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

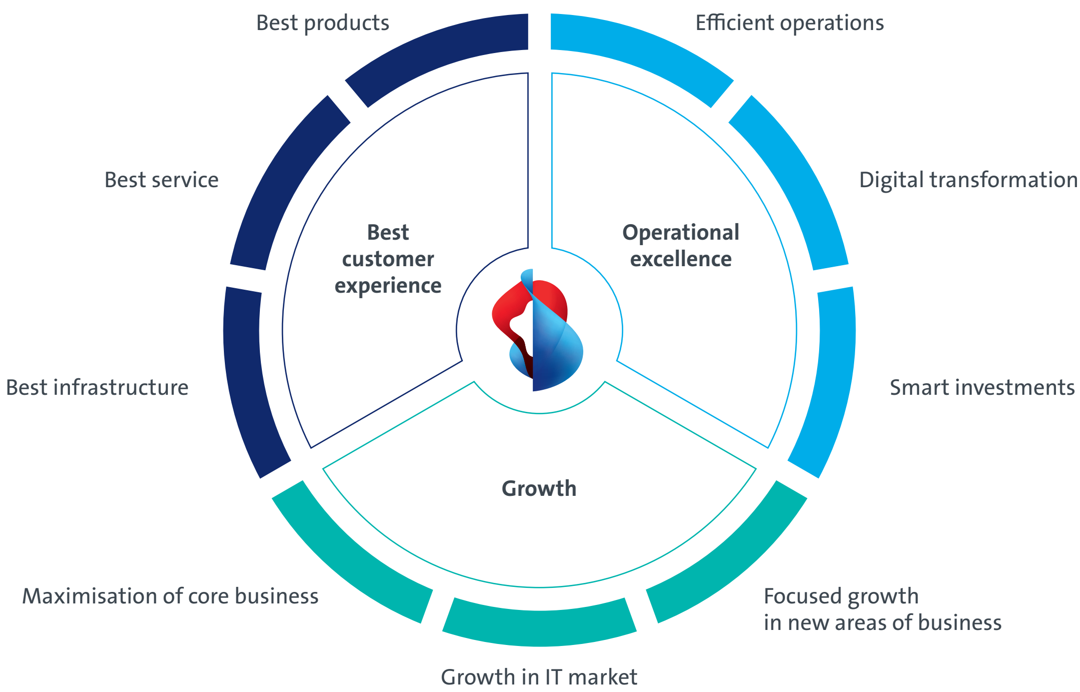
Swisscom is Switzerland's largest telecom provider and through its subsidiary Fastweb it has an alternative telecom service provider in the Italian market.

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.

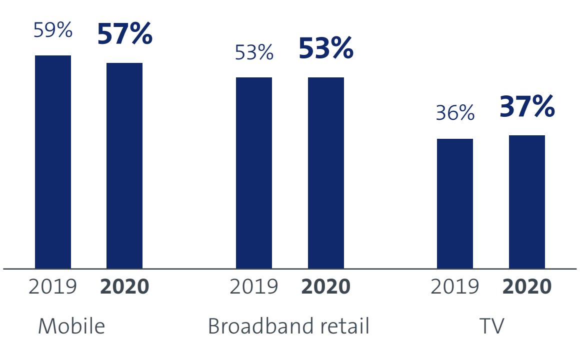
Swiss market trends in telecoms and IT services

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.

