

Further Information

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Financial statements of Swisscom Ltd

General information

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

☉ See www.swisscom.ch/financialstatements2019

Swisscom Ltd is a holding company under Swiss law. As at 31 December 2019, the Swiss Confederation, as majority shareholder, continued to hold 51.0% of the issued shares of Swisscom Ltd as in the prior year. The Telecommunications Enterprises Act (TEA) provides that the Swiss Confederation shall hold the majority of the share capital and voting rights of Swisscom Ltd. The financial statements of Swisscom Ltd have been prepared in accordance with statutory requirements and the Articles of Incorporation. Distributable reserves are not determined on the basis of the equity as reported in the consolidated financial statements but rather on the basis of equity as reported in the separate financial statements of Swisscom Ltd. The equity totalled CHF 6,759 million in the 2019 financial statements of Swisscom Ltd. Under Swiss company law, share capital and that part of the general reserves representing 20% of the share capital may not be distributed. On 31 December 2019, Swisscom Ltd held distributable reserves of CHF 6,697 million. The dividend is proposed by the Board of Directors and must be approved by Swisscom's Annual General Meeting of Shareholders on 6 April 2020. Treasury shares are not entitled to a dividend.

In its opinion, the statutory auditor PricewaterhouseCoopers (PwC) confirms that the financial statements of Swisscom Ltd comply with Swiss law and the company's Articles of Incorporation and that an internal control system exists which has been designed for the preparation of the financial statements according to the instructions of the Board of Directors. PwC further confirms that the proposed appropriation of retained earnings complies with Swiss law and the company's Articles of Incorporation and recommends that the financial statements be approved.

Income statement

In CHF million	2019	2018
Net revenue from the sale of goods and services	209	218
Other income	34	33
Total operating income	243	251
Personnel expense	(63)	(71)
Other operating expense	(85)	(82)
Total operating expenses	(148)	(153)
Operating income	95	98
Financial expense	(104)	(112)
Financial income	87	121
Income from participations	1,324	2,230
Income before taxes	1,402	2,337
Income tax expense	(1)	(13)
Net income	1,401	2,324

Balance sheet

In CHF million	31.12.2019	31.12.2018
Assets		
Cash and cash equivalents	182	306
Accrued dividends receivable from subsidiaries	1,200	2,100
Financial assets	6,078	5,026
Participations	8,194	8,214
Other assets	225	266
Total assets	15,879	15,912
Liabilities and equity		
Interest-bearing liabilities	8,913	8,978
Other liabilities	207	437
Total liabilities	9,120	9,415
Share capital	52	52
Legal capital reserves/capital surplus reserves	21	21
Voluntary retained earnings	6,686	6,424
Total equity	6,759	6,497
Total liabilities and equity	15,879	15,912

Further information

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

At of 31 December 2019, guarantee obligations exist for Group companies in favour of third parties totalling CHF 225 million (prior year: CHF 253 million) and financial assets totalling CHF 107 million (prior year: CHF 108 million) were not freely available. These assets serve to secure commitments arising from bank loans.

Proposed appropriation of retained earnings

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 6 April 2020 that the available retained earnings of CHF 6,685 million for the financial year ending on 31 December 2019, be appropriated as follows:

In CHF million	31.12.2019
Appropriation of retained earnings	
Retained earnings from previous year	6,424
Ordinary dividend	(1,140)
Balance carried forward from prior year	5,284
Net income for the year	1,401
Retained earnings available to the Annual General Meeting	6,685
Ordinary dividend of CHF 22.00 per share	(1,140)
Balance to be carried forward	5,545

In the event that the proposal is approved, a dividend per share will be paid to shareholders on 14 April 2020 as follows:

Per registered share	CHF
Ordinary dividend, gross	22.00
Less 35% withholding tax	(7.70)
Net dividend payable	14.30

Glossary

Technical terms

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

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

5G: 5G is the latest generation in mobile network technology. 5G brings with it even more capacity, very short response times and higher bandwidths, and supports the digitisation of Swiss business and industry.

ADSL (Asymmetric Digital Subscriber Line): A broadband data transmission technology that uses the existing copper telephone cable for broadband access to the data network.

