regards financial instruments, the following currency risks and hedging contracts existed for foreign currencies as of 31 December 2019 and 2020:

	31.12.2020		31.12.2019	
In CHF million	**EUR**	**USD**	EUR	USD
Cash and cash equivalents	30	19	48	6
Trade receivables	(15)	9	8	9
Other financial assets	30	315	49	309
Financial liabilities	(2,350)	(221)	(3,151)	(234)
Trade payables	(37)	(49)	(34)	(35)
Net exposure at carrying amounts	**(2,342)**	**73**	**(3,080)**	**55**
Net exposure to forecasted cash flows in the next 12 months	2	(307)	41	(358)
Net exposure before hedges	**(2,340)**	**(234)**	**(3,039)**	**(303)**
Forward currency contracts	–	307	–	358
Foreign currency swaps	86	(34)	527	(44)
Currency swaps	540	–	760	–
Hedges	**626**	**273**	**1,287**	**314**
Net exposure	**(1,714)**	**39**	**(1,752)**	**11**

In addition, as of 31 December 2020, Swisscom had outstanding financial liabilities with a nominal value totalling EUR 1,650 million (CHF 1,782 million, prior year EUR 1,710 million, CHF 1,855 million), which is designated for hedge accounting of net investments in foreign operations. In 2020, income of CHF 9 million (prior year: income of CHF 72 million) arising from the measurement of financial liabilities was recognised in other comprehensive income in the position of foreign currency translation of foreign Group companies. As of 31 December 2020, the cumulative positive amount of foreign currency translation differences in equity totals CHF 243 million.

Foreign currency sensitivity analysis

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

In CHF million	Income impact on balance sheet items	Hedges for balance sheet items	Planned cash flows	Hedges for planned cash flows
31.12.2020				
EUR volatility 5.14%	120	(32)	–	–
USD volatility 6.39%	(5)	2	20	(22)
31.12.2019				
EUR volatility 4.67%	144	(60)	(2)	–
USD volatility 6.01%	(3)	3	22	(22)

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

Interest rate risks

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

In CHF million	31.12.2020	31.12.2019
Fixed interest-bearing financial liabilities	6,565	6,589
Variable interest-bearing financial liabilities	274	646
Total interest-bearing financial liabilities	**6,839**	**7,235**
Fixed interest-bearing financial assets	(271)	(250)
Variable interest-bearing financial assets	(561)	(414)
Total interest-bearing financial assets	**(832)**	**(664)**
Total interest-bearing financial assets and liabilities, net	**6,007**	**6,571**
Variable interest-bearing	(287)	232
Variable through interest rate swaps	1,115	1,335
Variable interest-bearing, net	**828**	**1,567**
Fixed interest-bearing	6,294	6,339
Variable through interest rate swaps	(1,115)	(1,335)
Fixed interest-bearing, net	**5,179**	**5,004**
Total interest-bearing financial assets and liabilities, net	**6,007**	**6,571**

Interest rate sensitivity analysis

A shift in interest rates by 100 basis points has an impact of CHF 8 million on the income statement (previous year: CHF 16 million), but no impact on equity as of 31 December 2019 and 2020.

Credit risks

Credit risks from financial transactions

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

In CHF million	31.12.2020	31.12.2019
Cash and cash equivalents	340	328
Financial assets at amortised cost	478	390
Derivative financial instruments	79	84
Other assets valued at fair value	1	1
Total carrying amount of financial assets	**898**	**803**

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

In CHF million	31.12.2020	31.12.2019
AAA	87	31
AA– to AA+	441	421
A– to A+	218	168
BBB– to BBB+	40	63
Without rating	112	120
Total	**898**	**803**

Financial risks from operating activities

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

In CHF million	31.12.2020	31.12.2019
Notional amount		
Residential Customers	1,003	1,069
Business Customers	421	436
Wholesale	141	173
IT, Network & Infrastructure	22	26
Swisscom Switzerland	**1,587**	**1,704**
Fastweb	643	658
Other Operating Segments	219	187
Total notional amount	**2,449**	**2,549**
Allowances for doubtful debts		
Residential Customers	(59)	(56)
Business Customers	(14)	(2)
Wholesale	(2)	(1)
IT, Network & Infrastructure	(2)	(1)
Swisscom Switzerland	**(77)**	**(60)**
Fastweb	(60)	(69)
Other Operating Segments	(27)	(15)
Total allowances for doubtful debts	**(164)**	**(144)**
Total notional amount less allowances for doubtful debts	**2,285**	**2,405**

As at 31 December 2020, the maturities of trade receivables and contract assets as well as any applicable related valuation allowances may be analysed as follows:

			31.12.2020
In CHF million	Rate	Par value	Allowance
Not due	0.65%	1,681	(11)
Past due up to 3 months	6.82%	513	(35)
Past due 4 to 6 months	42.31%	52	(22)
Past due 7 to 12 months	27.88%	104	(29)
Past due over 1 year	67.68%	99	(67)
Total	**6.70%**	**2,449**	**(164)**

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

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

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

In CHF million	2020	2019
Balance at 1 January	**144**	**157**
Additions to allowances	97	85
Write-off of irrecoverable receivables subject to allowance	(74)	(92)
Release of unused allowances	(3)	(3)
Foreign currency translation adjustments	–	(3)
Balance at 31 December	**164**	**144**

Liquidity risk
Contractual maturities including estimated interest payable

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
31.12.2020						
Bank loans	484	526	206	7	181	132
Debenture bonds	6,110	6,356	606	556	1,409	3,785
Private placements	151	159	1	1	2	155
Derivative financial instruments	90	83	14	3	11	55
Other financial liabilities	207	207	11	93	24	79
Lease liabilities	1,988	2,653	271	233	560	1,589
Trade payables	1,525	1,525	1,502	15	8	–
Total	**10,555**	**11,509**	**2,611**	**908**	**2,195**	**5,795**

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

Derivative financial instruments

In CHF million	Contract value 31.12.2020	Contract value 31.12.2019	Positive fair value 31.12.2020	Positive fair value 31.12.2019	Negative fair value 31.12.2020	Negative fair value 31.12.2019
Interest rate swaps in CHF	575	575	37	30	–	–
Currency swaps in EUR	540	760	41	53	–	–
Total fair value hedges	**1,115**	**1,335**	**78**	**83**	**–**	**–**
Forward currency contracts in USD	90	147	–	–	(3)	(4)
Total cash flow hedges	**90**	**147**	**–**	**–**	**(3)**	**(4)**
Interest rate swaps in CHF	200	200	–	–	(79)	(70)
Currency swaps in USD	34	45	1	1	–	–
Currency swaps in EUR	87	527	–	–	(1)	(5)
Forward currency contracts in USD	216	211	–	–	(7)	(5)
Total other derivative financial instruments	**537**	**983**	**1**	**1**	**(87)**	**(80)**
Total derivative financial instruments	**1,742**	**2,465**	**79**	**84**	**(90)**	**(84)**
Thereof current derivative financial instruments			1	11	(11)	(14)
Thereof non-current derivative financial instruments			78	73	(79)	(70)

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

The fair value hedge transactions of CHF 575 million and EUR 500 million designated by Swisscom will be affected by the Interest Rate Benchmark Reform (known as the IBOR Reform). In Switzerland, the changeover from the reference interest rate LIBOR to SARON is taking place. In the EUR zone, the EURIBOR was recently reformed and ESTR is to be replaced by the EONIA. Swisscom is closely monitoring developments related to the conversion of reference interest rates. It will contact the counterparties in due course to implement the switch in individual contracts.

Valuation category and fair value of financial instruments

In CHF million	Carrying amount	Fair Value	Level
			31.12.2020
Other financial assets			
Term deposits	107	107	2
Certificates of deposit	–	–	2
Listed debt instruments	271	277	1
Loans	100	100	2
At amortised cost	**478**	**484**	
Equity instruments valued at fair value	91	91	3
Fair value through other comprehensive income	**91**	**91**	
Loans	1	1	2
Derivative financial instruments	79	79	2
Fair value through profit or loss	**80**	**80**	
Total other financial assets	**649**	**655**	
Financial liabilities			
Bank loans	484	519	2
Debenture bonds	6,110	6,381	1
Private placements	151	160	2
Derivative financial instruments	90	90	2
Other financial liabilities	207	223	2
Total financial liabilities	**7,042**	**7,373**	

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

Financial assets amounting to CHF 277 million (prior year: CHF 281 million) are not freely available, as they serve as security for liabilities.

Accounting policies

Derivative financial instruments

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

Estimation of fair values

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

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

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

Valuation categories and fair value of financial instruments

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

3 Operating assets and liabilities

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

3.1 Operating net working capital

Movements in operating assets and liabilities

In CHF million	31.12.2019	Operational changes	Other changes [1]	31.12.2020
2020 financial year				
Trade receivables	2,183	(54)	3	2,132
Other operating assets	1,156	(127)	–	1,029
Trade payables	(1,614)	86	3	(1,525)
Other operating liabilities	(1,194)	(83)	8	(1,269)
Total operating assets and liabilities, net	**531**	**(178)**	**14**	**367**

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

In CHF million	01.01.2019	Operational changes	Other changes [1]	31.12.2019
2019 financial year				
Trade receivables	2,189	18	(24)	2,183
Other operating assets	1,243	(64)	(23)	1,156
Trade payables	(1,658)	15	29	(1,614)
Other operating liabilities	(1,127)	(81)	14	(1,194)
Total operating assets and liabilities, net	**647**	**(112)**	**(4)**	**531**

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

Trade receivables

In CHF million	31.12.2020	31.12.2019
Billed revenue	2,180	2,238
Accrued revenue	116	88
Allowances	(164)	(143)
Total trade receivables [1]	**2,132**	**2,183**

1 Credit risks. See Note 2.5.

Other operating assets and liabilities

In CHF million	31.12.2020	31.12.2019
Other operating assets		
Contract assets	153	222
Contract costs	224	262
Other receivables	79	74
Inventories	120	125
Prepaid expenses	349	338
Advance payments made	17	71
Value-added taxes receivable	27	31
Other non-financial assets	60	33
Total other operating assets	**1,029**	**1,156**
Other operating liabilities		
Contract liabilities	737	690
Accruals for variable performance-related bonus	160	145
Value-added taxes payable	100	93
Accruals for annual holiday, overtime	45	47
Liabilities from collection activities	12	12
Miscellaneous liabilities	215	207
Total other operating liabilities	**1,269**	**1,194**

Contract assets and liabilities

In CHF million	31.12.2020	31.12.2019
Contract assets		
Swisscom Switzerland	89	162
Other	64	60
Total contract assets	**153**	**222**
Contract liabilities		
Swisscom Switzerland	535	468
Fastweb	122	133
Other	80	89
Total contract liabilities	**737**	**690**

Contract assets of Swisscom Switzerland primarily include deferrals arising in connection with the sale of bundled offerings in the mobile-phone area. In part, mobile handsets are sold on a subsidised basis, together with a mobile contract in a bundled offering. As a result of the allocation of revenue over the pre-delivered components (mobile handset), revenues are recognised earlier than the invoicing thereof. This results in contract assets deriving from this business being recognised. Contractual liabilities above all cover deferrals from payments for prepaid cards and prepaid Swisscom Switzerland subscription fees. In 2020, an amount of CHF 228 million was recorded as revenue which had been recognised as a contract liability as of 31 December 2019. Swisscom avails itself of the rules of IFRS 15.121 regarding the disclosure of the transaction price allocated to the performance obligation that are unsatisfied. The exemption is not applied in the case of mobile-phone contracts with the sale of a subsidised mobile handset and a minimum contract term. These contracts incorporate revenue of CHF 513 million (2021: CHF 370 million; 2022: CHF 143 million).