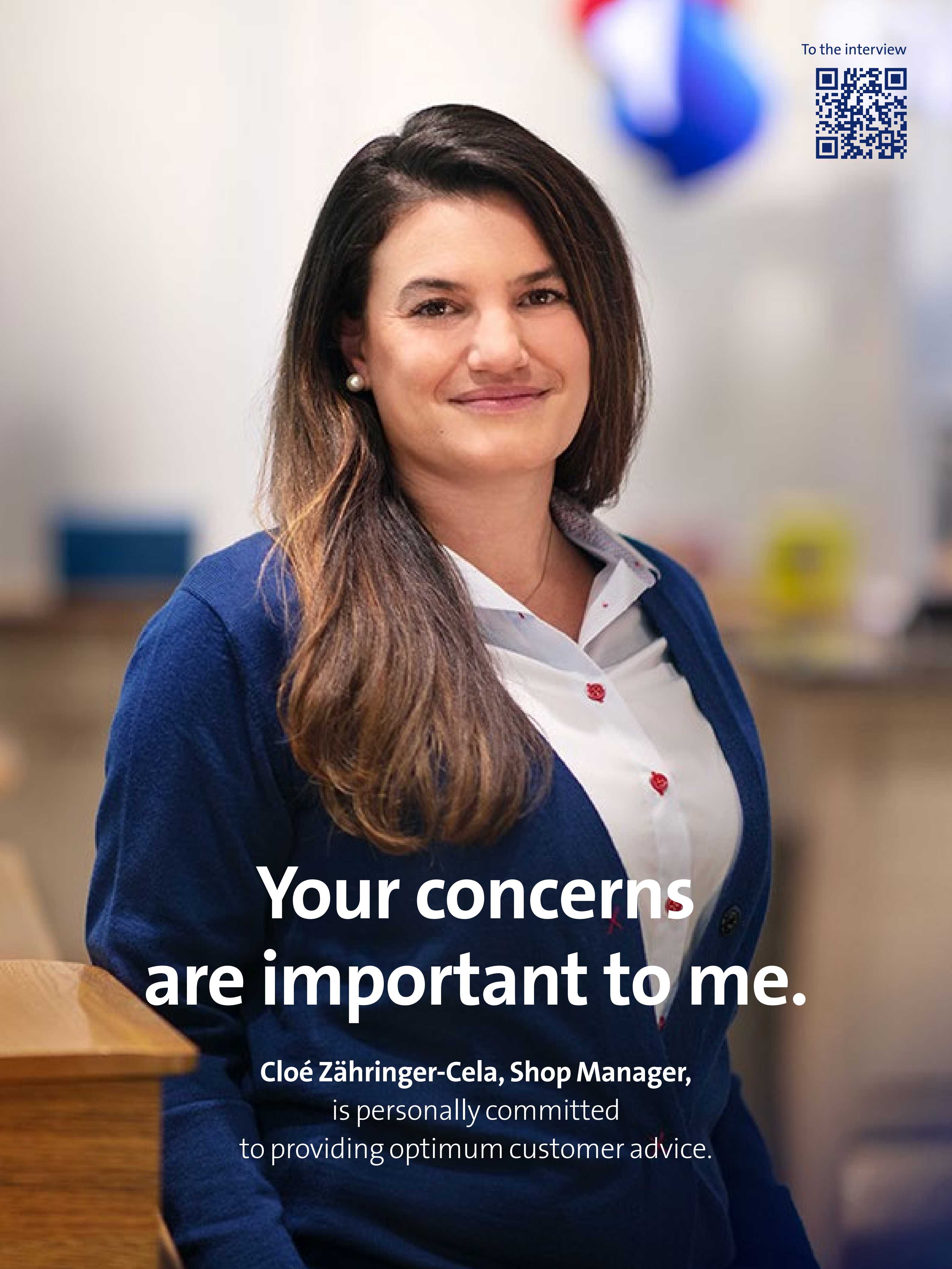
Data protection within Swisscom is controlled and monitored by a central data governance unit, which works closely with all the relevant divisions and other staff units. In order to ensure adequate data governance, the responsible unit issued several directives and information sheets in the year under 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.

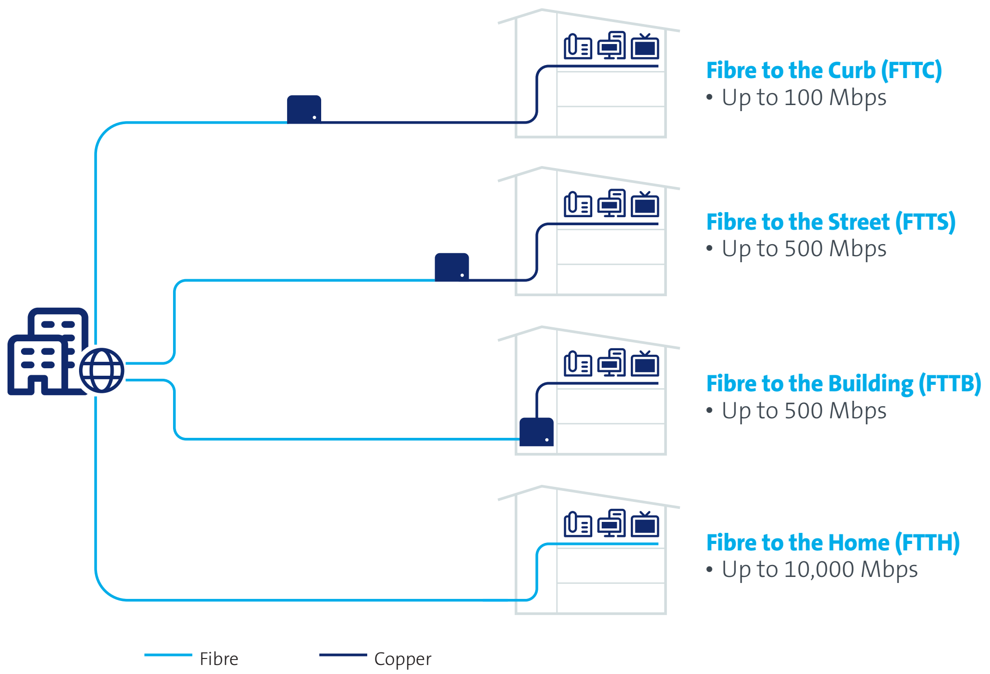
Leading international position thanks to constant expansion