All IP: All IP means that all services such as television, the Internet and fixed-line phone run over the same IT network. Swisscom switched all existing communication networks to Internet Protocol (IP) by the end of 2019. The IP services within Switzerland thus operate on Swisscom's own network, thereby enhancing security and availability in comparison with other voice services on the World Wide Web.

Bandwidth: Bandwidth refers to the transmission capacity of a medium, also known as the data transmission rate. The higher the bandwidth, the more information units (bits) can be transmitted per unit of time (second). It is defined in bps, kbps or Mbps.

Cloud: Cloud computing makes it possible for IT infrastructures such as computing capacity, data storage, ready-to-use software and platforms to be accessed dynamically via the Internet as needed. The data centres, along with the resources and databases, are distributed via the cloud. The term "cloud" refers to such hardware which is not precisely locatable.

DSL (Digital Subscriber Line): DSL is the generic term for transmission technologies using subscriber lines that are made partly or completely of copper. Examples of DSL technologies: ADSL or VDSL.

EDGE (Enhanced Data Rates for GSM Evolution): EDGE is part of the second generation of mobile telephony and is a radio modulation technology used to enhance data transmission speeds in GSM mobile networks. It enables data transmission speeds of up to 256 kbps. EDGE is currently available to over 99% of the Swiss population. Swisscom plans to decommission second-generation mobile communications at the end of 2020 and use the frequencies for new, more efficient technologies.

FTTH (Fibre to the Home): FTTH refers to the end-to-end connection of homes and businesses using fibre-optic cables instead of traditional copper cables.

FTTS (Fibre to the Street)/FTTB (Fibre to the Building)/FTTC (Fibre to the Curb): FTTS, FTTB and FTTC in conjunction with vectoring refer to innovative, hybrid broadband connection technologies (optical fibre and copper). With these technologies, optical fibre is brought as near as possible to buildings and in the case of FTTB right to the building's basement; the existing copper cables are used for the remaining stretch. The future technological evolution from VDSL2 to G.fast will significantly increase the bandwidths for FTTS and FTTB.

G.fast (pronounced "gee dot fast"): G.fast, the latest technology for copper lines, is capable of providing far more bandwidth than VDSL2. The use of G.fast for FTTS and FTTB is part of Swisscom's access strategy.

Optical fibre: Optical fibre is a transport medium for optical data transmission – in contrast to copper cables, which transmit data through electrical signals.

GPRS (General Packet Radio Service): GPRS is a second-generation (2G) mobile technology that increases the transmission speeds in GSM mobile communications networks. GPRS enables speeds of 30 to 40 kbps. Swisscom plans to decommission 2G at the end of 2020 and use the frequencies for new, more efficient technologies.

GSM (Global System for Mobile communications) network: GSM is a global digital mobile communication standard of the second mobile generation (2G). In addition to voice and data transmission, it enables services

such as SMS messages and phone calls to other countries and from abroad (international roaming). Swisscom plans to decommission 2G at the end of 2020 and use the frequencies for new, more efficient technologies.

Housing: Housing refers to the accommodation of server infrastructure, and network connections, in a data centre.

HSPA (High Speed Packet Access): HSPA is a further development of the third-generation mobile technology (3G) of the UMTS mobile communication standard. Compared to UMTS, HSPA enables large volumes of data to be transmitted at faster speeds. Currently, the highest transmission rate of HSPA in use is 21 Mbps.

ICT (Information and Communication Technology): The terms “information technology” and “communication technology” were first combined in the 1980s to denote the convergence of information technology (information and data processing and the related hardware) and communication technology (technically aided communications).

Inbound/Outbound (see Roaming)

IoT (Internet of Things): The connecting of things, devices and machines to enable recording of status and environmental data. These data provide the basis for optimising processes, such as early identification of failing machine components. IoT facilitates new business models based on these data or opens up new opportunities for interacting with customers.

IP (Internet Protocol): IP enables different types of services to be integrated on a single network. Typical applications are virtual private networks (VPN), telephony (Voice over IP) and fax (Fax over IP).

IPTV (Internet Protocol Television): IPTV refers to the digital broadcasting of broadband applications (for example, television programmes and films) over an IP network.