Contract costs

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

In CHF million	31.12.2020	31.12.2019
Costs to obtain a contract		
Swisscom Switzerland	42	66
Fastweb	25	24
Other	41	47
Total costs to obtain a contract	**108**	**137**
Costs to fulfil a contract		
Router and TV boxes	44	36
Initial costs from outsourcing contracts	72	89
Total costs to fulfil a contract	**116**	**125**
Total contract costs	**224**	**262**

Accounting policies

Operating assets and liabilities

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

Trade receivables

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

3.2 Property, plant and equipment

In CHF million	Technical installations	Land, buildings and leasehold improvements	Other installations	Advances made and assets under construction	Total
Cost of acquisition					
Balance at 1 January 2019	**27,313**	**2,147**	**4,448**	**357**	**34,265**
Additions	1,122	2	201	362	1,687
Disposals	(459)	(479)	(124)	–	(1,062)
Adjustment to dismantlement and restoration costs	28	–	19	–	47
Reclassifications	141	17	73	(234)	(3)
Sales of subsidiaries	(4)	–	(3)	–	(7)
Foreign currency translation adjustments	(186)	(3)	–	(1)	(190)
Balance at 31 December 2019	**27,955**	**1,684**	**4,614**	**484**	**34,737**
Additions	1,241	2	209	229	1,681
Disposals	(1,042)	(10)	(110)	–	(1,162)
Adjustment to dismantlement and restoration costs	46	–	18	–	64
Reclassifications	135	(1)	70	(205)	(1)
Foreign currency translation adjustments	(18)	–	–	–	(18)
Balance at 31 December 2020	**28,317**	**1,675**	**4,801**	**508**	**35,301**
Accumulated depreciation and impairment losses					
Balance at 1 January 2019	**(18,921)**	**(1,841)**	**(3,078)**	**–**	**(23,840)**
Depreciation	(1,195)	(18)	(306)	–	(1,519)
Impairment losses	(1)	(1)	(8)	–	(10)
Disposals	459	470	119	–	1,048
Sales of subsidiaries	4	–	2	–	6
Reclassifications	–	(1)	1	–	–
Foreign currency translation adjustments	106	1	–	–	107
Balance at 31 December 2019	**(19,548)**	**(1,390)**	**(3,270)**	**–**	**(24,208)**
Depreciation	(1,198)	(18)	(303)	–	(1,519)
Impairment losses	(8)	–	–	–	(8)
Disposals	1,038	8	103	–	1,149
Foreign currency translation adjustments	10	–	–	–	10
Balance at 31 December 2020	**(19,706)**	**(1,400)**	**(3,470)**	**–**	**(24,576)**
Net carrying amount					
Net carrying amount at 31 December 2020	**8,611**	**275**	**1,331**	**508**	**10,725**
Net carrying amount at 31 December 2019	**8,407**	**294**	**1,344**	**484**	**10,529**
Net carrying amount at 1 January 2019	**8,392**	**306**	**1,370**	**357**	**10,425**

Commitments for future capital expenditures

Firm contractual commitments for future capital investments in property, plant and equipment as of 31 December 2020 aggregated CHF 800 million (prior year: CHF 809 million).

Non-cash investing and financing transactions

As a result of changes in the assumptions made in estimating the provisions for dismantlement and restoration costs, an increase therein of CHF 64 million (prior year: CHF 47 million) was recognised in property, plant and equipment with no impact on the income statement. See Note 3.5.

Significant judgements or estimates

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

Accounting policies

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

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

1 Technical installations.

Whenever significant parts of an item of property, plant and equipment comprise individual components with differing useful lives, each component is depreciated separately. The process for estimating useful lives takes into account the expected use by the company, the expected wear and tear, technological developments, as well as empirical values with comparable assets. Leasehold improvements and installations in leased premises are depreciated on a straight-line basis over the shorter of their estimated useful lives and the remaining minimum lease term. The impact from adjusting useful economic lives and residual values is recognised on a prospective basis. Whenever indications exist that the value of an asset may be impaired, the recoverable amount of the asset is determined. If the recoverable amount of the asset, which is the greater of the fair value less costs to sell and the value in use, is less than its carrying amount, the carrying amount is written down to the recoverable amount. The carrying amount of an item of property, plant and equipment is de-recognised upon disposal or whenever no future economic benefits are expected from its use. Gains and losses arising on the disposal of property, plant and equipment are recognised as other income or other operating expenses.

3.3 Intangible assets

In CHF million	Purchased software	Internally generated software	Licenses	Brands and customer relations	Other intangible assets	Total
Cost of acquisition						
Balance at 1 January 2019	**2,039**	**1,337**	**710**	**479**	**274**	**4,839**
Additions	179	133	251	–	143	706
Disposals	(57)	(139)	(2)	(11)	(17)	(226)
Reclassifications	39	78	–	–	(107)	10
Business combinations	4	5	–	13	–	22
Sales of subsidiaries	(2)	(2)	–	(9)	(9)	(22)
Foreign currency translation adjustments	(59)	(8)	(10)	(11)	–	(88)
Balance at 31 December 2019	**2,143**	**1,404**	**949**	**461**	**284**	**5,241**
Additions	190	145	61	–	114	510
Disposals	(16)	(26)	(2)	–	(7)	(51)
Reclassifications	34	79	–	–	(112)	1
Business combinations	2	–	–	–	16	18
Sales of subsidiaries	–	(2)	–	–	–	(2)
Foreign currency translation adjustments	(6)	–	(1)	(1)	–	(8)
Balance at 31 December 2020	**2,347**	**1,600**	**1,007**	**460**	**295**	**5,709**
Accumulated amortisation and impairment losses						
Balance at 1 January 2019	**(1,561)**	**(825)**	**(175)**	**(376)**	**(130)**	**(3,067)**
Amortisation	(243)	(274)	(74)	(32)	(13)	(636)
Impairment losses	–	(1)	–	–	–	(1)
Disposals	57	139	2	11	17	226
Sales of subsidiaries	1	2	–	7	5	15
Foreign currency translation adjustments	50	4	1	9	–	64
Balance at 31 December 2019	**(1,696)**	**(955)**	**(246)**	**(381)**	**(121)**	**(3,399)**
Amortisation	(229)	(252)	(98)	(32)	(8)	(619)
Impairment losses	–	(1)	–	(2)	–	(3)
Disposals	16	26	2	–	7	51
Foreign currency translation adjustments	5	–	–	–	1	6
Balance at 31 December 2020	**(1,904)**	**(1,182)**	**(342)**	**(415)**	**(121)**	**(3,964)**
Net carrying amount						
Net carrying amount at 31 December 2020	**443**	**418**	**665**	**45**	**174**	**1,745**
Net carrying amount at 31 December 2019	**447**	**449**	**703**	**80**	**163**	**1,842**
Net carrying amount at 1 January 2019	**478**	**512**	**535**	**103**	**144**	**1,772**

As of 31 December 2020, other intangible assets include advance payments made and uncompleted development projects of CHF 150 million (prior year: CHF 149 million).

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

Commitments for future capital expenditures

As of 31 December 2020, firm contractual commitments for future capital investments in intangible assets aggregated CHF 54 million (prior year: CHF 62 million).

Significant judgements or estimates

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

Accounting policies

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

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

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

3.4 Goodwill

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

In CHF million	Residential Customers Swisscom Switzerland	Business Customers Swisscom Switzerland	Fastweb	Other cash-generating units [1]	Total
At cost					
Balance at 1 January 2019	**3,277**	**932**	**1,997**	**399**	**6,605**
Additions	–	16	–	4	20
Sales of subsidiaries	–	(3)	–	–	(3)
Foreign currency translation adjustments	–	–	(75)	–	(75)
Balance at 31 December 2019	**3,277**	**945**	**1,922**	**403**	**6,547**
Reclassifications	(508)	508	–	–	–
Foreign currency translation adjustments	–	–	(7)	–	(7)
Balance at 31 December 2020	**2,769**	**1,453**	**1,915**	**403**	**6,540**
Accumulated impairment losses					
Balance at 1 January 2019	**–**	**–**	**(1,438)**	**–**	**(1,438)**
Foreign currency translation adjustments	–	–	54	–	54
Balance at 31 December 2019	**–**	**–**	**(1,384)**	**–**	**(1,384)**
Foreign currency translation adjustments	–	–	6	–	6
Balance at 31 December 2020	**–**	**–**	**(1,378)**	**–**	**(1,378)**
Net carrying amount					
Net carrying amount at 31 December 2020	**2,769**	**1,453**	**537**	**403**	**5,162**
Net carrying amount at 31 December 2019	**3,277**	**945**	**538**	**403**	**5,163**
Net carrying amount at 1 January 2019	**3,277**	**932**	**559**	**399**	**5,167**

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

As of 1 January 2020, Swisscom amended its organisational structure in Switzerland and the segment formerly known Enterprise Customers was renamed Business Customers. In order to provide all business customers with a customer experience tailored to their needs, Swisscom has merged the SME and Corporate Customer segments. As a result, segment reporting now includes the telecommunications and solutions business with small and medium-sized enterprises in the Business Customers segment (previously reported under Residential Customers) (see Note 1.1). In connection with the merger, goodwill amounting to CHF 508 million was transferred to the cash-generating unit Business Customers Swisscom Switzerland.

Impairment testing

In the fourth quarter of 2020 and after the conclusion of business planning, individual goodwill amounts were subjected to an impairment test. The recoverable amount of a cash-generating unit is determined based on its value in use, applying the discounted cash flow (DCF) method. The projected free cash flows are estimated on the basis of the business plans approved by management, which as a rule cover a three-year period. A planning horizon of five years was used for the Fastweb impairment test. For free cash flows extending beyond the detailed planning period, a terminal value was computed by capitalising the normalised cash flows. A steady long-term growth rate that corresponds to the growth rates customary in the country or market was assumed. The projected cash flows and management assumptions are corroborated by external sources of information. The discount rate is derived from the Capital Asset Pricing Model (CAPM). This latter comprises the weighted value of own equity and external borrowing costs. For the risk-free interest rate which forms the basis of the discount rate, the yield from Swiss government bonds is taken (abroad: Germany) with a maturity of ten years and a zero-interest rate, subject to minimum interest rates of 1.5% (Switzerland) and 2.0% (abroad). For cash-generating units abroad, a risk premium for the country risk is then added.