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.

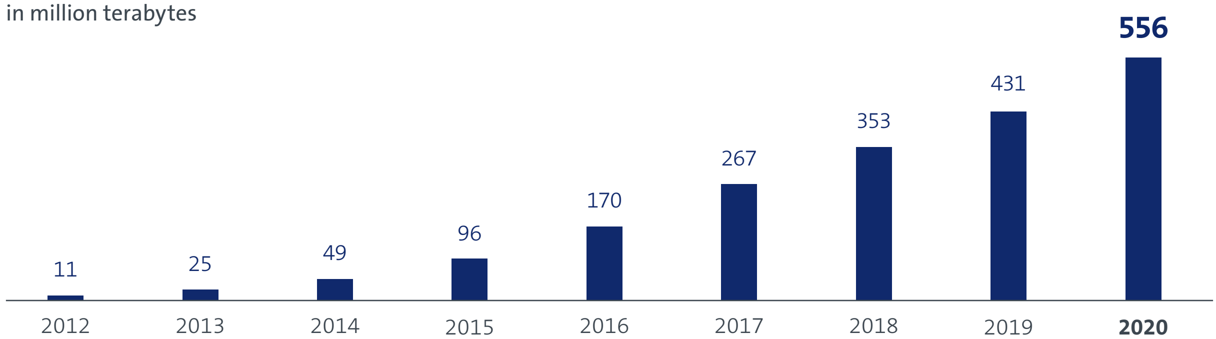
Customer demand for data in the mobile network continues to rise: in the year under review, it grew by 29% year on year. For this reason, and owing to the stringent legal framework conditions that apply, the mobile network has to be expanded by the addition of new mobile telephony sites. Progress continues 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.

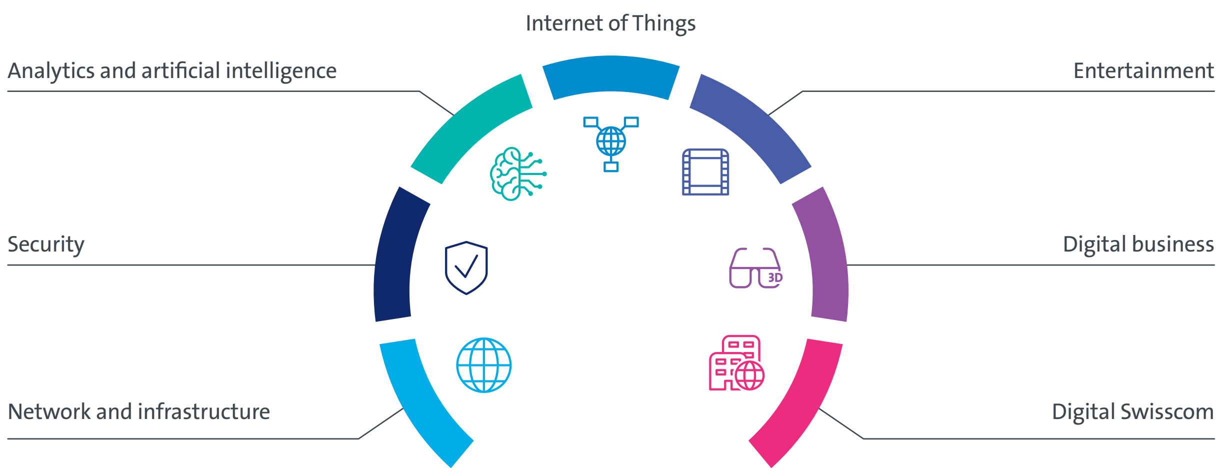
Swisscom Outposts in Silicon Valley and Shanghai conduct technology scouting and transfers for Swisscom. Swisscom Ventures networks start-ups with Swisscom's business units in order to stimulate innovation. Investments in over 65 new companies since 2007 have already helped to create more than 1,000 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.