ISP (Internet Service Provider): An ISP is a provider of Internet-based services, also commonly referred to as an Internet Service Provider or Internet Provider. Services include Internet connection (using DSL, for example), hosting (registration and operation of Internet addresses, websites and web servers) and content provision.

Connectivity: Connectivity is the generic term used to denote IP services or the connection to the Internet and the ability to exchange data with any partner on the network.

Convergence: In the telecommunications sector, “convergence” normally refers to an interaction of mobile communication and fixed-network technologies or to products that encompass both mobile communication and fixed-network services.

LAN (Local Area Network): A LAN is a local network for interconnecting computers, usually based on Ethernet.

LTE-M: LTE-M is a connection technology for the Internet of Things (IoT). It dispenses with some of the features of LTE to increase efficiency and reduce complexity and costs. It enables all conventional IoT applications and – in contrast to Narrowband IoT (NB-IoT) – allows voice transmission (e.g. in lift telephones). LTE-M is particularly suitable for quality-sensitive applications such as security and monitoring solutions (Critical IoT applications).

MVNO (Mobile Virtual Network Operator): MVNO denotes a business model for mobile communications. In this case, the corresponding business (the MVNO) has either a limited network infrastructure or no network infrastructure at all. It therefore accesses the infrastructure of other mobile communication providers.

NB-IoT (Narrowband IoT): NB-IoT is a connection technology for the Internet of Things (IoT). It is designed for maximum range, minimum energy consumption and a high density of devices, but dispenses with some of the features of LTE. NB-IoT is mainly used for mass market applications such as electricity and water meters or monitoring sensors (Massive IoT applications).

Net Promoter Score (NPS): The NPS is an indicator that directly measures the likelihood of customer referrals and indirectly measures customer satisfaction. It is used as an analysis instrument when determining customer satisfaction levels.

Network convergence: Network convergence refers to the dissolution and reconstitution of previously separate networks to one large convergent network, such as in the case of the fixed and mobile networks of Swisscom.

OTT (Over the Top): OTT refers to content distributed by service providers over an existing network infrastructure that they do not themselves operate. OTT companies offer proprietary services on the basis of the infrastructures of other companies in order to reach a broad range of users quickly and cost-efficiently.

Petabyte: Unit of measurement for data size. 1 petabyte is equivalent to approximately 1,000 terabytes, 1,000,000 gigabytes or 1,000,000,000 megabytes.

PWLAN (Public Wireless Local Area Network): PWLAN denotes a wireless, local public network based on the IEEE 802.11 WiFi standard family. A PWLAN typically offers data transmission speeds of between 5 and 10 Mbps.

Roaming: Roaming is when a mobile user makes calls, uses other mobile services or participates in data traffic outside his or her home network, i.e. usually abroad. This requires that the mobile device in question is compatible with the roaming network. In Europe all GSM networks use the same frequency bands. Other countries such as the USA or countries in South America use a different frequency range. Most mobile telephones today are triband or quadband and support 900 MHz and 1800 MHz networks (which are most commonly used in Europe) as well as 850 MHz and 1900 MHz networks.

Router: A router is a device for connecting or separating several computer networks. The router analyses incoming data packets according to their destination address and either blocks them or forwards them accordingly (routing). Routers come in different types, ranging from large machines in a network to the small devices used by residential customers.

Smart data: Primarily refers to the processing and understanding of large, complex and rapidly changing data volumes with the aim of creating added value.

Streaming: Streaming is the transmission of audio and video signals over a network or the Internet without the data having to be stored on a local device.

TDM (Time Division Multiplexing): Multiplexing is a method that allows the simultaneous transmission of multiple signals over a single communications medium (line, cable or radio link), for example, by means of classic telephony (using an ISDN or analogue line). Multiplexing methods are often combined to achieve even higher utilisation. The signals are multiplexed once the user data have been modulated on a carrier signal. At the receiver end the information signal is first demultiplexed and then demodulated. TDM methods are now at the end of their life cycle.

Terabyte: Unit of measurement for data size. 1 terabyte is equivalent to approximately 1,000 gigabytes or 1,000,000 megabytes.

TIME: Acronym for Telecommunication, Information, Multimedia and Entertainment. It refers to the way in which these areas grow together in the course of digitisation.