Discount rates and long-term growth rates

	2020			2019		
Cash-generating unit	**WACC pre-tax**	**WACC post-tax**	**Long-term growth rate**	WACC pre-tax	WACC post-tax	Long-term growth rate
Residential Customers Swisscom Switzerland	5.25%	4.30%	0%	4.91%	3.93%	0%
Business Customers Swisscom Switzerland	5.25%	4.30%	0%	4.84%	3.93%	0%
Fastweb	6.91%	5.13%	0.5%	7.71%	5.87%	0.7%
Other cash-generating units	5,25–7,27%	4.30–5.84%	0%	4.86–7.33%	3.93–5.86%	0%

Results and sensitivity of impairment tests

Residential Customers and Business Customers Swisscom Switzerland

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

Fastweb

As at the date of the impairment test, no impairment of goodwill resulted. The recoverable amount exceeded the carrying amount by EUR 2,241 million (CHF 2,398 million). In the prior year, the difference amounted to EUR 1,471 million (CHF 1,618 million). The following changes in material assumptions would lead to a situation where the value in use would equate to the carrying amount:

	2020		2019	
	Assumptions	**Sensitivity**	Assumptions	Sensitivity
Average annual revenue growth until 2025 with EBITDA margin unchanged compared to business plan	8.8%	5.6%	5.8%	3.2%
Normalised EBITDA margin	33%	28%	34%	30%
Normalised capital expenditure rate	20%	25%	20%	24%
Post-tax discount rate	5.13%	8.10%	5.87%	8.01%
Long-term growth rate	0.5%	–3.3%	0.7%	–2.1%

Significant judgements or estimates

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

Accounting policies

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

3.5 Provisions and contingent liabilities

Provisions

In CHF million	Dismantlement and restoration costs	Regulatory and competition law proceedings	Termination benefits [1]	Others	Total
Balance at 1 January 2020	**680**	**206**	**91**	**157**	**1,134**
Additions to provisions	–	8	22	74	104
Adjustments recorded under property, plant and equipment	64	–	–	–	64
Present-value adjustments	5	34	–	–	39
Release of unused provisions	–	–	(23)	(6)	(29)
Use of provisions	(8)	(15)	(27)	(46)	(96)
Balance at 31 December 2020	**741**	**233**	**63**	**179**	**1,216**
Thereof current provisions	–	–	60	84	144
Thereof non-current provisions	741	233	3	95	1,072

1 See Note 4.1.

Provisions for dismantling and restoration costs

The provisions are computed by reference to estimates of future anticipated dismantling costs and are discounted using an average interest rate of 0.58% (prior year: 0.72%). Adjustments as a result of reassessments in the amount of CHF 64 million were recognised under property, plant and equipment with no impact on the income statement in 2020. Of this amount, CHF 23 million resulted from the use of different interest rates and CHF 24 million from the adjustment of the cost index used to calculate dismantling costs. An increase of estimated costs by 10% would result in an increase of CHF 71 million in the amount of the provision. A delay of another ten years in the timing of the dismantling would lead to an increase of CHF 28 million in the provisions.

Provisions for regulatory and competition law proceedings

In accordance with the revised Telecommunications Act, Swisscom provides access services (incl. interconnection) to other telecommunication service providers in Switzerland. In previous years, several telecommunication service providers demanded ComCom reduce the prices charged to them by Swisscom. In February 2019, ComCom issued its decision on the disputed access prices for 2013 to 2016. Swisscom has filed an appeal against this decision with the Federal Administrative Court. The price-setting procedure for 2017 and beyond is still pending, and has been suspended by OFCOM until the Federal Administrative Court issues its decision on the complaints regarding the access procedure for 2013 to 2016.

In 2009, the Competition Commission (COMCO) imposed a fine of CHF 220 million on Swisscom for abuse of a market-dominant position in the area of ADSL services during the period to 2007. Swisscom has filed an appeal against the fine before the Federal Administrative Court. In 2015, the Federal Administrative Court upheld the COMCO decision in principle, and reduced the fine imposed on Swisscom by COMCO from CHF 220 million to CHF 186 million. Swisscom did not consider the penalty justified and filed an appeal with the Federal Court. In December 2019, the Federal Court dismissed Swisscom's appeal in the last instance and confirmed the fine of CHF 186 million. As a result of the legally binding determination of market abuse, civil law claims were filed by telecommunications service providers in the second quarter of 2020. Based on legal assessments, Swisscom had set aside provisions in the past for any potential civil claims. Due to a reassessment of the time value of money, present value adjustments of CHF 31 million were recorded on these provisions in the second quarter of 2020.

On the basis of legal opinions, Swisscom has recognised provisions for regulatory and competition law proceedings. Any necessary payments will depend upon the date on which legally binding decrees and decisions are issued, and could probably occur within five years.

Other provisions

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

Contingent liabilities for regulatory and competition law proceedings

In accordance with the revised Telecommunications Act, Swisscom provides access services (incl. interconnection) to other telecommunication service providers in Switzerland. In previous years, several telecommunication service providers demanded ComCom reduce the prices charged to them by Swisscom. The legally binding definition of the prices for 2013 and subsequent years is still outstanding. COMCO is also conducting several proceedings against Swisscom. In the event that a legally enforceable finding of market abuse is reached, COMCO might impose a penalty on Swisscom. In addition, claims under civil law might be asserted against Swisscom. In April 2013, COMCO opened an investigation against Swisscom under the Federal Cartel Act concerning the broadcasting of live sporting events on pay TV. In May 2016, COMCO imposed a penalty of CHF 72 million on Swisscom in these proceedings. In its investigation as to the invitation to tender for the corporate network of the Swiss Post in 2008, COMCO reached the conclusion in November 2015 that Swisscom has a dominant position on the market for broadband access for business clients. As a result of this conduct, which was judged to be unlawful under competition law, COMCO imposed a penalty of CHF 8 million. Swisscom has challenged COMCO's rulings concerning live sports broadcasts on pay TV as well as the invitation to tender for the corporate network of Swiss Post in the Federal Administrative Court. It takes the view it has conducted itself in a lawful manner. On 25 August 2020, COMCO launched an investigation against Swisscom into allegations that it abused its market-dominant position for broadband connections to interconnect company sites. On 17 December 2020, COMCO also opened an investigation into Swisscom's optical fibre network and ordered precautionary measures. Swisscom has filed an appeal against these precautionary measures. As things stand, Swisscom does not believe it is probable that a court of final appeal will levy a penalty and, as in prior years, has therefore still not recognised a provision in its consolidated financial statements as at 31 December 2020. In view of the previous proceedings conducted by COMCO, further proceedings against Swisscom might be initiated.

Significant judgements or estimates

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

Accounting policies

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

Provisions for dismantling and restoration costs

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

Provisions for termination benefits

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

4 Employees

Swisscom currently has around 19,000 full-time equivalent employees, of whom around 16,000 are in Switzerland. This chapter contains information on employee headcount and personnel expense, the compensation paid to key management personnel as well as retirement-benefit obligations.

4.1 Employee headcount and personnel expense

Employee headcount

In full-time equivalent	31.12.2020	31.12.2019	Change
Residential Customers	3,088	3,342	–7.6%
Business Customers	4,917	5,116	–3.9%
Wholesale	83	83	0.0%
IT, Network & Infrastructure	4,503	4,514	–0.2%
Swisscom Switzerland	**12,591**	**13,055**	**–3.6%**
Fastweb	2,703	2,456	10.1%
Other Operating Segments	3,558	3,605	–1.3%
Group Headquarters	210	201	4.5%
Total headcount	**19,062**	**19,317**	**–1.3%**
Thereof Switzerland	16,048	16,628	–3.5%
Thereof foreign countries	3,014	2,689	12.1%
Average number of employees	19,095	19,561	–2.4%

Personnel expense

In CHF million	2020	2019
Salary and wage costs	2,065	2,093
Social security expenses	243	249
Expense of defined benefit plans [1]	338	326
Expense of defined contribution plans	10	10
Expense for share-based payments	1	1
Termination benefits	(1)	56
Other personnel expense	61	65
Total personnel expense	**2,717**	**2,800**
Thereof Switzerland	2,493	2,569
Thereof foreign countries	224	231

1 See Note 4.3.

Termination benefits

Swisscom supports employees affected by restructuring through a social plan. In addition to other benefits, the social plan benefits include continued salary payments beyond the contractual notice period for a maximum period of time, which depends on the seniority and age of the employee concerned. Under certain conditions, older employees affected by job cuts may transfer to the subsidiary Worklink AG at reduced guaranteed continued salary payments. Worklink AG aims to place participants with third parties for temporary work assignments, whereby the participants are paid a share of the turnover as a wage supplement. Net expenditure for personnel reduction was minus CHF 1 million (prior year: CHF 56 million). This is comprised of newly established provisions of CHF 22 million, less the release of unused provisions to the value of CHF 23 million. These personnel downsizing measures are connected with Swisscom's aim of reducing the cost base by a further CHF 100 million per year by 2022.

4.2 Key management compensation

In CHF thousand	2020	2019
Current compensation	1,357	1,365
Share-based payments	810	719
Social security contributions	221	128
Total compensation to members of the Board of Directors	**2,388**	**2,212**
Current compensation	5,038	5,347
Share-based payments	731	757
Benefits paid following retirement from Group Executive Board	190	–
Pension contributions	796	873
Social security contributions	510	539
Total compensation to members of the Group Executive Board	**7,265**	**7,516**
Total compensation to members of the Board of Directors and of the Group Executive Board	**9,653**	**9,728**

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

4.3 Post-employment benefits

Pension plans

comPlan

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

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

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

In accordance with the Swiss accounting standards (Swiss GAAP FER 26) which are relevant for the pension fund, as at 31 December 2020 comPlan had a technical coverage ratio of 112% (prior year: 110%). The main reasons for the difference compared with IFRS are the use of a higher discount rate as well as a differing actuarial measurement method with the deferred recognition of the costs of future retirement benefits.