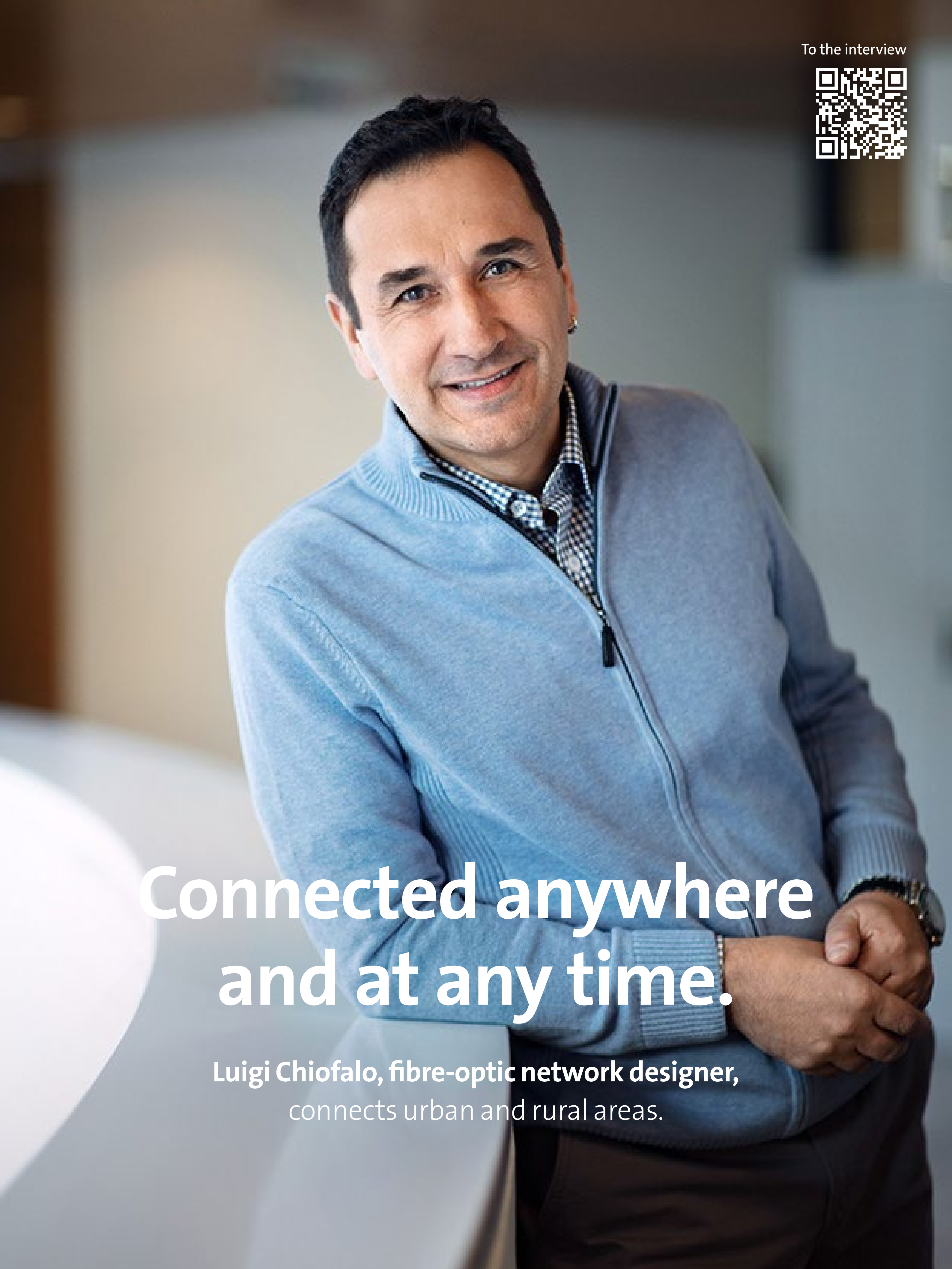
Intelligent automobile networking

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

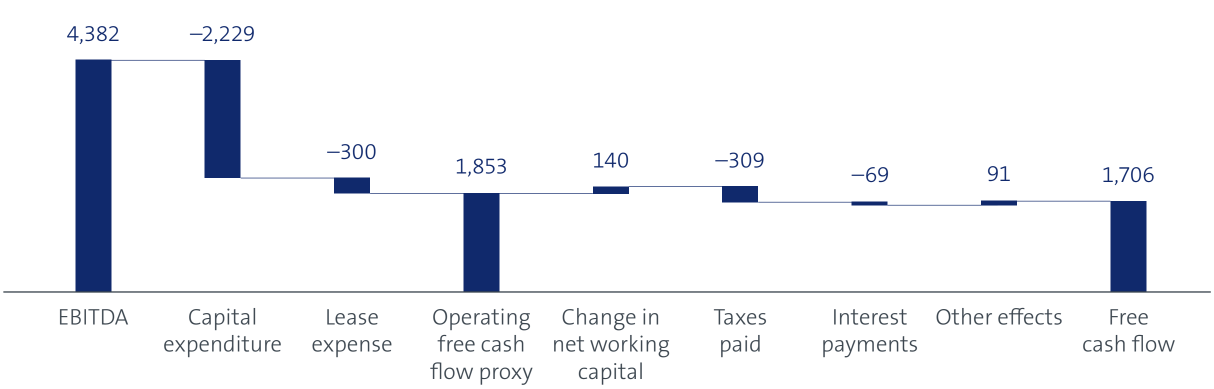
In CHF million	2020	2019	Change
Operating income before depreciation and amortisation (EBITDA)	4,382	4,358	24
Lease expense	(300)	(294)	(6)
EBITDA after lease expense (EBITDA AL)	**4,082**	**4,064**	**18**
Capital expenditure	(2,229)	(2,438)	209
Operating free cash flow proxy	**1,853**	**1,626**	**227**
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

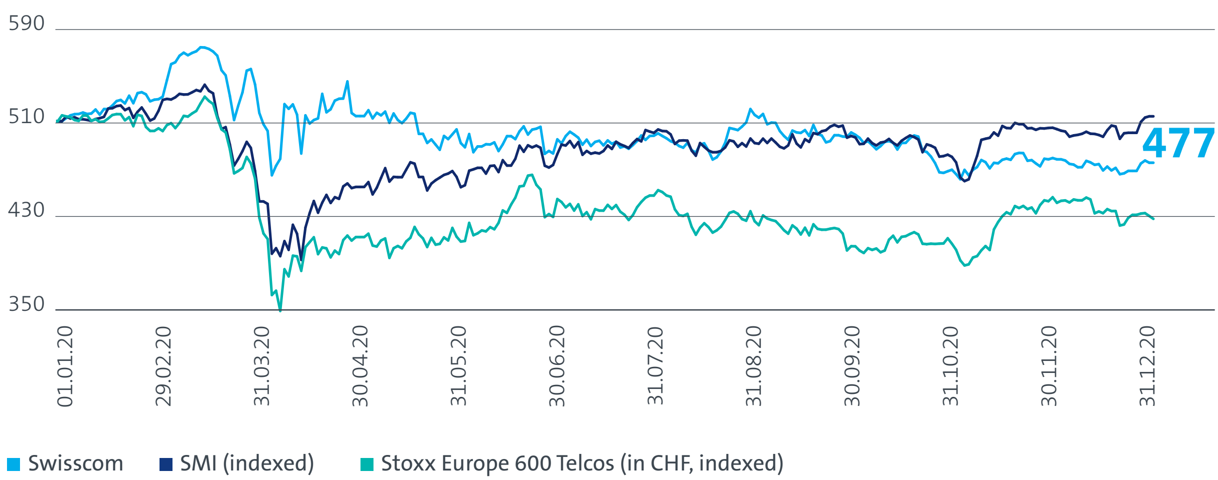
By consistently implementing its strategy, Swisscom has achieved its financial ambitions for 2020, which will enable it to create added value for shareholders once again this year. With ratings of A (stable) from Standard & Poor's and A2 (stable) from Moody's, Swisscom is one of the best-rated telecommunications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