Ultra-fast broadband: Ultra-fast broadband denotes broadband speeds of more than 50 Mbps – on both the fixed-line and mobile networks.

Other terms

UMTS (Universal Mobile Telecommunications System): UMTS is an international third-generation (3G) mobile communications standard that combines mobile multimedia and telematic services. UMTS is a further development of GSM and supplies Switzerland as a complement to 4G, 5G and Public Wireless LAN.

Vectoring: Vectoring is a technology used in conjunction with VDSL2. It eliminates interference between copper wire pairs, technically allowing bandwidths to be increased by up to 100%.

VDSL (Very High Speed Digital Subscriber Line): VDSL is currently the fastest DSL technology, allowing data transmission speeds of up to 100 Mbps. The current form of VDSL is called VDSL2.

VoIP (Voice over Internet Protocol): VoIP is used to set up telephone connections via the Internet.

VoLTE (Voice over LTE): LTE is, in effect, a pure data network. VoLTE enables telephone calls over the LTE data network.

WiFi Calling: WiFi Calling makes it possible to make calls on a mobile phone via WLAN/WiFi. It thereby greatly improves mobile phone calls in buildings.

WLAN (Wireless Local Area Network): A wireless local area network (WLAN) connects several computers wirelessly and links them to a central information system, printer or scanner.

Federal Office of Communications (OFCOM): OFCOM deals with issues related to telecommunications and broadcasting (radio and television) and performs official and regulatory tasks in these areas. It prepares the decisions of the Swiss Federal Council, the Federal Department of the Environment, Transport, Energy and Communications (DETEC) and the Federal Communications Commission (ComCom).

Bitstream access (BSA): Regulated bitstream access is a high-speed link that travels the last mile from the local exchange to the customer's home connection via a metallic pair cable. BSA is set up by Swisscom and is provided to other telecoms service providers (TSP) as an upstream service at a price regulated by the government. TSPs can use this link, for example, to offer their customers broadband services such as fast Internet access.

ComCom (Federal Communications Commission): ComCom is the decision-making authority for telecommunications. Its primary responsibilities include issuing concessions for use of the radio frequency spectrum as well as basic service licences. It also provides access (unbundling, interconnection, leased lines, etc.), approves national numbering plans and regulates the conditions governing number portability and freedom of choice of service provider.

Unbundling: Unbundling of the last mile (Unbundling of the Local Loop, ULL) enables fixed-line-network competitors without their own access infrastructure to access customers directly at non-discriminatory conditions based on original cost. The prerequisite for ULL is the presence of a market-dominant provider. There are two forms of unbundling: unbundling at the level of the telephone exchange (Unbundling of the Local Loop (ULL) or Local Loop Unbundling (LLU), known as TAL in Switzerland) with currently around 600 unbundled locations; and unbundling at distribution box level (sub-loop unbundling, known as T-TAL in Switzerland), in which no competitor has yet shown any interest.

Ex-ante: In an ex-ante approach to regulation, the particulars of the regulated offerings (commercial, technical and operating conditions) must be approved by a government authority (authorisation obligation). Then, when a regulated service is used, the parties have to adhere to the conditions approved by the government authority (e.g. pricing). The suppliers affected have legal remedies at their disposal for reviewing the correctness of the government-authorised pricing.

Ex-post: In an ex-post approach to regulation, the parties must agree on all possible aspects of the contractual content (primacy of negotiation). In the event of a dispute, the authorities decide only on the points on which the parties have been unable to agree (objection principle).

Full access: Full access in connection with unbundling means providing alternative telecommunications service providers with access to subscriber lines for the purpose of using the entire frequency spectrum of metallic pair cables.

Hubbing: Hubbing denotes the trading of telephone traffic with other telecommunication operators.

Interconnection: Interconnection means linking up the systems and services of two TSPs so as to enable the logical interaction of the connected telecoms components and services and to provide access to third-party services. Interconnection allows the customer of one provider to communicate with the subscribers of another provider. Under the terms of the Federal Telecommunications Act, market-dominant telecommunications service providers are required to allow their competitors interconnection at cost-based prices (see also LRIC).