Other pension plans

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

Pension cost

In CHF million	comPlan	Other plans	2020	comPlan	Other plans	2019
Current service cost	326	3	329	305	3	308
Employment termination benefits	5	–	5	–	–	–
Plan amendments	–	–	–	14	–	14
Administration expense	3	1	4	3	1	4
Total recognised in personnel expense	**334**	**4**	**338**	**322**	**4**	**326**
Interest expense on net defined benefit obligations	2	–	2	8	–	8
Total recognised in financial expense	**2**	**–**	**2**	**8**	**–**	**8**
Total expense of defined benefit plans recognised in income statement	**336**	**4**	**340**	**330**	**4**	**334**

In CHF million	comPlan	Other plans	2020	comPlan	Other plans	2019
Actuarial gains and losses from						
Change of the demographical assumptions	(114)	–	(114)	–	–	–
Change of the financial assumptions	44	–	44	990	–	990
Experience adjustments to defined benefit obligations	41	1	42	7	1	8
Change in share of employee contribution (risk sharing)	107	–	107	(52)	–	(52)
Return on plan assets excluding the part recognised in financial result	(409)	–	(409)	(1,139)	–	(1,139)
Total (income) expense of defined benefit plans recognised in other comprehensive income	**(331)**	**1**	**(330)**	**(194)**	**1**	**(193)**

Status of pension plans

In CHF million	comPlan	Other plans	2020	comPlan	Other plans	2019
Defined benefit obligations						
Balance at 1 January	**12,664**	**38**	**12,702**	**11,633**	**35**	**11,668**
Current service cost	326	3	329	305	3	308
Interest cost on defined benefit obligations	29	–	29	102	–	102
Employee contributions	177	–	177	186	–	186
Benefits paid	(537)	–	(537)	(520)	–	(520)
Actuarial losses (gains)	78	1	79	945	1	946
Change in scope of consolidation	–	(1)	(1)	(1)	–	(1)
Employment termination benefits	5	–	5	–	–	–
Plan amendments	–	–	–	14	–	14
Foreign currency translation adjustments	–	(1)	(1)	–	(1)	(1)
Transfer of pension plans	(2)	2	–	–	–	–
Balance at 31 December	**12,740**	**42**	**12,782**	**12,664**	**38**	**12,702**
Plan assets						
Balance at 1 January	**11,627**	**17**	**11,644**	**10,457**	**15**	**10,472**
Interest income on plan assets	27	–	27	94	–	94
Employer contributions	268	4	272	274	5	279
Employee contributions	177	–	177	186	–	186
Benefits paid	(537)	–	(537)	(520)	–	(520)
Return (expense) on plan assets excluding the part recognised in financial result	409	–	409	1,139	–	1,139
Administration expense	(3)	(1)	(4)	(3)	(1)	(4)
Change in scope of consolidation	–	(1)	(1)	–	(2)	(2)
Balance at 31 December	**11,968**	**19**	**11,987**	**11,627**	**17**	**11,644**
Net defined benefit obligations						
Net defined benefit obligations recognised at 31 December	**772**	**23**	**795**	**1,037**	**21**	**1,058**

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

In CHF million	comPlan	Other plans	2020	comPlan	Other plans	2019
Balance at 1 January	**1,037**	**21**	**1,058**	**1,176**	**20**	**1,196**
Pension cost, net	336	4	340	330	4	334
Employer contributions and benefits paid	(268)	(4)	(272)	(274)	(5)	(279)
Change in scope of consolidation	–	–	–	(1)	2	1
(Income) expense of defined benefit plans, recognised in other comprehensive income	(331)	1	(330)	(194)	1	(193)
Foreign currency translation adjustments	–	(1)	(1)	–	(1)	(1)
Transfer of pension plans	(2)	2	–	–	–	–
Balance at 31 December	**772**	**23**	**795**	**1,037**	**21**	**1,058**

The weighted average duration of the cash value of the defined benefit obligations is 17 years (prior year: 17 years).

Breakdown of pension plan assets
comPlan

Category	Investment strategy	31.12.2020 Quoted	Not quoted	Total	31.12.2019 Quoted	Not quoted	Total
Government bonds Switzerland	5.0%	1.1%	3.6%	4.7%	1.2%	3.4%	4.6%
Corporate bonds Switzerland	7.0%	5.8%	0.0%	5.8%	5.7%	0.0%	5.7%
Government bonds developed markets, World	6.0%	5.4%	0.0%	5.4%	5.7%	0.0%	5.7%
Corporate bonds developed markets, World	10.0%	9.9%	0.0%	9.9%	9.7%	0.0%	9.7%
Government bonds emerging markets, World	8.0%	7.9%	0.0%	7.9%	8.0%	0.0%	8.0%
Private debt	5.0%	0.0%	5.0%	5.0%	0.0%	5.7%	5.7%
Third-party debt instruments	**41.0%**	**30.1%**	**8.6%**	**38.7%**	**30.3%**	**9.1%**	**39.4%**
Equity shares Switzerland	7.0%	7.1%	0.0%	7.1%	6.4%	0.0%	6.4%
Equity shares developed markets, World	12.0%	13.6%	0.0%	13.6%	12.9%	0.0%	12.9%
Equity shares emerging markets, World	6.0%	6.7%	0.0%	6.7%	7.3%	0.0%	7.3%
Equity instruments	**25.0%**	**27.4%**	**0.0%**	**27.4%**	**26.6%**	**0.0%**	**26.6%**
Real estate Switzerland	13.5%	7.2%	6.7%	13.9%	6.9%	6.1%	13.0%
Real estate World	7.0%	1.0%	5.2%	6.2%	1.2%	5.3%	6.5%
Real estate	**20.5%**	**8.2%**	**11.9%**	**20.1%**	**8.1%**	**11.4%**	**19.5%**
Commodities	3.5%	1.7%	2.2%	3.9%	1.8%	2.2%	4.0%
Private markets	9.0%	0.0%	9.4%	9.4%	0.0%	9.8%	9.8%
Cash and cash equivalents and other investments	1.0%	0.0%	0.5%	0.5%	0.0%	0.7%	0.7%
Cash and cash equivalents and alternative investments	**13.5%**	**1.7%**	**12.1%**	**13.8%**	**1.8%**	**12.7%**	**14.5%**
Total plan assets	**100.0%**	**67.4%**	**32.6%**	**100.0%**	**66.8%**	**33.2%**	**100.0%**

The Foundation Council determines the investment strategy and tactical bandwidths within the framework of the legal provisions. Within its terms of reference, the Investment Commission undertakes the asset allocation, and is the central steering, coordination and monitoring body for the management of the pension plan assets. The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance, and thus of generating income on a long-term basis to meet all financial obligations. This is achieved through a broad diversification of risks over various investment categories, markets, currencies and industry segments in both developed and emerging markets. The interest rate duration of interest-bearing assets is 7.8 years (prior year: 7.24 years), and the average rating of these assets is A– (unchanged from prior year). Within the overall portfolio, all foreign currency positions are hedged against the Swiss franc following a currency strategy to the extent necessary to meet a pre-determined ratio of 85% (CHF or CHF-hedged). Following this investment strategy, comPlan expects its results prepared in accordance with Swiss GAAP FER to show a target value for the value fluctuation reserve of 18.4% of total assets.

Additional information on plan assets
As at 31 December 2020, plan assets include Swisscom Ltd shares and bonds with a fair value of CHF 10 million (prior year: CHF 10 million). The effective income from plan assets was CHF 436 million in 2020 (prior year: CHF 1,233 million). In 2021, Swisscom expects to make payments to the pension funds for statutory employee contributions totalling CHF 273 million.

Assumptions underlying actuarial computations

Assumptions	2020 comPlan	2020 Other plans	2019 comPlan	2019 Other plans
Discount rate	0.19%	0.34%	0.22%	0.77%
Expected rate of salary increases	1.08%	–%	1.08%	–%
Expected rate of pension increases	–%	–%	–%	–%
Interest on old age savings accounts	0.36%	–%	0.37%	–%
Share of employee contribution to funding shortfall	40%	–%	40%	–%
Life expectancy at age of 65 – men (number of years)	22.40	22.40	22.30	22.30
Life expectancy at age of 65 – women (number of years)	24.20	24.20	24.10	24.10

The discount rate is based upon CHF-denominated corporate bonds with an AA rating of domestic and foreign issuers and listed on the Swiss Exchange SIX. The development of salaries corresponds to the historical average of recent years. No future pension increases are anticipated, as comPlan has insufficient fluctuation reserves available under pension law. The lower limit is the statutory minimum interest rate on BVG retirement savings accounts. The interest rate on the individual savings balances was determined taking into account the BVG minimum interest rate for the mandatory BVG portion. Life-expectancy assumptions are arrived at through a projection of future mortality improvements in accordance with the Continuous Mortality Investigation Model (CMI) and is based on improvements in mortality observed in Switzerland in the past. The computations are made with a future long-term rate of mortality improvement of 1.75%. The insured person can draw the retirement benefit in full or in part by means of a one-off lump-sum payment. Compared with the previous year, the assumption for the lump-sum withdrawal ratio was increased from 14% to 22%. This resulted in an actuarial gain of CHF 115 million recognised in other comprehensive income.

The risk-sharing attributes contained in the formal regulatory framework relating to the handling of funding shortfalls were taken into account in the financial assumptions in two steps. As a first step, it is assumed that a gradual lowering of future pensions by 9.74% (prior year: 8.80%) over a period of ten years will take place in order to close the interest-induced structural funding gap. This is based upon a projection of the future conversion rate using a mixed rate for the mandatory and extra-mandatory portions. The conversion rate in the mandatory portion applies the current legal conversion rate. In the extra-mandatory portion, the conversion rate is computed with a discount rate of 0.19%. As a second step, the present value of the remaining funding gap between the regulatory contributions and the benefits adjusted in the first step is shared between the employer and the employees. The legal and de-facto obligation of the employer to pay additional contributions is unchanged and assumed to be limited to 60% of the funding gap. This is based on the legal and regulatory provisions concerning the elimination of funding shortfalls as well as the measures actually decided upon by the Foundation Council and the employer in the past. Based on an assumption of a limited employer contribution to the funding shortfall, there is a reduction in defined benefit obligations of CHF 581 million (prior year: CHF 530 million), which corresponds to the assumed employee contributions. The change of the employee share is recognised in other comprehensive income.

Sensitivity analysis comPlan

Sensitivity analysis 2020

In CHF million	Defined benefit obligations Increase assumption	Defined benefit obligations Decrease assumption	Current service cost Increase assumption	Current service cost Decrease assumption
Discount rate (change +/–0.5%)	(573)	668	(35)	41
Expected rate of salary increases (change +/–0.5%)	39	(37)	6	(6)
Expected rate of pension increases (change +0.5%; –0.0%)	558	–	26	–
Interest on old age savings accounts (change +0.5%; –0.0%)	21	–	7	–
Share of employee contribution to funding shortfall (change +/–10%)	106	(106)	–	–
Life expectancy at age of 65 (change +/–0.5 year)	142	(143)	4	(4)

Sensitivity analysis 2019

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

The sensitivity analysis takes into consideration the movement in defined benefit obligations as well as current service costs in adjusting the actuarial assumptions by half a percentage point and half a year, respectively. In the process only one of the assumptions is adjusted each time, the other parameters remaining unchanged. In the sensitivity analysis, no change was made in view of a negative movement in pension increases as it is not possible to reduce current pensions. The assumed gradual reduction in conversion rates is left unchanged in the sensitivities of the discount rate shown. An increase in the discount rate of 0.5% in the calculation of the conversion rate reduction leads to an increase in the pension obligation of CHF 61 million.

Significant judgements or estimates

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

Accounting policies

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

5 Scope of consolidation

The following chapter sets out details of the Group structure of Swisscom and includes disclosures concerning subsidiaries, joint ventures and associates. In addition, it outlines material changes in Group structure and the corresponding impact on the consolidated financial statements.

5.1 Group structure

Swisscom Ltd is the parent company of the Group. It essentially holds direct majority shareholdings in Swisscom (Switzerland) Ltd, blue Entertainment Ltd, Swisscom Broadcast Ltd and Swisscom Directories Ltd. Fastweb S.p.A. (Fastweb) is held indirectly via Swisscom (Switzerland) Ltd as well as an intermediate company in Italy. Swisscom Re Ltd in Liechtenstein is the Group's in-house reinsurance company. Swisscom raises finance in EUR through Swisscom Finance B.V.

5.2 Changes in the scope of consolidation

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

In CHF million	**2020**	2019
Expenses for business combinations net of cash and cash equivalents acquired	(13)	(25)
Expenses for deferred consideration arising on business combinations	(26)	(369)
Sale of subsidiaries minus disposal of currency	–	(3)
Expenses for shareholdings accounted for using the equity method	(15)	(15)
Acquisition of non-controlling interests	(1)	(1)
Total cash flow from the purchase and sale of shareholdings, net	**(55)**	**(413)**

Expenses for deferred consideration arising on business combinations includes in 2019 the payment of CHF 240 million paid to Tamedia for the acquisition of the outstanding share of 31% in Swisscom Directories Ltd. See Note 2.2.

Acquisitions and disposals of subsidiaries

Acquisitions and disposals of subsidiaries in 2020 are not individually material. These include the full acquisition of Cutaway S.r.l., the 70% acquisition of 7Layers S.r.l. in Italy and the sale of Mila AG. Cutaway S.r.l. was merged with Fastweb S.p.A. following the acquisition.

Accounting policies

Consolidation

Subsidiaries are all companies over which Swisscom Ltd has the effective ability to control the financial and business policies. Control is generally assumed where Swisscom Ltd directly or indirectly holds the majority of the voting rights or potential voting rights of the company. Companies acquired and sold are included in consolidation from the date on which they are acquired and deconsolidated from the date they are disposed of, respectively. Intragroup balances and transactions, income and expenses, shareholdings and dividends as well as unrealised gains and losses are fully eliminated. Non-controlling interests in subsidiaries are reported within equity in the consolidated balance sheet, but separately from equity attributable to the shareholders of Swisscom Ltd. The non-controlling interests in net income or loss are shown in the consolidated income statement as a component of the consolidated net income or loss. Changes in shareholdings of subsidiary companies are reported as transactions within equity insofar as control existed previously and continues to exist. Put options granted to owners of non-controlling interests are disclosed as financial liabilities. The balance sheet date for all consolidated subsidiaries is 31 December. There are no material restrictions on the transfer of funds from the subsidiaries to the parent company.

Shareholdings over which Swisscom exercises significant influence but does not have control are accounted for using the equity method. A significant influence is generally assumed to exist whenever between 20% and 50% of the voting rights are held.

Business combinations

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

5.3 Equity-accounted investees

In CHF million	2020	2019
Balance at 1 January	**156**	**174**
Additions	16	27
Dividends	(15)	(18)
Share of net results	9	4
Share of other comprehensive income	(5)	2
Impairment losses	(5)	(32)
Dilutive gains	–	3
Foreign currency translation adjustments	(1)	(4)
Balance at 31 December	**155**	**156**

In 2020, an aggregate amount of CHF 4 million (prior year: CHF –28 million) was recognised as the attributable share of net results in equity-accounted investees.

On 1 September 2020, Fastweb, Telecom Italia (TIM) and private equity firm KKR signed an agreement to establish FiberCop S.p.A. TIM contributes its secondary access network. The partners will also integrate Flash Fiber S.r.l., a company jointly owned by TIM (80%) and Fastweb (20%), into the new company. FiberCop will gradually upgrade the access network with FTTH technology. Swisscom is set to supply 14 million homes and businesses with FTTH by 2025. The closing of the transaction is subject to approvals from the relevant authorities in the EU and Italy, including antitrust clearance.

Selected key performance indicators for equity-accounted investees

In CHF million	2020	2019
Income statement		
Net revenue	1,614	1,786
Operating expense	(1,541)	(1,706)
Operating income	73	80
Net income	**41**	**54**
Other comprehensive income	**(23)**	**8**
Balance sheet at 31 December		
Current assets	820	1,008
Non-current assets	1,343	1,268
Current liabilities	(951)	(1,148)
Non-current liabilities	(594)	(512)
Equity	**618**	**616**

5.4 Group companies

Group companies in Switzerland

Registered name	Registered office	31.12.2020 Capital and voting rights share in %	31.12.2019 Capital and voting rights share in %	Share capital in million	Currency	Segment [4]
Switzerland						
Admeira AG [1,3]	Berne	–	50	0.3	CHF	OTH
Ad Unit Ltd [2]	Zurich	100	100	0.1	CHF	OTH
Ajila AG [2]	Sursee	60	60	0.1	CHF	OTH
Artificialy SA [2,3]	Lugano	18	–	1.1	CHF	OTH
autoSense Ltd [2,3]	Zurich	33	33	0.3	CHF	OTH
Billag Ltd [1]	Fribourg	100	100	0.1	CHF	OTH
Blue Entertainment Ltd [1,5]	Zurich	100	100	0.5	CHF	SCS
cablex Ltd [2]	Muri near Berne	100	100	5.0	CHF	OTH
Credit Exchange Ltd [2,3]	Zurich	25	25	0.1	CHF	OTH
Custodigit Ltd [2]	Zurich	75	75	1.0	CHF	OTH
daura Ltd [2,3]	Zurich	31	29	0.3	CHF	OTH
ecmt AG [2,3]	Embrach	20	20	0.1	CHF	OTH
Entertainment Programm AG [2,3,6]	Zurich	33	33	0.6	CHF	SCS
finnova ltd bankware [2,3]	Lenzburg	9	9	0.5	CHF	SCS
Global IP Action Ltd [2]	Freienbach	79	79	0.2	CHF	OTH
itnetX (Switzerland) AG [2]	Rümlang	100	100	0.1	CHF	SCS
kitag kino-theater Ltd [2]	Zurich	100	100	1.0	CHF	SCS
Medgate Ltd [2,3]	Basel	40	40	0.7	CHF	SCS
Medgate Technologies Ltd [2,3]	Basel	40	40	0.1	CHF	SCS
Mila AG [2]	Zurich	–	100	0.4	CHF	SCS
Mona Lisa Capital AG [2]	Ittigen	100	100	5.0	CHF	GHQ
SEC consult (Switzerland) Ltd [2,3]	Zurich	47	47	0.1	CHF	OTH
SmartLife Care Ltd [2,3]	Wangen	48	48	0.2	CHF	OTH
Swisscom Blockchain Ltd [2]	Zurich	100	97	0.1	CHF	OTH
Swisscom Broadcast Ltd [1]	Berne	100	100	25.0	CHF	OTH
Swisscom Digital Technology SA [1]	Geneva	75	75	0.1	CHF	SCS
Swisscom Directories Ltd [1]	Zurich	100	100	2.2	CHF	OTH
Swisscom eHealth Invest GmbH [2]	Ittigen	100	100	1.4	CHF	GHQ
Swisscom Health AG [2]	Ittigen	100	100	0.1	CHF	SCS
Swisscom Real Estate Ltd [1]	Ittigen	100	100	100.0	CHF	SCS
Swisscom IT Services Finance Custom Solutions Ltd [2]	Olten	100	100	0.1	CHF	SCS
Swisscom (Switzerland) Ltd [1]	Ittigen	100	100	1,000.0	CHF	SCS
Swisscom Services Ltd [2]	Ittigen	100	100	0.1	CHF	SCS
Swisscom Ventures Ltd [2]	Ittigen	100	100	2.0	CHF	GHQ
SwissSign Group Ltd [2,3]	Opfikon	10	10	12.5	CHF	OTH
Teleclub AG [2]	Zurich	100	100	1.2	CHF	SCS
tiko Energy Solutions SA [2,3]	Ittigen	29	29	13.3	CHF	OTH
United Security Provider Ltd [2]	Berne	100	100	0.5	CHF	SCS
Worklink AG [1]	Berne	100	100	0.5	CHF	GHQ

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

Group companies in other countries

Registered name	Registered office	31.12.2020 Capital and voting rights share in %	31.12.2019 Capital and voting rights share in %	Share capital in million	Currency	Segment [4]
Belgium						
Belgacom International Carrier Services Ltd [2,3]	Brussels	22	22	1.5	EUR	SCS
Germany						
Mila GmbH [2]	Berlin	–	100	–	EUR	SCS
Swisscom Telco GmbH [2]	Leipzig	100	100	–	EUR	OTH
France						
local.fr SA [2]	Bourg-en-Bresse	86	81	1.0	EUR	OTH
SoftAtHome SA [2,3]	Comment/Sectio	10	10	6.5	EUR	SCS
Great Britain						
Ajila UK Ltd [2]	London	60	60	–	GBP	OTH
Italy						
7Layers Group S.r.l. [2]	Porcari	70	–	–	EUR	FWB
7Layers S.r.l. [2]	Florence	70	–	0.2	EUR	FWB
Fastweb S.p.A. [2]	Milan	100	100	41.3	EUR	FWB
Fastweb Air S.r.l. [2]	Milan	100	100	–	EUR	FWB
Flash Fiber S.r.l. [2,3]	Milan	20	20	–	EUR	FWB
Swisscom Italia S.r.l. [2]	Milan	100	100	505.8	EUR	GHQ
Latvia						
Swisscom DevOps Latvia SIA [2]	Riga	100	–	–	EUR	SCS
Liechtenstein						
Swisscom Re Ltd [1]	Vaduz	100	100	5.0	CHF	GHQ
Luxembourg						
DTF GP S.A.R.L [2]	Luxembourg	100	100	–	EUR	OTH
DTF GP II S.A.R.L. [2]	Luxembourg	100	100	–	EUR	OTH
Digital Transformation Fund Carried Partner SCSp [2]	Luxembourg	100	100	–	EUR	OTH
Digital Transformation Fund Initial Limited Partner SCSp [2]	Luxembourg	100	100	–	EUR	OTH
Netherlands						
NGT International B.V. [2]	Capelle a/d IJssel	100	100	–	EUR	OTH
Swisscom DevOps Center B.V. [2]	Rotterdam	100	100	–	EUR	SCS
Swisscom Finance B.V. [1]	Rotterdam	100	–	–	EUR	GHQ
Austria						
Swisscom IT Services Finance SE [2]	Vienna	100	100	3.3	EUR	SCS
Singapore						
Swisscom IT Services Finance Pte Ltd [2]	Singapore	100	100	0.1	SGD	SCS
USA						
Swisscom Cloud Lab Ltd [2]	Delaware	100	100	–	USD	SCS

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

6 Other disclosures

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

6.1 Income taxes

Income tax expense

In CHF million	**2020**	2019
Current income tax expense	325	332
Adjustments recognised for current tax of prior periods	(5)	(16)
Deferred income tax expense	(49)	(261)
Total income tax expense recognised in income statement	**271**	**55**
Thereof Switzerland	242	28
Thereof foreign countries	29	27

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

In CHF million	**2020**	2019
Foreign currency translation adjustments of foreign subsidiaries	–	(4)
Actuarial gains and losses from defined benefit pension plans	69	47
Change to the fair value of equity instruments	(1)	–
Change in cash flow hedges	–	1
Total income tax expense recognised in other comprehensive income	**68**	**44**

Analysis of income taxes

The applicable income tax rate which serves to prepare the following analysis of income tax expense is the weighted average income tax rate calculated on the basis of the Group's operating subsidiaries in Switzerland. The applicable income tax rate is 18.7% (prior year: 20.0%). The decline in the applicable income tax rate can be attributed to a reduction in the tax rates in various Swiss cantons.

In CHF million	**2020**	2019
Income before income taxes in Switzerland	1,655	1,598
Income before income taxes foreign countries	144	126
Income before income taxes	**1,799**	**1,724**
Applicable income tax rate	18.7%	20.0%
Income tax expense at the applicable income tax rate	**336**	**345**
Reconciliation to reported income tax expense		
Effect from result of shareholdings accounted for using the equity method	(2)	6
Effect of changes in tax law in Switzerland	(29)	(269)
Effect of use of different income tax rates in Switzerland	7	–
Effect of use of different income tax rates in foreign countries	1	2
Effect of non-recognition of tax loss carry-forwards	3	8
Effect of recognition and offset of tax loss carry-forwards not recognised in prior years	(14)	–
Effect of exclusively tax-deductible expenses and income	(26)	(21)
Effect of income tax of prior periods	(5)	(16)
Total income tax expense	**271**	**55**
Effective income tax rate	15.1%	3.2%

On 1 January 2020, various legislative changes affecting corporate taxation came into force. These changes fundamentally abolish tax privileges for companies, such as the privileged taxation of the profits of holding companies. In return, most of the cantons will reduce the corporate income tax rates. Temporary transitional regulations additionally dampen the financial impact. Changes in the law, reductions in tax rates and transitional rules led to positive tax effects of CHF 29 million in the Swisscom consolidated financial statements for 2020 (prior year: CHF 269 million). These tax effects result from the revaluation of existing deferred income tax liabilities due to tax rate adjustments. Also, valuation adjustments made in line with the transitional rule on ordinary profit taxation on the holding company led to the recognition of new deferred tax assets.

Current income tax assets and liabilities

In CHF million	**2020**	2019
Current income tax liabilities at 1 January, net	**170**	**226**
Recognised in income statement	320	316
Recognised in other comprehensive income	1	(1)
Income taxes paid in Switzerland	(298)	(357)
Income taxes paid in foreign countries	(11)	(14)
Current income tax liabilities at 31 December, net	**182**	**170**
Thereof current income tax assets	(4)	(4)
Thereof current income tax liabilities	186	174
Thereof Switzerland	182	170
Thereof foreign countries	–	–

Deferred income tax assets and liabilities

			31.12.2020			31.12.2019
In CHF million	**Assets**	**Liabilities**	**Net amount**	Assets	Liabilities	Net amount
Property, plant and equipment	45	(617)	(572)	44	(643)	(599)
Intangible assets	–	(82)	(82)	12	(67)	(55)
Provisions	91	(87)	4	92	(85)	7
Defined benefit obligations	118	–	118	178	–	178
Tax loss carry-forwards	57	–	57	40	–	40
Other	117	(103)	14	112	(120)	(8)
Total tax assets (tax liabilities)	**428**	**(889)**	**(461)**	**478**	**(915)**	**(437)**
Thereof deferred tax assets			183			152
Thereof deferred tax liabilities			(644)			(589)
Thereof Switzerland			(443)			(442)
Thereof foreign countries			(18)			5

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

In CHF million	**31.12.2020**	31.12.2019
Expiring within 1 year	–	4
Expiring within 2 to 7 years	26	123
No expiration	20	18
Total unrecognised tax loss carry-forwards	**46**	**145**
Thereof Switzerland	26	128
Thereof foreign countries	20	17

Other disclosures

Deferred tax liabilities of CHF 6 million (prior year: none) were recognised on the undistributed earnings of subsidiaries as at 31 December 2020. Temporary differences of subsidiaries and equity-accounted investees for which no deferred tax liabilities are recognised as at 31 December 2020 amounted to CHF 2,102 million (prior year: CHF 3,117 million). In 2020, the tax authorities definitively assessed some tax years. The assessments have resulted in no material uncertain tax positions remaining as at 31 December 2020.

Accounting policies

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

6.2 Related parties

Majority shareholder and equity-accounted investees

Majority shareholder

Pursuant to the Swiss Federal Telecommunication Enterprises Act (TEA), the Swiss Confederation ("the Confederation") is obligated to hold a majority of the share capital and voting rights of Swisscom. On 31 December 2020, the Confederation, as majority shareholder, continued to hold 51.0% of the issued shares of Swisscom Ltd. Any reduction of the Confederation's holding below a majority shareholding would require a change in law, which would need to be voted upon by the Swiss Parliament and would also be subject to the right of optional referendum by Swiss voters. As the majority shareholder, the Confederation has the power to control the decisions of the annual general meetings of shareholders which are taken by the absolute majority of validly cast votes. This relates primarily to resolutions concerning dividend distributions and the election of the members of the Board of Directors. Swisscom supplies telecommunication services to, and also procures services from, the Confederation. The Confederation comprises the various ministries and administrative bodies of the Confederation and the other companies controlled by the Confederation (primarily the Swiss Post, Swiss Federal Railways, RUAG and Skyguide). All transactions are conducted on the basis of normal customer/supplier relationships and on conditions applicable to unrelated third parties. In addition, financing transactions are entered into with the Swiss Post under market conditions.

Equity-accounted investees

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

Transactions and balances

In CHF million	Income	Expense	Receivables	Liabilities
2020 financial year				
Confederation	181	80	187	359
Equity-accounted investees	62	111	22	22
Total 2020/balance at 31 December 2020	**243**	**191**	**209**	**381**

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

Occupational pension schemes and compensation payable to individuals in key positions

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

6.3 Other accounting policies

Foreign currency translation

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

Significant foreign currency translation rates

	Closing rate			Average rate	
Currency	**31.12.2020**	31.12.2019	31.12.2018	**2020**	2019
1 EUR	1.080	1.085	1.127	1.072	1.113
1 USD	0.880	0.966	0.984	0.937	0.992

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

The following International Financial Reporting Standards and Interpretations published up to the end of 2020 are mandatory for annual periods beginning on or after 1 January 2021:

Standard	Name	Effective from
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	IBOR Reform: Phase 2	1 January 2021
Amendments to IFRS 3	References to conceptual framework	1 January 2022
Amendments to IAS 16	Property, plant and equipment: Income before planned use	1 January 2022
Amendments to IAS 37	Onerous contracts: Contract performance costs	1 January 2022
Various	Amendments to IFRS 2018-2020	1 January 2022
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2023
Amendments to IFRS 10 and IAS 28	Sale or deposit of assets between an investor and an associated company or joint venture	still open

Swisscom will review its financial reporting for the impact of those new and amended standards which take effect on or after 1 January 2021 and which Swisscom did not choose to adopt earlier than required. At present, Swisscom anticipates no material impact on the consolidated financial statements.

Report of the statutory auditor

to the General Meeting of Swisscom Ltd

Ittigen

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Swisscom Ltd and its subsidiaries (the Group), which comprise the consolidated statement of comprehensive income for the year ended 31 December 2020, the consolidated balance sheet as at 31 December 2020, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 112 to 171) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

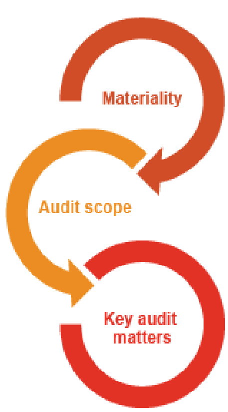
Basis for opinion

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

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

Our audit approach

Overview



Overall materiality for the consolidated financial statements: CHF 90 million

We conducted full scope audit work at four Group companies in two countries. These Group companies represent over 95% of the Group’s revenue. In addition, specified procedures were performed on selected balance sheet and income statement line items for one additional Group company located in Switzerland.

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

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

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Materiality

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

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

Overall Group materiality	CHF 90 million
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

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

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of three operating segments (Swisscom Switzerland, Fastweb, Other Operating Segments) and operates mainly in Switzerland and Italy. Swisscom (Schweiz) Ltd generates most of the revenue. Another company that we identified as significant is Fastweb S.p.A. (Fastweb).

The audits of Swisscom (Schweiz) Ltd and Swisscom Ltd were performed by the Group audit team. The audit of Fastweb was performed by the PwC component auditor in Italy, to whom we provided instructions and with whom we are in regular contact to discuss the treatment of transactions that are material to the consolidated financial statements as well as questions regarding valuation and disclosure. In addition, we participate in important discussions with Fastweb's management. The audit of these three companies addresses the major part of the consolidated financial statements. Another company in Switzerland is audited by a Swiss PwC component auditor, whom we have instructed and with whom we are also in regular contact. Finally, we identified an additional subsidiary with significant balance sheet and income statement items, which is audited by the Group audit team. Group-wide topics, such as treasury, taxes, pension obligations and investments (including goodwill) or the implementation of new accounting requirements are addressed by the Group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment testing of Fastweb goodwill

Key audit matter	How our audit addressed the key audit matter
The impairment testing of goodwill relating to Fastweb was deemed a key audit matter for the following reasons: • As at 31 December 2020, the goodwill relating to the Fastweb operating segment amounted to CHF 537 million (2019: CHF 538 million), which is a significant amount. • In performing the annual impairment test of the Fastweb goodwill, management has considerable scope for judgement regarding the expected future cash flows, the discount rate (WACC) used and the forecasted growth. Please refer to note 3.4 'Goodwill' (page 150) in the notes to the consolidated financial statements.	During our audit, we assessed with regard to the impairment test whether a correct valuation method was used, the calculation was coherent and the assumptions made were appropriate. In doing so, we challenged the input data and assumptions relating to the underlying cash flows of the impairment test, taking into account the impact of the COVID-19 pandemic on Fastweb's business, as well as the future growth rates. In addition, we compared the results of the current year with the forecasts made in the previous year in order to assess the appropriateness of the previous year's assumptions. With regard to the discount rate used, we analysed together with our own valuation specialists how it was derived and compared it with our own calculation. We also examined whether the information on impairment testing in the notes to the consolidated financial statements was disclosed correctly and whether the sensitivity analyses presented indicate appropriately the risks of impairment. We consider the valuation method and the assumptions used by management to test for the impairment of the Fastweb goodwill to be appropriate.

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Swisscom Ltd | Report of the statutory auditor to the General Meeting

Revenue recognition – Solutions business with Business Customers

Key audit matter	How our audit addressed the key audit matter
For the 2020 financial year, Swisscom reports net revenue of CHF 11,100 million (2019: CHF 11,453 million). Of this amount, CHF 1,058 million (2019: CHF 1,049 million) is generated by the Solutions business with Business Customers. The Solutions business with Business Customers comprises integrated communications solutions (e.g. IT outsourcing) for large enterprises in Switzerland. We consider revenue recognition in the Solutions business with Business Customers to be a key audit matter for the following reasons: • The specific projects within the Solutions business are based on complex individual contracts that may include multiple performance obligations. The accounting treatment of these contracts requires management to estimate the expected transaction price and the timing of revenue recognition of the individual performance obligations. • The projects typically last between three and seven years. To ensure a loss-free valuation of ongoing projects, management has significant scope for judgement in its assessment of the future costs of each project. Please refer to note 1.1 'Segment information' (page 118) in the notes to the consolidated financial statements.	We assessed the design and effectiveness of the controls implemented to ensure the correct recognition of revenue in the Solutions business with Business Customers. Further, we performed analytical audit procedures. On the basis of internal and external reports, we defined our expectations and critically assessed deviations from them. For a sample of contracts entered into in the 2020 financial year, we assessed the accounting treatment applied by Swisscom. In doing so, we assessed whether management's estimate of the expected transaction price and of the timing of revenue recognition relating to individual performance obligations is appropriate. To address the significant scope for judgement when assessing future costs to ensure a loss-free valuation, we performed the following audit procedures: • We gained an understanding of the process implemented by management to assess future developments in the Solutions business and critically assessed that process. • We discussed with Swisscom their expectations regarding the future development of individual projects and critically assessed those expectations on the basis of current developments. • Using a sample of projects, we compared Swisscom's forecasts from the previous year with actual developments in the current financial year and analysed any variances. Finally, on the basis of a sample, we assessed whether the revenue in the Solutions business with Business Customers was recorded correctly. To do so, we checked cash receipts for individual revenue transactions and obtained external balance confirmations from Swisscom customers. We consider management's estimates relating to the recognition of revenue in the Solutions business with Business Customers to be appropriate.

Impairment testing of technical installations and intangible assets

Key audit matter	How our audit addressed the key audit matter
We consider the impairment testing of technical facilities and intangible assets to be a key audit matter for the following reasons: • Swisscom recognises as of 31 December 2020 technical installations with a net book value of CHF 8,611 million (2019: CHF 8,407 million) and intangible assets with a net book value of CHF 1,745 million (2019: CHF 1,842 million). Both represent significant amounts. • Management has significant scope for judgement when assessing and determining the useful life of technologies that are in use. Please refer to note 3.2 'Property, plant and equipment' (page 146) and note 3.3 'Intangible assets' (page 148) in the notes to the consolidated financial statements.	We assessed the design and effectiveness of the controls implemented to ensure the correct impairment testing of technical installations and intangible assets. We also discussed with management the estimates of the future useful lives of existing technologies and critically assessed these on the basis of current developments at Swisscom and other telecommunications companies. In addition, we assessed the completeness and appropriateness of changes in useful lives and actual impairments in the 2020 financial year. We consider management's assessment of the expected period over which Swisscom derives economic benefits from the use of existing technologies to be appropriate.

Assessment of litigation arising from regulatory and competition law proceedings

Key audit matter	How our audit addressed the key audit matter
Swisscom recorded as at 31 December 2020 provisions amounting to CHF 1,216 million (2019: CHF 1,134 million). Of this amount, CHF 233 million (2019: CHF 206 million) relates to provisions for litigation arising from regulatory and competition law proceedings. Swisscom provides regulated access services to other telecommunications service providers in accordance with the Telecommunications Act. The prices charged by Swisscom are subject to reviews by the Federal Communications Commission (ComCom). If the Commission issues a ruling against Swisscom, the prices charged must be reduced with retroactive effect. Swisscom is also a party to proceedings conducted by the Federal Competition Commission (COMCO). In the event of a final verdict establishing market abuse by Swisscom, COMCO may impose sanctions. A final verdict establishing market abuse issued by COMCO could lead to civil claims against Swisscom. We consider the assessment of the financial implications of litigation arising from regulatory and competition law proceedings to be a key audit matter because management has significant scope for judgement in estimating the probability, the timing and the amount of a potential cash outflow due to litigation. Please refer to note 3.5 'Provisions, contingent liabilities and contingent assets' (page 152) in the notes to the consolidated financial statements.	To address the significant scope for judgement in estimating the probability, the timing and the amount of a potential cash outflow due to litigation, we performed together with an internal legal expert the following audit procedures: • We discussed pending litigation with management and Swisscom's internal and external legal counsel. • We obtained written statements from Swisscom's external and internal legal counsel. • We gained an understanding of the process and controls implemented by management to identify, assess and recognise pending litigation, and critically assessed it. To assess the amount of the provisions established, we considered whether the underlying data were adequately factored into the calculation of the provisions. Finally, we assessed the recognition and disclosure in the consolidated financial statements of litigation arising from regulatory and competition law proceedings. We consider management's approach to the treatment in the consolidated financial statements of litigation arising from regulatory and competition law proceedings to be appropriate.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements and the compensation report of Swisscom Ltd and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Peter Kartscher	Petra Schwick
Audit expert Auditor in charge	Audit expert

Zurich, 3 February 2021

Further Information

Further Information

Swisscom Ltd annual financial statements

General information

This is a condensed version of the financial statements of Swisscom Ltd. The full version and the auditors' report can be viewed on the Swisscom website.

See www.swisscom.ch/financialstatements2020

Swisscom Ltd is a holding company under Swiss law. As at 31 December 2020, the Swiss Confederation, as majority shareholder, continued to hold 51.0% of the issued shares of Swisscom Ltd as in the prior year. The Telecommunications Enterprises Act (TEA) provides that the Swiss Confederation shall hold the majority of the share capital and voting rights of Swisscom Ltd.

The financial statements of Swisscom Ltd have been prepared in accordance with statutory requirements and the Articles of Incorporation. Distributable reserves are not determined on the basis of the equity as reported in the consolidated financial statements, but rather on the basis of equity as reported in the separate annual financial statements of Swisscom Ltd. The equity totalled CHF 5,707 million in the 2020 annual financial statements of Swisscom Ltd. Under Swiss company law, share capital and that part of the general reserves representing 20% of the share capital may not be distributed. On 31 December 2020, Swisscom Ltd held distributable reserves of CHF 5,644 million. The dividend is proposed by the Board of Directors and must be approved by Swisscom Ltd's Annual General Meeting of Shareholders on 31 March 2021. Treasury shares are not entitled to a dividend.

Income statement

In CHF million	**2020**	2019
Net revenue from the sale of goods and services	100	209
Other income	29	34
Total operating income	**129**	**243**
Personnel expense	(62)	(63)
Other operating expense	(75)	(85)
Total operating expenses	**(137)**	**(148)**
Operating income	**(8)**	**95**
Financial expense	(107)	(104)
Financial income	150	87
Income from participations	62	1,324
Income before taxes	**97**	**1,402**
Income tax expense	(8)	(1)
Net income	**89**	**1,401**

Balance sheet

In CHF million	31.12.2020	31.12.2019
Assets		
Cash and cash equivalents	217	182
Accrued dividends receivable from subsidiaries	–	1,200
Financial assets	6,080	6,078
Participations	8,196	8,194
Other assets	82	225
Total assets	**14,575**	**15,879**
Liabilities and equity		
Interest-bearing liabilities	8,693	8,913
Other liabilities	175	207
Total liabilities	**8,868**	**9,120**
Share capital	52	52
Legal capital reserves/capital surplus reserves	21	21
Voluntary retained earnings	5,635	6,686
Own equity interest	(1)	–
Total equity	**5,707**	**6,759**
Total liabilities and equity	**14,575**	**15,879**

Further information

Information on the participation rights held by the members of the Board of Directors and the Group Executive Board is also disclosed in the Remuneration Report (sections 2.5 and 3.5).

As at 31 December 2020, guarantee obligations exist for Group companies in favour of third parties totalling CHF 253 million (prior year: CHF 225 million), and financial assets totalling CHF 149 million (prior year: CHF 107 million) were not freely available. These assets serve to secure commitments arising from bank loans.

Proposed appropriation of retained earnings

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 31 March 2021 that the available retained earnings of CHF 5,634 million for the financial year ending on 31 December 2020 be appropriated as follows:

In CHF million	31.12.2020
Appropriation of retained earnings	
Retained earnings from previous year	**6,686**
Ordinary dividend	(1,140)
Balance carried forward from prior year	**5,546**
Net income for the year	89
Changes in treasury shares	(1)
Retained earnings available to the Annual General Meeting	**5,634**
Ordinary dividend of CHF 22.00 per share	(1,140)
Balance to be carried forward	**4,494**

In the event that the proposal is approved, a dividend of CHF 22 per share will be paid to shareholders on 8 April 2021.

Glossary

Technical terms

4G/LTE (Long-Term Evolution): 4G/LTE is the fourth generation of mobile technology. At present, LTE enables mobile broadband data speeds of up to 150 Mbps.

4G+/LTE Advanced: 4G+/LTE enables theoretical broadband data speeds of up to 700 Mbps via the mobile network. To do so, it bundles 4G/LTE frequencies to achieve the required capacity.

5G: 5G is the latest generation in mobile network technology. 5G brings with it even more capacity, very short response times and higher bandwidths, and supports the digitisation of Swiss business and industry. There are two types: 5G (also known as 5G-wide) and 5G+ (also known as 5G-fast). Both types are more efficient than predecessor technologies in terms of both energy consumption and the use of electromagnetic fields.

5G (5G-wide): This type has been using existing mobile frequencies and antennas for a long time – in simplified terms it is a software update. It enables widespread coverage and up to 1Gbit/s of data throughput.

5G+ (5G-fast): This type uses newly acquired frequencies. It offers very high capacities and speeds but shorter ranges. This type is required to fully exploit all the opportunities offered by 5G, and also calls for next-generation antennas.

All IP: All IP means that all services such as television, the Internet and fixed-line phone run over the same IT network. Swisscom switched all existing communication networks to Internet Protocol (IP) by the end of 2019. The IP services within Switzerland thus operate on Swisscom's own network, thereby enhancing security and availability in comparison with other voice services on the World Wide Web.

Bandwidth: Bandwidth refers to the transmission capacity of a medium, also known as the data transmission rate. The higher the bandwidth, the more information units (bits) can be transmitted per unit of time (second). It is defined in bps, kbps or Mbps.

Cloud: Cloud computing makes it possible for IT infrastructures such as computing capacity, data storage, ready-to-use software and platforms to be accessed dynamically via the Internet as needed. The data centres, along with the resources and databases, are distributed via the cloud. The term "cloud" refers to such hardware which is not precisely locatable.

Connectivity: Connectivity is the generic term used to denote IP services or the connection to the Internet and the ability to exchange data with any partner on the network.

Convergence (bonding technology): In the telecommunications sector, "convergence" normally refers to an interaction of mobile communication and fixed-network technologies or to products that encompass both mobile communication and fixed-network services.

FTTH (Fibre to the Home): FTTH refers to the end-to-end connection of homes and businesses using fibre-optic cables instead of traditional copper cables.

FTTH topologies (P2P and P2MP): There are two different common topologies in a fibre-optic network: point-to-point (P2P) or point-to-multipoint (P2MP). With P2P, a separate optical fibre is laid between each apartment and the nearest node (usually a local exchange) – if ten apartments in a neighbourhood are connected, ten optical fibres are also available at the node. By contrast, with P2MP there is only a single optical fibre running from the node to the vicinity of the apartments. From there, a "splitter" breaks up the light signal and distributes it to several optical fibres, which then lead to the apartments.

FTTS (Fibre to the Street)/FTTB (Fibre to the Building)/ FTTC (Fibre to the Curb): FTTS, FTTB and FTTC refer to hybrid broadband connection technologies (optical fibre and copper). With these technologies, optical fibre is brought as near as possible to buildings and in the case of FTTB right to the building's basement; the existing copper cables are used for the remaining stretch.

ICT (Information and Communication Technology): The terms "information technology" and "communication technology" were first combined in the 1980s to denote the convergence of information technology (information and data processing and the related hardware) and communication technology (technically aided communications).

IoT (Internet of Things): The connecting of things, devices and machines to enable recording of status and environmental data. These data provide the basis for optimising processes, such as early identification of failing machine components. IoT facilitates new business models based on these data or opens up new opportunities for interacting with customers.

IoT NB (IoT Narrowband): IoT NB is a connection technology for the Internet of Things (IoT). It is designed for maximum range, minimum energy consumption and a high density of devices, but dispenses with some of the features of LTE. IoT NB is mainly used for mass market applications such as electricity and water meters or monitoring sensors (massive IoT applications).

LAN (Local Area Network): A LAN is a local network for interconnecting computers, usually based on Ethernet.

LTE-M: LTE-M is a connection technology for the Internet of Things (IoT). It dispenses with some of the features of LTE to increase efficiency and reduce complexity and costs. It enables all conventional IoT applications and – in contrast to IoT Narrowband (IoT NB) – allows voice transmission (e.g. in lift telephones). LTE-M is particularly suitable for quality-sensitive applications such as security and monitoring solutions (Critical IoT applications).

MVNO (Mobile Virtual Network Operator): MVNO denotes a business model for mobile communications. In this case, the corresponding business (the MVNO) has either a limited network infrastructure or no network infrastructure at all. It therefore accesses the infrastructure of other mobile communication providers.

Network convergence: Network convergence refers to the dissolution and reconstitution of previously separate networks into one large convergent network, such as in the case of the fixed and mobile networks of Swisscom.

Optical fibre: Optical fibre is a transport medium for optical data transmission – in contrast to copper cables, which transmit data through electrical signals.

OTT (Over the Top): OTT refers to content distributed by service providers over an existing network infrastructure that they do not themselves operate. OTT companies offer proprietary services on the basis of the infrastructures of other companies in order to reach a broad range of users quickly and cost-efficiently.

Petabyte: Unit of measurement for data size. 1 petabyte is equivalent to approximately 1,000 terabytes, 1,000,000 gigabytes or 1,000,000,000 megabytes.

Roaming: Roaming is when a mobile user makes calls, uses other mobile services or participates in data traffic outside his or her home network, i.e. usually abroad. This requires that the mobile device in question is compatible with the roaming network.

Router: A router is a device for connecting or separating several computer networks. The router analyses incoming data packets according to their destination address and either blocks them or forwards them accordingly (routing). Routers come in different types, ranging from large machines in a network to the small devices used by residential customers.

Streaming: Streaming is the transmission of audio and video signals over a network or the Internet without the data having to be stored on a local device.

TDM (Time Division Multiplexing): Multiplexing is a method that allows the simultaneous transmission of multiple signals over a single communications medium (line, cable or radio link), for example, by means of classic telephony (using an ISDN or analogue line). Multiplexing methods are often combined to achieve even higher utilisation. The signals are multiplexed once the user data have been modulated on a carrier signal. At the receiver end the information signal is first demultiplexed and then demodulated. TDM methods are now at the end of their life cycle.

Terabyte: Unit of measurement for data size. 1 terabyte is equivalent to approximately 1,000 gigabytes or 1,000,000 megabytes.

Ultra-fast broadband: Ultra-fast broadband denotes broadband speeds of more than 50 Mbps – on both the fixed-line and mobile networks.

Other terms

ComCo (Competition Commission): ComCo enforces the Federal Cartel Act, the aim of which is to safeguard against the harmful economic or social impact of cartels and other constraints on competition in order to foster competition. ComCo combats harmful cartels and monitors market-dominant companies for signs of anti-competitive conduct. It is responsible for monitoring mergers and also provides opinions on official decrees that affect competition.

ComCom (Federal Communications Commission): ComCom is the decision-making authority for telecommunications. Its primary responsibilities include issuing concessions for use of the radio frequency spectrum as well as basic service licences. It also provides access (unbundling, interconnection, leased lines, etc.), approves national numbering plans and regulates the conditions governing number portability and freedom of choice of service provider.

Federal Office of Communications (OFCOM): OFCOM deals with issues related to telecommunications and broadcasting (radio and television) and performs official and regulatory tasks in these areas. It prepares the decisions of the Swiss Federal Council, the Federal Department of the Environment, Transport, Energy and Communications (DETEC) and the Federal Communications Commission (ComCom).

FTE (full-time equivalent): Throughout this report, FTE is used to denote the number of full-time equivalent positions.

Interconnection: Interconnection means linking up the systems and services of two TSPs so as to enable the logical interaction of the connected telecoms components and services and to provide access to third-party services. Interconnection allows the customer of one provider to communicate with the subscribers of another provider. Under the terms of the Federal Telecommunications Act, market-dominant telecommunications service providers are required to allow their competitors interconnection at cost-based prices.

Unbundling: Unbundling of the last mile (Unbundling of the Local Loop, ULL) enables fixed-line-network competitors without their own access infrastructure to access customers directly at non-discriminatory conditions based on original cost. The prerequisite for ULL is the presence of a market-dominant provider. There are two forms of unbundling: unbundling at the level of the telephone exchange (Unbundling of the Local Loop (ULL) or Local Loop Unbundling (LLU), known as TAL in Switzerland) with currently around 600 unbundled locations; and unbundling at distribution box level (sub-loop unbundling, known as T-TAL in Switzerland), in which no competitor has yet shown any interest.

Five-year review

In CHF million, except where indicated	2016	2017	2018 [1]	2019 [2]	2020
Net revenue and results					
Net revenue	11,643	11,662	11,714	11,453	11,100
Operating income before depreciation and amortisation (EBITDA)	4,293	4,295	4,213	4,358	4,382
EBITDA as % of net revenue	36.9	36.8	36.0	38.1	39.5
Operating income (EBIT)	2,148	2,131	2,069	1,910	1,947
Net income	1,604	1,568	1,521	1,669	1,528
Earnings per share	30.97	30.31	29.48	32.28	29.54
Balance sheet and cash flows					
Equity	6,522	7,645	8,208	8,875	9,491
Equity ratio	30.4	34.7	36.3	36.6	39.1
Cash flow from operating activities	3,722	4,091	3,720	3,981	4,069
Capital expenditure	2,416	2,378	2,404	2,438	2,229
Net debt	7,846	7,447	7,393	6,758	6,218
Employees					
Full-time equivalent employees	21,127	20,506	19,845	19,317	19,062
Average number of full-time equivalent employees	21,543	20,836	20,083	19,561	19,095
Operational data					
Fixed telephony access lines in Switzerland	2,367	2,047	1,788	1,594	1,523
Broadband access lines retail in Switzerland	1,992	2,014	2,033	2,058	2,043
Mobile access lines in Switzerland	6,612	6,637	6,370	6,333	6,224
TV access lines Switzerland	1,418	1,467	1,519	1,555	1,554
Revenue generating units (RGU) Switzerland	12,389	12,165	11,710	11,540	11,344
Unbundled fixed access lines in Switzerland	128	107	87	70	56
Broadband access lines wholesale in Switzerland	364	435	481	515	555
Broadband access lines in Italy	2,355	2,451	2,547	2,637	2,747
Mobile access lines in Italy	676	1,065	1,432	1,746	1,961
Swisscom share					
Number of issued shares	51.802	51.802	51.802	51.802	51.802
Market capitalisation	23,627	26,859	24,331	26,554	24,715
Closing price at end of period	456.10	518.50	469.70	512.60	477.10
Closing price highest	528.50	527.00	530.60	523.40	577.80
Closing price lowest	426.80	429.80	427.00	441.10	446.70
Ordinary dividend per share	22.00	22.00	22.00	22.00	22.00 [3]
Ratio payout/earnings per share	71.04	72.59	74.63	68.16	74.48
Information Switzerland					
Net revenue	9,665	9,476	9,274	8,969	8,614
Operating income before depreciation and amortisation (EBITDA)	3,572	3,451	3,419	3,508	3,522
Capital expenditure	1,774	1,678	1,645	1,770	1,596
Full-time equivalent employees	18,372	17,688	17,147	16,628	16,048

1 Swisscom has been applying IFRS 15 “Revenue from Contracts with Customers” since 1 January 2018. The prior year’s figures have not been adjusted.
2 Swisscom has been applying IFRS 16 “Leases” since 1 January 2019. The prior year’s figures have not been adjusted.
3 In accordance with the proposal of the Board of Directors to the Annual General Meeting.

Forward-looking statements

This Annual Report contains forward-looking statements. In this Annual Report, such forward-looking statements include, without limitation, statements relating to our financial condition, results of operations and business and certain of our strategic plans and objectives.

Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors which are beyond Swisscom's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom's and Fastweb's past and future filings and reports, including those filed with the U.S. Securities and Exchange Commission and in past and future filings, press releases, reports and other information posted on Swisscom Group Companies' websites.

Readers are cautioned not to put undue reliance on forward-looking statements, which speak only of the date of this communication.

Swisscom disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Publishing details

Key dates

- **4 February 2021**
  2020 Annual Results and Annual Report
- **31 March 2021**
  Annual General Meeting Internet broadcast
- **6 April 2021**
  Ex dividend date
- **8 April 2021**
  Dividend payment
- **29 April 2021**
  2021 First-Quarter Results
- **5 August 2021**
  2021 Second-Quarter Results
- **28 October 2021**
  2021 Third-Quarter Results
- **February 2022**
  2021 Annual Results and Annual Report

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