Last mile: Also referred to as the “local loop”, the “last mile” denotes the subscriber access line between the subscriber access point and the local exchange. In Switzerland, as in most other countries, access to the last mile is regulated.

FTE (full-time equivalent): Throughout this report, FTE is used to denote the number of full-time equivalent positions.

ComCo (Competition Commission): ComCo enforces the Federal Cartel Act, the aim of which is to safeguard against the harmful economic or social impact of cartels and other constraints on competition in order to foster competition. ComCo combats harmful cartels and monitors market-dominant companies for signs of anti-competitive conduct. It is responsible for monitoring mergers and also provides opinions on official decrees that affect competition.

Swisscom Group five-year review

In CHF million, except where indicated	2015	2016	2017	2018 ¹	2019 ²
Net revenue and results					
Net revenue	11,678	11,643	11,662	11,714	11,453
Operating income before depreciation and amortisation (EBITDA)	4,098	4,293	4,295	4,213	4,358
EBITDA as % of net revenue	35.1	36.9	36.8	36.0	38.1
Operating income (EBIT)	2,012	2,148	2,131	2,069	1,910
Net income	1,362	1,604	1,568	1,521	1,669
Earnings per share	26.27	30.97	30.31	29.48	32.28
Balance sheet and cash flows					
Equity	5,242	6,522	7,645	8,208	8,875
Equity ratio	24.8	30.4	34.7	36.3	36.6
Cash flow from operating activities	3,702	3,722	4,091	3,720	3,981
Capital expenditure	2,409	2,416	2,378	2,404	2,438
Net debt incl. lease liabilities	8,042	7,846	7,447	7,393	8,785
Employees					
Full-time equivalent employees at end of year	21,637	21,127	20,506	19,845	19,317
Average number of full-time equivalent employees	21,546	21,543	20,836	20,083	19,561
Operational data					
Fixed telephony access lines in Switzerland	2,629	2,367	2,047	1,788	1,594
Broadband access lines retail in Switzerland	1,958	1,992	2,014	2,033	2,033
Mobile access lines in Switzerland	6,625	6,612	6,637	6,370	6,333
Swisscom TV access lines in Switzerland	1,331	1,418	1,467	1,519	1,555
Revenue generating units (RGU) Switzerland	12,543	12,389	12,165	11,710	11,515
Unbundled fixed access lines in Switzerland	128	128	107	87	70
Broadband access lines wholesale in Switzerland	315	364	435	481	515
Broadband access lines in Italy	2,201	2,355	2,451	2,547	2,637
Swisscom share					
Number of issued shares	51.802	51.802	51.802	51.802	51.802
Market capitalisation	26,056	23,627	26,859	24,331	26,553
Closing price at end of period	503.00	456.10	518.50	469.70	512.60
Closing price highest	580.50	528.50	527.00	530.60	523.40
Closing price lowest	471.10	426.80	429.80	427.00	441.10
Ordinary dividend per share	22.00	22.00	22.00	22.00	22.00 ³
Ratio payout/earnings per share	83.75	71.04	72.59	74.63	68.16
Information Switzerland					
Net revenue	9,764	9,665	9,476	9,274	8,969
Operating income before depreciation and amortisation (EBITDA)	3,461	3,572	3,451	3,419	3,508
Capital expenditure	1,822	1,774	1,678	1,645	1,770
Full-time equivalent employees at end of year	18,965	18,372	17,688	17,147	16,628

1 Swisscom has been applying IFRS 15 "Revenue from Contracts with Customers" since 1 January 2018. The prior year's figures have not been adjusted.

2 Swisscom has been applying IFRS 16 "Leases" since 1 January 2019. The prior year's figures have not been adjusted.

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

Forward-looking statements

This Annual Report contains forward-looking statements. In this Annual Report, such forward-looking statements include, without limitation, statements relating to our financial condition, results of operations and business and certain of our strategic plans and objectives.

Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors which are beyond Swisscom's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom's and Fastweb's past and future filings and reports, including those filed with the U.S. Securities and Exchange Commission and in past and future filings, press releases, reports and other information posted on Swisscom Group Companies' websites.

Readers are cautioned not to put undue reliance on forward-looking statements, which speak only of the date of this communication.

Swisscom disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise.