Annual Report 2018

Annual Report publications

The Annual Report, Sustainability Report and 2018 at a glance together make up Swisscom's reporting on 2018. The three publications are available online at: **swisscom.ch/report2018**

"Inspiring people" concept

The networked world offers countless opportunities that we can begin to shape today. Top quality, groundbreaking innovation, deep-rooted commitment – we feel lucky to be able to inspire people and to lead them to embrace the opportunities that a networked future offers.

The images used in our reporting show how and where we inspired people in 2018: from high in the Alps to people's homes, in business and in our Swisscom Shops.

A big thank-you to all who took the time to pose for these photographs: Pius and Jeanette Jöhl with their kids at the Oberchäseren alp, a houseshare with friends in Zurich (Seraina Cadonau, Anna Spiess, Linard Baer and Johannes Schutz), Ypsomed AG in Burgdorf, Stefan Mauron, our customer Jeannette Furter, and the entire crew at House of Swisscom in Basel.

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2018 in review

Net revenue	EBITDA	Net income	Capital expenditure
11.7	4.2	1.5	2.4
billion CHF	billion CHF	billion CHF	billion CHF

Employees (full-time equivalents)	Net debt to EBITDA ratio	Equity ratio	Dividend per share
19,845	1.8	36.3	22
		%	CHF

Patrouille des Glaciers

Watch it live

For the first time, Patrouille des Glaciers will be broadcast live across Switzerland via Swisscom TV. The patrols will also be tracked in real time through the low power network.

inOne

Included in the **package**

Expanded inOne offering: devices with their own SIM card plus extra roaming, services and speed can be added easily and at little cost.

Prepaid

Simple

"SimplyMobile" ("Coop Mobile" as of 9 January 2019) is now available in a prepaid version. Unused data and call minutes can simply be rolled over to the next month.

Swisscom TV

Exclusive

Swisscom TV is the exclusive broadcaster of all 2018/2019 UEFA Champions League and UEFA Europa League matches via Teleclub.

Data packages

Roaming

Swisscom has consistently reduced roaming charges for nearly all data packets abroad by between 20% and 50%.

Internet

Guard

Internet Guard, which is free of charge, offers Swisscom customers even better protection online.

Awards

No. 1

Swisscom took the top spot in several tests and rankings in 2018:

- Service test of industry magazine PCtipp, for the fifth time running.
- Hotline test of industry magazine connect, for the third time running.
- Overall winner in the CHIP mobile network test.
- Speed test of Ookla for the fastest mobile network.
- Our mobile network was declared the best in Switzerland in the mobile network test carried out by connect.

Swisscom share

20 years

Swisscom was first listed on the stock exchange on 5 October 1998. The Swisscom share offers an average annual return of 5%.

Network expansion

Ultra-fast broadband

Half-way point reached in the Swiss-wide expansion effort – the 1,111th municipality was added to the ultra-fast broadband network.

Fastweb

Italy

Fastweb acquires 5G spectrum and fixed wireless business of Tiscali.

Mobile telephony

5G

At the end of 2018, pilot 5G networks were in operation in seven Swiss cities.

Digitisation

240

Swisscom is digitising 240 alpine cabins and helping alpine associations finance the necessary power supply solutions.

House of Swisscom

Future

Opening of the House of Swisscom in Basel: next-generation advice, service and shopping.

Business customers

Cloud

The cloud is flying higher as ten new customers join the cloud and new public cloud services are offered.

KPIs of Swisscom Group

In CHF million, except where indicated		2018	2017	Change
Net revenue and results				
Net revenue [1]		11,714	11,662	0.4%
Operating income before depreciation and amortisation (EBITDA) [1,2]		4,213	4,295	–1.9%
EBITDA as % of net revenue	%	36.0	36.8	
Operating income (EBIT) [3]		2,069	2,131	–2.9%
Net income		1,521	1,568	–3.0%
Earnings per share	CHF	29.48	30.31	–2.7%
Balance sheet and cash flows				
Equity at end of year		8,208	7,645	7.4%
Equity ratio at end of year	%	36.3	34.7	
Operating free cash flow [4]		1,745	2,159	–19.2%
Capital expenditure in property, plant and equipment and intangible assets		2,404	2,378	1.1%
Net debt at end of period [5]		7,393	7,447	–0.7%
Operational data at end of period				
Fixed telephony access lines in Switzerland	in thousand	1,788	2,047	–12.7%
Broadband access lines retail in Switzerland	in thousand	2,033	2,014	0.9%
Swisscom TV access lines in Switzerland	in thousand	1,519	1,467	3.5%
Mobile access lines in Switzerland	in thousand	6,551	6,637	–1.3%
Revenue generating units (RGU) Switzerland [6]	in thousand	11,891	12,165	–2.3%
Unbundled fixed access lines in Switzerland	in thousand	87	107	–18.7%
Broadband access lines wholesale in Switzerland	in thousand	481	435	10.6%
Broadband access lines in Italy	in thousand	2,547	2,451	3.9%
Mobile access lines in Italy	in thousand	1,432	1,065	34.5%
Swisscom share				
Number of issued shares	in thousand	51,802	51,802	–
Market capitalisation at end of year		24,331	26,859	–9.4%
Closing price at end of period	CHF	469.70	518.50	–9.4%
Closing price highest	CHF	530.60	527.00	
Closing price lowest	CHF	427.00	429.80	
Dividend per share	CHF	22.00	22.00	–
Employees				
Full-time equivalent employees at end of year	number	19,845	20,506	–3.2%
Average number of full-time equivalent employees	number	20,083	20,836	–3.6%

1 Swisscom has applied IFRS 15 “Revenue from Contracts with Customers” since 1 January 2018. The prior year’s figures have not been adjusted. If IFRS 15 had not been applied, net revenue in 2018 would be CHF 5 million lower and EBITDA CHF 43 million higher.
2 Definition operating income before depreciation and amortization (EBITDA): operating income before depreciation and amortization, gain on sale of subsidiaries, net financial result, result of equity-accounted investees and income tax expense.
3 Definition operating income (EBIT): operating income before gain on sale of subsidiaries, net financial result, result of equity-accounted investees and income tax expense.
4 Definition operating free cash flow: operating income before depreciation and amortisation (EBITDA), change in operating assets and liabilities (excluding cash and cash equivalents) less net capital expenditure in tangible and intangible assets and dividends paid to non-controlling interests.
5 Definition net debt: financial liabilities less cash and cash equivalents, current financial assets as well as non-current fixed interest-bearing certificates of deposit and derivative financial instruments for financing received.
6 Definition revenue generating units (RGU) in Switzerland: fixed telephony access lines, broadband access lines retail, Swisscom TV access lines and mobile access lines.

Business overview

Swisscom Switzerland

Residential Customers
The Residential Customers division offers mobile and fixed-line services.
These include telephony, broadband, TV and mobile offerings as well as ICT solutions for SMEs.

Enterprise Customers
Whether voice or data, mobile or fixed-line, individual products or integrated solutions: Enterprise Customers designs, implements and operates entire ICT infrastructures for corporate customers.

IT, Network & Infrastructure
The division plans, operates and maintains the network and IT infrastructures in Switzerland.

Wholesale
The Wholesale segment provides other telecommunication service providers with access to the Swisscom fixed and mobile networks.

Fastweb

Fastweb is one of the largest providers of broadband services in Italy. Its product portfolio comprises voice, data, broadband and TV services as well as video-on-demand for residential and business customers. In addition, Fastweb offers mobile phone services on the basis of an MVNO contract (as a virtual network operator). It also provides comprehensive network services and customised solutions for corporate customers.

Other Operating Segments

With subsidiaries in the areas of network construction and maintenance (cablex), broadcasting services (Swisscom Broadcast) and collection (Billag, until end of 2018), Swisscom complements its core business in related areas. The new Digital Business unit is focused on growth areas in the fields of Internet services and digital business models and also encompasses business with online directories and telephone directories (localsearch).

	Swisscom Switzerland	Fastweb	Other Operating Segments
Revenue	CHF 8.8 bn	CHF 2.4 bn	CHF 0.9 bn
EBITDA	CHF 3.4 bn	CHF 0.8 bn	CHF 0.2 bn

Good performance – solid results

Dear Shareholders

20 years of Swisscom – 20 years of pioneering work and investment in reliable infrastructure to support the Swiss business community. In 2018, we celebrated our 20-year anniversary as a public limited and listed company. During this anniversary year, Swisscom continued to hold its ground in an extremely challenging environment and achieved its financial targets. An impressive market performance permitted Swisscom to generate revenue that was practically on a par with the previous year. Fastweb posted another pleasing performance, growing its revenue and expanding its customer base.

Targets achieved thanks to innovation and capital expenditure

An increasingly saturated market, pressure on prices and costs and fierce competition in its core business are all having an impact on Swisscom's operations and activities. Despite this, Swisscom generated revenue and earnings in 2018 that were in line with the previous year. Net revenue was stable at CHF 11,714 million, while consolidated operating income before depreciation and amortisation (EBITDA) declined by 1.9% to CHF 4,213 million. Net income also virtually remained on par with the previous year at CHF 1,521 million.

Revenue in the Swiss core business fell by 2.7% to CHF 8,817 million, mainly due to discounts on bundled offerings and price pressure in the corporate business segment. In addition, more and more customers are opting out of a separate fixed line for telephony, with the number of connections falling by 259,000 year-on-year to 1.79 million. There are also signs of market saturation in mobile telephony, as the number of mobile lines fell year-on-year by 1.3% to 6.55 million. Despite the fiercely contested market, Swisscom managed to keep its market share in mobile telephony stable at 60% and even increased its market share in television to 35% (prior year: 33%). The number of TV connections rose by 3.5% to 1.52 million, helping Swisscom TV remain by far Switzerland's most popular digital TV offering.

In 2018, we again updated the range of channels and apps available on Swisscom TV while simplifying the user interface. In the summer of 2018, Swisscom TV customers were the only viewers in the country able to watch the FIFA World Cup in UHD (ultra-high definition). For the 2018/2019 football season onwards, Swisscom subsidiary Teleclub acquired the transmission rights to the UEFA Champions League and the UEFA Europa League, becoming the only Swiss broadcaster to broadcast all matches live. Thanks in part to Swisscom TV, broadband connections were up by 19,000 (+0.9%) to 2.03 million year-on-year.

In the business customers segment, we have a strong position as a full-service provider, our offerings fill customers' needs and customer satisfaction is high. This is reflected in the successful business transactions concluded with corporate customers. The demand for cloud services, IT outsourcing and security solutions also continued to develop positively.

inOne: over 2.3 million customers

We are also extremely successful in the market with our new combined package inOne, which was launched in 2017: More than half of our residential customers rely on this offering. inOne enables a flexible combination of mobile, broadband, TV and fixed-line telephony products. In the year under review it was expanded further. Our customers benefit from faster surfing and can add devices such as tablets, laptops, smart watches and GPS trackers to their existing contract cheaply, quickly and easily. Over 2.3 million customers with around 4.6 million connections have already opted for inOne.

Fastweb: strong growth in mobile telephony

Fastweb is performing well. Net revenue increased by 8.2% year-on-year to EUR 2,104 million. In spite of difficult market conditions, Fastweb's broadband customer base grew by 3.9% to 2.55 million in 2018. It also made strides in mobile telephony, with connections up by 34.5% to 1.43 million customers in a stagnating market. In the fiercely competitive market for corporate customers, Fastweb consolidated its market share at 31%.

Capital expenditure: Switzerland is world class

According to the OECD, no other country in the world invests as much per capita in its telecommunications infrastructure than Switzerland, – and within Switzerland, no other company in the sector invests in infrastructure as much as Swisscom does. In 2018, Group-wide capital expenditure rose slightly (+1.1%) to CHF 2,404 million. Swisscom invested 20.5% of net revenue (previous year: 20.4%) in infrastructure, with Switzerland accounting for 68.4% of capital expenditure (CHF 1,645 million). These investments are paying off: the trade magazines CHIP and connect have both named Swisscom as having the best network in Switzerland. We won the connect mobile network test for the ninth time and can continue to use the "outstanding" rating in 2019.

Half-way point reached in expansion of ultra-fast broadband
By the end of 2018, Swisscom had connected about 4.2 million homes and businesses to its ultra-fast broadband service (speeds in excess of 50 Mbps). Some 2.9 million homes and offices benefit from connections with bandwidths of more than 100 Mbps. The 1,111th municipality was added to the ultra-fast broadband network, meaning the half-way point has been reached in the expansion effort. Swisscom intends to make fibre-optic technology available in every Swiss municipality by the end of 2021 and thus give even remote locations access to ultra-fast broadband.

> "More than half of our residential subscribers put their trust in inOne."

Regulatory environment remains challenging
The rollout of 5G will be more difficult following the close decision by the Council of States against relaxing ONIR limits (Ordinance on Non-Ionising Radiation). Swiss businesses and the entire sector are thus pushing for a moderate liberalisation of the ONIR. A working group will now analyse the requirements and risks relating to the expansion of the 5G network and present a report with its recommendations by mid-2019. The communication on the revision of the Telecommunications Act by the Federal Council included a request for technology-neutral regulation of access. The Swiss parliament rejected this increased regulation of access. Swisscom welcomes this outcome: any such regulation would jeopardise capital expenditure, especially in rural areas.

A simple way to make use of opportunities
We are undergoing a rapid transformation. For a long time now, we've connected people, machines, industries and entire ecosystems. We no longer just surf through data, but use it to better design our towns and cities, to identify new needs, and to use energy and resources more efficiently. Rather than simply protecting our customers and ourselves from adverse interruptions, we guarantee smooth operations, day in day out. At the same time, we are continuing to focus on our three strategic ambitions on which we also worked hard in the past year:

Best customer experience
Swisscom has broken new ground in retail business. The latest and biggest Swisscom Shop is more than just a store, it's the "House of Swisscom" in Basel. It combines shopping, advice, training and a repair centre. Visitors are welcomed at the coffee bar, where (potential) residential and business customers can also discuss topics face to face with Swisscom staff.

Operational excellence
We are continuing to build on the plan we announced in 2016 to ensure profitability and develop new business areas. In 2018, we exceeded our goal of reducing our cost base by CHF 100 million annually. At the same time, we are focusing on agile and more streamlined working models and organisational structures and on tapping into new areas of business.

New growth

In selected areas, Swisscom has launched new digital services, which in part are based on novel web-based business models. For example, Swisscom supports SwissSign Group AG, the company behind SwissID – Switzerland's digital identity card. Swisscom co-founded autoSense AG, which also connects older car models to the Internet.

Shareholder return

Swisscom pursues a return policy with a stable dividend and paid out an ordinary dividend of CHF 22 per share in 2018. The Swiss Market Index (SMI) fell by 10.2% compared with the previous year. The Swisscom share price declined by 9.4%. Swisscom shares have been traded on the stock exchange for 20 years, offering average annual returns of 5%. Since Swisscom's initial public offering, a total of CHF 32 billion has been paid out to shareholders via dividends, capital reductions and share buyback programmes.

Outlook

For 2019, Swisscom expects net revenue of around CHF 11.4 billion, EBITDA of over CHF 4.3 billion and capital expenditure of around CHF 2.3 billion. Subject to achieving its targets, Swisscom will propose payment of an unchanged attractive dividend of CHF 22 per share for the 2019 financial year at the 2020 Annual General Meeting.

Sincerest thanks

On 1 January 2018, Swisscom celebrated its 20th anniversary. Swisscom has constantly reinvented itself and continues to do so. Cyclical transformation has become a permanent condition. And as a large corporation, we understand the need to constantly break new ground. We are extremely proud that our employees are inspired to help us in this endeavour. What's more, every day they impress us as they continuously come up with new ideas, concepts and proposals, which we can now implement more quickly and easily thanks to our agile structure. For this, we would like to thank our employees. Swisscom has around 20,000 people working for it, and each and every one of them deserves a great big "thank you!". Their curiosity and commitment ensure that you – as investors and customers – can continue to rely on Swisscom as a partner, no matter what the future brings. We would also like to thank you, our valued shareholders, for the trust and confidence you have in our company.

Yours sincerely

Hansueli Loosli
Chairman of the Board of Directors
Swisscom Ltd

Urs Schaeppi
CEO Swisscom Ltd

Connecting people

In towns, in valleys and in the farthest corners of Switzerland – access to the digital world should be available wherever you are.

Swisscom is digitising 240 alpine cabins. The partnership with alpine associations underlines Swisscom's commitment to the alpine economy and community – a little piece of Switzerland that must be protected and supported. This is Swisscom's way of demonstrating its deep-rooted commitment to Switzerland.

Management Commentary

Strategy and environment

The market environment is influenced by increasing connectivity, changing customer requirements, the growing significance of security and data protection, and technological progress. As a market, technology and innovation leader, Swisscom seeks to hold its own in its competitive core business. In order to make its vision a reality, Swisscom has set out three strategic aspirations in its corporate strategy. In doing this, it intends to secure its market position and make it easy for its customers to seize the opportunities presented by the networked world.

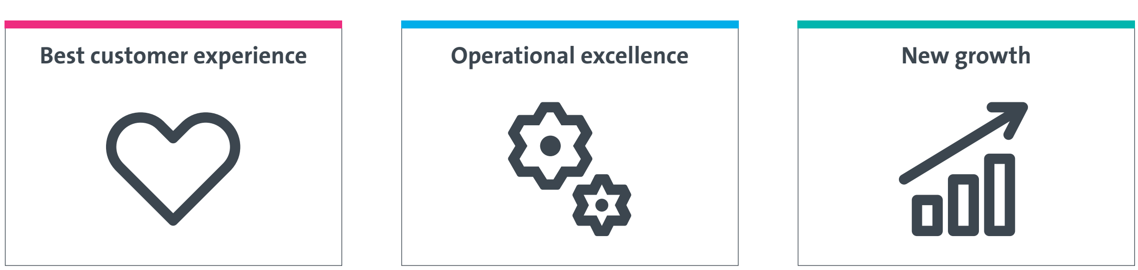
Corporate strategy

Swisscom is the Swiss market leader for mobile telecommunications, fixed-line telephony and television. It also occupies a leading market position in a wide range of IT business segments. Fastweb is a leading alternative provider for both retail and business customers in the Italian fixed-line market.

Megatrends such as digitisation and connectivity, customisation and demographic change are shaping and altering our society and the economy in the long run and have a long-term impact on the activities of Swisscom. The increasing proliferation of the Internet of Things, the 5G mobile telephony standard being ready for market and the advancements made in the field of artificial intelligence are short to medium-term trends that impact Swisscom's business.

The market environment in which Swisscom operates has changed in recent years. Characteristic examples of this include increasing connectivity, changing customer needs, the growing importance of security and data protection, and technological progress. The pace of change has accelerated. Global Internet companies are using their economies of scale and pushing their way into local ICT markets. The core market is saturated, with competition becoming increasing fierce and prices under considerable pressure, which is further squeezing Swisscom's revenue. Swisscom is looking for ways to compensate for the resulting decrease in revenue and income.

As number 1, we are shaping the future.
Together we inspire people in the networked world.



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

What matters most to Swisscom is its customers' trust in it. That trust is strengthened by Swisscom's high reliability and sustainability in everything it undertakes. To make its vision of being a leader in shaping the future and inspiring people in a networked world a reality, Swisscom has set out three strategic aspirations that give tangible expression to its 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 aims to offer its customers the latest IT and communications infrastructure and therefore assert its position as a technological leader. Customer requirements for networks are constantly growing. As a result, Swisscom is setting up and operating networks that are second to none in terms of security, availability and performance. Swisscom is expanding its fixed telephone and mobile network infrastructure, enabling its customers to enjoy the best experiences when utilising its offerings. With this in mind, Swisscom is steadily driving forward the growth of 5G in Switzerland despite the adverse impact of regulations; for example, it has built Switzerland's first fully standardised 5G network in Burgdorf. The Swisscom Cloud is the key platform for the internal and external provision of services and forms the basis for new, scalable offerings produced in Switzerland. Swisscom complements its own cloud with global solutions (such as Amazon Web Services), thereby operating as a service provider that integrates solutions into hybrid environments, i.e. combinations of local infrastructure (private cloud) with the cloud resources of a cloud provider (public cloud).

The key to the success enjoyed by Swisscom is its relationships with its customers. The company's main guiding principles are to provide the best service and inspirational experiences across the board. Swisscom customers can count on us as a competent, reliable partner and enjoy service that is individual, flexible and personal at all points of contact. For example, they can have their damaged mobile phones repaired in no time at all in the nine Repair Centres, which meets a key customer need. Swisscom is reducing complexity and providing relevant, innovative offerings. For example, it is enabling its mobile customers to take out "multi-device" subscriptions by simply adding more devices – tablets or smart watches, for instance – to the one they already have. This means that individual customers do not have to take out a separate subscription for devices newly added to the range that connect them to the network. In the business customer market, Swisscom offers modern IT workstations from the cloud supplemented by artificial intelligence. At their core is the Digital Assistant, which enables users to set up their devices quickly and easily themselves, to trigger support queries and to access knowledge databases. When creating new digital services and experiences, Swisscom always focuses on meeting the needs of its customers. In this way, Swisscom is restoring the trust its customers have in the company, reinforcing customers' loyalty to the brand and increasing agility and efficiency.

Operational excellence

Due to fierce competition, revenues in the core business are still under pressure, in turn bringing even greater pressure to bear on costs. It is essential that Swisscom lower its cost base over the coming years to secure its long-term future as a business. This will allow Swisscom to free up funds for the exploration of new business opportunities and make the investments necessary to ensure success. One of the main focuses in optimising costs is the creation of more efficient operating procedures, for example by simplifying and adjusting the product portfolio, reducing the number of interfaces, using agile development methods, modernising and consolidating the IT platforms, increasing the efficiency of staff deployments, and optimising processes being driven by initiatives such as All IP migration. Swisscom also regards internal digital transformation, and hence a higher level of digitisation, as crucial. This includes the virtualisation of network functions, improvement of the online channel, greater process automation and the increased use of artificial intelligence and analytics. In addition to this, Swisscom is increasing the efficiency of its investment activities, for example by utilising an intelligent mix of technologies and by reducing the number of partners involved in the expansion of the network.

New growth

In spite of increased saturation, Swisscom is expecting continued moderate volume growth in certain relevant markets (among them postpaid mobile telephony, broadband and IT services) in Switzerland and Italy. The main driving forces behind this are modest population growth, the increase in use of ICT in a wide variety of industries and the relatively low broadband penetration in Italy. Nevertheless, price pressure remains at a high level, to the extent that Swisscom expects a slight drop in market revenue on the whole, particularly in the telecommunications market.

Through the further development of its core business, Swisscom intends to realise growth opportunities through, for example, the further expansion of its TV/entertainment offering, growth in the wholesale sector, the expansion of its digital portfolio and, in the SME sector, through the successful marketing of ICT products. The solutions business for digital security, business applications and the cloud in the business customer market offer further growth opportunities. Swisscom is launching new digital services in selected areas. Some of these, such as digital services for SMEs (e.g. localsearch), Swisscom's FinTech operations and its use of blockchain as a supporting technology, are based on new business models. When selecting growth areas, Swisscom is guided by future customer requirements, focuses on future-oriented business models with substantial growth and is making increased use of partnerships. In addition to the activities mentioned above, Italian subsidiary Fastweb is playing a key role in the realisation of growth opportunities. Swisscom is improving Fastweb's market position. Thanks to the acquisition of Spektrum and the rollout of 5G, Fastweb can strengthen its convergence offering by expanding its current ultra-fast broadband network (with fixed wireless access and its own 5G infrastructure in selected urban hotspots). Growth has also resulted from the existence of a convergent product portfolio based on transparency, fairness and simplicity, the further development of the mobile communications market, the expansion of the business customer portfolio by means of horizontal solutions in relation to the cloud and digital security, high-quality service and the utilisation of partnerships.

Transformation

In order to deal with constant change and successfully implement the strategy, employees at Swisscom are continuously learning and developing, be it in their mindset, in their working methods or in forms of cooperation and structures. To this end, Swisscom relies on agile and customer-centric working models and organisational structures, ongoing improvement and simplification, the development of relevant key skills and technological transformation, for example. The desired change in behaviour within the organisation is supported by targeted communication and training measures.

Corporate responsibility (CR)

Digitisation presents many opportunities, but also certain risks. Swisscom is well aware of its particular responsibility as Switzerland's leading ICT company. Swisscom endeavours to make technological advances accessible to everyone, based on a foundation characterised by ethical thinking and acting with integrity. Smart data, artificial intelligence, Industry 4.0, smart cities, smart homes and esports are examples of areas that present Swisscom with new challenges, which it addresses by adapting and building on its CR strategy. Swisscom's CR strategy for 2025 is founded on the three fundamental challenges presented by the digital information society, to which Swisscom seeks to make its own contribution:

- Swisscom wants to hone the digital skills of people living in a networked world. While technologies advance at great speeds, people's skills do not change without help from others. The ability to relate competently to a digital "other" is vital in almost every area of life – for schoolchildren, parents, politicians and senior citizens alike. Anyone embedded in a value creation chain has no option but to keep pace with the demands of a networked world.
- Swisscom wants to make a tangible contribution to climate protection worldwide. Climate change is turning out to be a global problem of the first order, affecting Switzerland's natural resources no less than those of all other countries. All countries must contribute to climate protection. Digitisation harbours promising possibilities for this effort.
- Swisscom seeks to put in place and develop the most reliable and most secure ICT infrastructure everywhere. That, after all, is fundamental to Switzerland's competitiveness, prosperity and quality of life.

Accordingly, Swisscom pursues three objectives as its own contribution to the well-being of people, the environment and Switzerland as a nation:

- **Doing more for people:** Swisscom enables people in Switzerland to make use of the opportunities presented by a networked world. It is helping two million people a year to develop their digital skills and is improving working conditions in its supply chain, and will maintain this focus until at least 2025. Swisscom is also training around 960 apprentices.
- **Doing more for the environment:** Swisscom cares about the environment. It is working with its customers to reduce its CO_2 emissions by 450,000 tonnes. This corresponds to 1% of Switzerland's greenhouse gas emissions.
- **Doing more for Switzerland:** Swisscom uses the best networks and progressive solutions to create added value for its customers, employees, shareholders and suppliers, and for Switzerland. It provides everyone and all businesses in Switzerland with reliable ultra-fast broadband. By doing this it makes Switzerland a more competitive country and a better place to live.

These three objectives comply with the company's overall goals and the 17 Sustainable Development Goals of the United Nations. The new strategy retains the earlier objectives in relation to media skills, climate protection, being a responsible employer, maintaining a fair supply chain and a networked Switzerland. The Work Smart initiative is being further promoted in the context of the new environmental objective. Further information can be found in the separate Sustainability Report.

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 2018
Financial targets		
Net revenue	Group revenue for 2018 of around CHF 11.6 bn	CHF 11,714 mn
Operating income before depreciation and amortisation (EBITDA)	EBITDA for 2018 of around CHF 4.2 bn	CHF 4,213 mn
Capital expenditure in property, plant and equipment and intangible assets	Capital expenditure for 2018 of less than CHF 2.4 bn	CHF 2,404 mn
Operational Excellence	Reduction of CHF 100 million in cost base in the Swiss business in 2018	CHF 121 mn
Other targets		
Ultrafast broadband in Switzerland [1]	Coverage of 90% by the end of 2021 in excess of 80 Mbps	64%
Ultrafast broadband in Switzerland [1]	Coverage of 75% by the end of 2021 in excess of 200 Mbps	35%

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

General conditions

Market environment

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

	Unit	2014	2015	2016	2017	2018
Change GDP Switzerland	in %	2.4	1.2	1.4	1.0	2.6 [1]
Change GDP Italy	in %	0.1	0.8	0.9	1.5	0.1 [2]
Yield on government bonds (10 years)	in %	0.38	(0.04)	(0.14)	(0.07)	(0.24)
Closing rate CHF/EUR	in CHF	1.20	1.08	1.07	1.17	1.13
Closing rate CHF/USD	in CHF	0.99	1.00	1.02	0.98	0.99

1 Forecast SECO

2 Forecast Istat

Economy

Economic growth in Switzerland was higher in 2018 than in preceding years, with GDP forecast to increase by 2.6% in real terms. While there was also a rise in inflation, it remained very low. Economic developments are having a wide range of impacts on customer segments. A high share of the revenues generated in the Residential Customers segment can be attributed to products with fixed monthly charges, meaning economic fluctuations are low. In contrast, revenue from roaming services is subject to increased volatility due to being reliant on trips made outside of Switzerland (inbound and outbound). Nevertheless, a large and ever-increasing proportion of the roaming services in terms of outbound traffic are included in the fixed monthly charges. Project business in the Enterprise Customers segment is more sensitive to cyclical factors. Economic fluctuations tend to have a greater impact on the sales and revenue generated by Italian subsidiary Fastweb for both residential and business customers.

Interest rates

The interest rate level has an impact on funding costs and also affects the valuation of long-term provisions and pension liabilities in the consolidated financial statements. In addition, interest rates are a key assumption for the impairment assessment of recognised goodwill and other items in the financial statements. The returns on ten-year Swiss government bonds fell in 2018, and they remain at a historically very low level. Swisscom exploited this in 2018 and reduced the average interest expense to 1.0% (prior year: 1.7%) by issuing bonds totalling CHF 885 million. 74% of financial liabilities were charged a fixed interest rate. The average maturity of 5.4 years offers considerable protection against a potential rise in interest rates.

Currencies

The exchange rate trends for foreign currencies have very little impact on the Swisscom results of operations. Transaction risks exist primarily in the purchase of end devices and technical equipment as well as in the acquisition of services from network operators outside of Switzerland. In the core business in Switzerland, the amount of money paid out in foreign currencies is higher than income. The net cash flows in foreign currency are partly hedged by foreign currency forward contracts. Swisscom funds itself for the most part in Swiss francs and to a lesser extent in EUR. Over the last three years, the share of the funding denominated in EUR has gradually increased to around 40%. In addition to the transaction risks on the operational cash flows in foreign currencies, there is a currency translation risk in the balance sheet. Fastweb's net assets, which totalled EUR 2.9 billion at the end of 2018, and those of the other foreign subsidiaries are translated into Swiss francs in the consolidated financial statements at the exchange rate applicable on the balance sheet date. Any differences from the foreign currency translation are recognised in equity and have no impact on the results. Cumulative currency translation adjustments in respect of foreign subsidiaries amounted to CHF 1.7 billion at the end of 2018. A portion of the financial liabilities in EUR has been classified as a currency hedge of the Fastweb net carrying amount.

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 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 the Federal Telecommunications Act (TCA), the Federal Cartel Act (CartA) and the Federal Copyright Act (CopA).

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

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

See www.swisscom.ch/targets_2018-2021

Telecommunications Act (TCA)

The TCA and the associated legislation primarily govern network access, basic service provision, the use of radio frequencies and net neutrality. During the reporting period, the Swiss parliament deliberated on revising the TCA.

See www.admin.ch

Network access

The intention of the legislators is that network access regulation should not be expanded to include newly built fibre-optic-based and hybrid fixed networks (technology-neutral network access). This means that Swisscom is required to allow other providers physical network access only to copper lines and 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 and 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 with a minimum data transfer rate of 3 Mbps (download) and various services for disabled people. In 2017, the Swiss Parliament decided to increase the minimum bandwidth for the basic service to 10 Mbps (download). This change will take effect the next time the Ordinance on Telecommunications Services is revised.

Mobile phone licence

Mobile phone licences are awarded by the Federal Communications Commission (ComCom), usually by means of public tenders. In February 2012, all of the frequencies available for mobile communications were sold in an auction. Swisscom acquired 44% of the frequencies for which bids were submitted. The licences run until the end of 2028 and can be used with all technologies. Starting with the second quarter of 2019, more mobile frequencies (in the 700 MHz, 1,400 MHz, 2,600 MHz and 3,600 MHz frequency bands) are expected to become usable. The frequencies required for this purpose are to be awarded by auction in 2019. The concession for the frequency spectrum acquired through this auction lasts 15 years, with the exception of the frequencies in the 2,600 MHz band, which may not be used after the end of 2028.

Federal Cartel Act (CartA)

As a result of Swisscom's market position, competition law (Federal Cartel Act) is highly relevant for several of its products and services. The Federal Cartel Act allows for direct sanctions to be imposed for unlawful conduct by market-dominant companies. The Swiss competition authorities have 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 the Competition Commission (COMCO) has classified Swisscom as being market-dominant and its conduct as being unlawful, and has thus imposed direct financial sanctions. The proceedings refer to the provision of ADSL wholesale services, the broadcast of live sporting events on pay TV and the broadband connections of post office locations. The statuses of the proceedings and the potential financial effects are set out in the notes to the consolidated financial statements (Note 3.5).

The Federal Copyright Act (CopA)

Swiss copyright law protects the rights of creators of works while also facilitating the fair use of works subject to copyright, which may generally be used only with the copyright holder's consent and in return for 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 operators of TV channels take the view that Replay TV loses them advertising revenue. Through the ongoing revision of the CopA that is currently being debated in Parliament, they are therefore attempting to exclude it from the collective management regime. Time-delayed television viewing (Replay TV) meets a real need on the part of customers and is essential if the TV programming offered is to be attractive and forward-looking. It is for that reason that Swisscom is expressing its firm opposition to any restriction on the present customer-friendly arrangements.

The Federal Radio and Television Act (FRTA)

Switzerland's Radio and Television Act governs the production, presentation, transmission and reception of radio and television programmes. It is primarily on account of Swisscom TV that Swisscom is affected by the rules on the transmission and broadcasting of media offerings. The various privileges (known as the "must carry" provisions) applicable to certain broadcasters are also relevant to Swisscom.

Federal Act on Data Protection (FADP)

The draft of the revised Data Protection Act (FADP) was published on 15 September 2017 and is currently progressing through Parliament on its way to becoming law. It is not yet known when the revised FADP will enter into force. Swisscom is working on the assumption that the new FADP will resemble more closely the European Union's General Data Protection Regulation (GDPR), although it remains to be seen what its detailed provisions will be. Swisscom is actively monitoring developments in order to be able to take preventive measures in good time.

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

The GDPR governs the processing of personal data and has been in force since 25 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 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 within the specified time period. Swisscom is actively monitoring developments in data protection law in the EU in order to keep its practices up to date.

Legal and regulatory environment in Italy

The legal framework for Fastweb's business activities is laid down primarily by both Italian and EU telecommunications legislation. Before taking effect, any new regulations must, in the course of the ordinary regulatory process, be submitted to the European Commission and to the Italian competition and cartel authorities for their opinion.

As the national regulatory authority, the Autorità per le Garanzie nelle Comunicazioni (AGCOM) regularly conducts market analyses in order to review regulatory obligations. AGCOM's main concern in 2018 was with reviewing the wholesale prices for 2017. As a result of this review, prices for bitstream access were reduced. AGCOM also directed that monthly billing should be resumed. Fastweb, like its competitors, had billed its residential customers every four weeks. AGCOM also granted Fastweb an exception to the "roam like at home" (RLAH) rule, which specifies that no additional charges should be incurred when roaming within the EU. This exception permits Fastweb to continue to demand roaming charges until July 2019. AGCOM also launched an analysis of the wholesale fixed-line services market in 2018. In the second half of 2018, an auction of mobile frequencies was held in which Fastweb acquired frequencies in the 26 GHz range for a period of 19 years, for which it paid EUR 33 million.

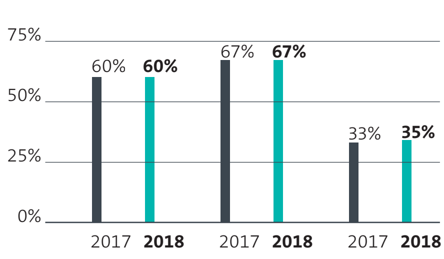
Swiss market trends in telecoms and IT services

The Swiss telecommunications market is one of the more highly developed by international standards. It is characterised by innovation and a wide range of voice and data products and services. The constant advancement 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 paying Internet-based services around the world, including telephony, SMS messaging and streaming services. Cloud solutions are also playing an ever more important role, with storage capacity, processing power, software and services all relocating to an increasing degree to the Internet. These developments are generating constant growth in demand for high bandwidths that enable fast, high-quality access to data and applications. The uninterrupted availability of data and services, as well as the security involved in ensuring this availability, play a key role. Modern, highly effective network infrastructures provide the ideal foundations for this. Swisscom is therefore setting up the networks of the future for both fixed-line and mobile communications.

The Swiss telecoms market is broken down into the submarkets of relevance to Swisscom – mobile and fixed-line telephony. The total revenue it generates is estimated at around CHF 11 billion; however, this is being put under increasing pressure. Market saturation is ramping up the fierce competition in all submarkets. The individual submarkets are characterised by a high level of promotional activity on the part of the individual market participants. This makes bundled offerings more and more important, as they tie these customers more effectively to the company. At the heart of the portfolio of offerings are convergent offerings which can also contain one or more mobile lines in addition to a fixed broadband connection with Internet, TV and fixed-line telephony. Swisscom's range likewise includes bundled offerings combining different technologies, while it 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 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. For this reason, the number of mobile lines (SIM cards) in Switzerland has stagnated at around 11 million. Mobile access line penetration in Switzerland remains at about 130%. 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 now stands at 71% (prior year: 68%). Swisscom's market share remains unchanged from the previous year at 60% (postpaid: 61%; prepaid: 59%).

Fixed-line market

Switzerland has almost 100% coverage of fixed broadband networks. Alongside the fixed-line networks of telecoms companies, there are also networks provided by cable network operators. Moreover, market players such as utilities operating in particular cities and municipalities are building and operating fibre-optic networks on their own initiative at a regional level. These network infrastructures are largely also made available to other market participants so that they can supply their products and services. This has increasingly made the fixed broadband connection the key access point for customers. It is the basis for a wide-ranging product offering from both national and global competitors. During 2018, competition in the fixed-line segment gained momentum when another Swiss market participant rolled out a new bundled offering featuring fibre optics. This supplier had formerly been active only on the mobile telephony market.

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 2018, the number of retail broadband access lines in Switzerland totalled 3.8 million, corresponding to around 85% of households and businesses. The number of broadband connections increased by 1% in 2018 (prior year: 3%). This growth is due mainly to the increase in the number of broadband access lines provided by telecommunications providers, whose market share, as measured by the number of broadband access lines, rose to 68% from the previous year's figure of 67%.

TV market
In Switzerland, TV signals are transmitted via cable, broadband, satellite, antenna (terrestrial) 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, and is now also playing host to new offerings from other national and international companies, including TV and streaming services that can be used over an existing broadband connection, regardless of the Internet provider. Competition in the largely saturated TV market remains highly dynamic – especially in the area of TV content, something that can be attributed to the increasingly widespread broadcasting rights of popular sports such as football and ice hockey. Approximately 90% of TV connections are provided via cable or broadband networks. Swisscom has steadily increased the market share of its own TV offering, Swisscom TV, over the past few years. It is the market leader and further expanded on this leading position throughout 2018, achieving a market share of 35% at the end of the year (prior year: 33%).

Fixed-line telephony market
Fixed-line telephony is mainly based on lines running over the fixed networks of the telecom service providers and the cable networks. The number of fixed-line telephony connections is steadily declining. This trend continued in 2018, with the number of Swisscom fixed-line connections falling by around 13% to 1.8 million. The main reason for the decline was the substitution of mobile phones for fixed-line telephony.

IT services market in Switzerland

The market for IT services generated revenue of around CHF 10 billion in 2018 and will continue to grow on the whole in the coming years. The areas in which Swisscom expects the most growth are the cloud, security, the Internet of Things (IoT) and business applications. This growth results from the increasing number of business-driven ICT projects, the growing willingness to purchase external services, an increase in the threat situation in IT security and new technological opportunities in the IoT area (e.g. new sensors, improved connectivity). Customers usually expect services customised to their individual sector and business processes with related consultancy.

In the IT services sector, Swisscom was unable to continue the growth trend of recent years as planned. The decline in sales led to a slight loss of market share in the year under review. A main driver for this development is the difficult environment in the banking sector (project volatility, changing customer requirements), while the development is positive in growth areas such as cloud, data centre and security services, where market revenues have risen significantly.

Italian market trends in telecoms services

Italian broadband market

Italy's fixed-line broadband market is Europe's fourth largest, with a revenue volume of EUR 15 billion including wholesale services. Broadband penetration in households and businesses has increased to 60%, but remains well below the European average. The relatively low broadband penetration is due on the one hand to the fact that in the past television services were mainly broadcast terrestrially and by satellite as a result of restrictive legislation on the distribution of content and the lack of cable network operators. On the other hand, the penetration of mobile broadband services is much higher than the European average thanks to the combination of high-performance mobile networks and relatively lower mobile prices. The fixed-network broadband market comprises around 16 million lines. Competition has become much more intense over recent years.

Fastweb is the second largest broadband provider with a market share of around 15% in the residential segment and around 31% in the business segment.

Italian mobile communications market

Four mobile network operators are active on the Italian mobile communications market, with 83 million SIM cards having been issued to date. There is considerable pressure on prices, driven by such factors as aggressive promotions and also made more acute by the arrival of virtual mobile network operators on the market. Under these challenging conditions, Fastweb has managed to successfully offer its own mobile services.

Overall, the sales volume of the Italian mobile communications market amounts to around EUR 16 billion. It can be assumed that the market volume, despite the already low price level by international standards, will decline as a result of price pressure and intense competition.

Data protection

Almost all of Swisscom's divisions process personal data. This is particularly important in the provision of services and the handling of business relationships. The ongoing digitisation process offers a plethora of possibilities for optimising and further developing services for customers and for improving the efficiency of operational processes. Swisscom stands for responsible, transparent and legally compliant handling of customers' and employees' personal data.

It works continuously to extend its data protection measures. For example, new processes and methods ensure that data protection interests are taken into account at an even earlier stage when planning projects. In addition, staff training was intensified in order to further improve their knowledge of the handling of personal data.

For some time, Swisscom has been giving its customers the opportunity to influence the processing of their data. Customers can opt out of their data being used for smart data applications in the online customer centre and at the points of contact.

Data protection within Swisscom is controlled and monitored by a central data governance unit. This has been further expanded so all business areas are actively supported with the necessary resources and knowledge to ensure compliance with legal requirements and Swisscom's pledge of trustworthiness.

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

Infrastructure

The telecommunication networks form the backbone of the Swiss information society. Swisscom continues to invest heavily in infrastructure to meet the broadband needs of the Swiss fixed and mobile network. Most people living in any given Swiss municipality should have access to increased bandwidths by the end of 2021. By the end of 2018, Swisscom had selectively upgraded seven cities in its mobile communications network with 5G, thereby pursuing its strategy of providing Switzerland with the best network and a solid foundation for the digital transformation.

Infrastructure in Switzerland

Network infrastructure

The telecommunication networks form the backbone of the Swiss information society. Swisscom pursues the same strategy both on the ground and in the air – to provide Switzerland with the best network and thus provide a solid foundation for the digital transformation. Swisscom currently operates three networks that help facilitate the achievement of this aim: the fixed network, the mobile network and the low power network.

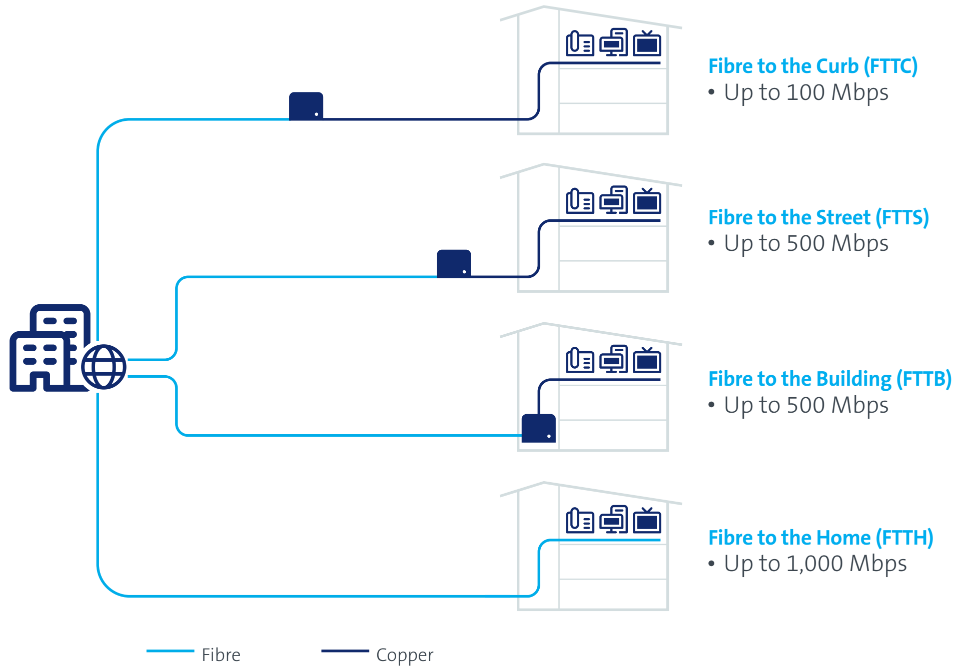
A uniform basis for increasing demand

Bandwidth requirements in the Swiss fixed and mobile telephone network continue to grow. This can be attributed to the fact that customers now use a wide range of devices for accessing the Internet. At the heart of the Swisscom network and its infrastructure is Internet Protocol (IP) technology, which can be used via copper and fibre-optic lines. Swisscom had already converted the services and products for almost all residential customers and the majority of corporate customers to All IP by the end of 2017. Around 2 million Swisscom customers now benefit from the advantages offered by IP technology. Swisscom started transferring all of its locations to IP in 2018. All IP enables faster and more flexible processes and operations, and is boosting the competitive strength of Swisscom, its customers and Switzerland as a business centre. The Swisscom All IP initiative thus forms the basis for the digitisation of the Swiss economy.

Leading international position thanks to constant expansion

International studies carried out by the OECD, IHS (Information Handling Services) and Akamai regularly show that Switzerland possesses one of the best information and telecommunications infrastructures in the world. 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 2017), the availability of broadband in rural regions of Switzerland is about twice as high as the EU average.

In mobile communications, broadband LTE coverage now extends to 99% of the population. 95% of the population currently has 4G+ with speeds of up to 300 Mbps, 72% 4G+ with speeds of 500 Mbps, and 27% 4G+ with speeds of up to 700 Mbps. This makes Swisscom the largest network operator in Switzerland by far, both in the fixed and mobile network. In the fixed-line segment, Swisscom continues to expand its ultra-fast broadband coverage with minimum bandwidths of 80 Mbps. In doing so, it is focusing on a mix of fibre-optic technologies as well as convergent approaches that harness both the mobile and fixed-line networks in combination. Swisscom uses the term “fibre-optic technologies” to mean Fibre to the Home (FTTH) as well as network architectures in which copper cables are used in the last few metres of the connection, such as Fibre to the Curb (FTTC), Fibre to the Street (FTTS) and Fibre to the Building (FTTB). Optical fibre is getting ever closer to the customer.



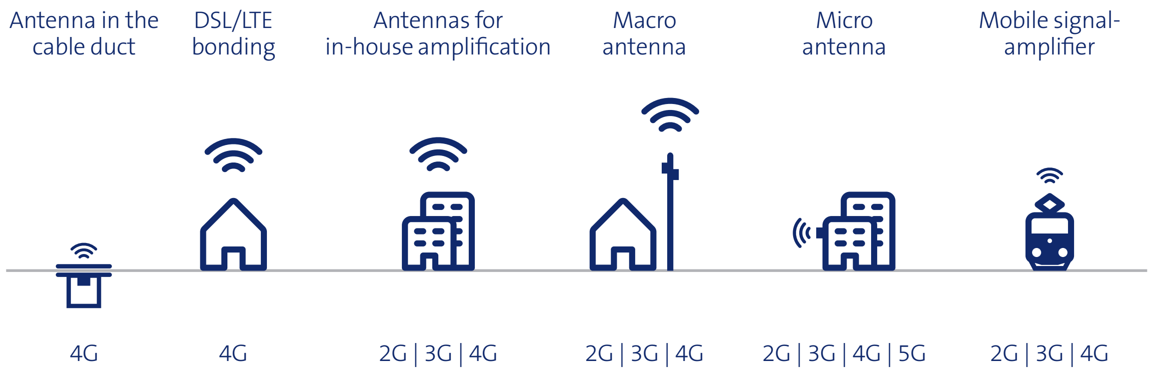
Swisscom has set itself high goals as regards network expansion: Most people living in any given Swiss municipality should have access to increased bandwidths by the end of 2021. To this end, some 90% of all homes and businesses will have a minimum bandwidth of 80 Mbps by the end of 2021 – with around 85% of those achieving speeds of 100 Mbps or higher. In remote regions of Switzerland, Swisscom will honour its universal service provision mandate. Thanks to the new DSL+LTE Bonding technology, it is also noticeably improving broadband provision in certain regions. DSL+LTE Bonding combines the performance of the fixed-line network with that of the mobile network, thus ensuring a significantly better customer experience. As at the end of 2018, Swisscom had established around 4.2 million connections to its ultra-fast broadband service with speeds in excess of 50 Mbps through continuous expansion. Of this number, over 3.6 million lines were equipped with the latest fibre-optic technology.

Right at the cutting edge thanks to innovative technologies

In terms of technology, Swisscom has maintained its leading international position. For example, it became the first European telecommunications provider to introduce the G.fast technology anywhere in the world. G.fast enables bandwidths of up to 500 Mbps on short copper cables (up to 200 metres in length). To put this into figures, a speed of 500 Mbps will ensure that customers can use cutting-edge services for many years to come, such as digital TV in HD quality which requires 10 Mbps or Netflix and YouTube in HD quality which needs 6 Mbps.

The Swisscom mobile network is one of the best by international standards. Swisscom currently supplies around 99% of the Swiss population with 4G, 3G and 2G coverage. Progress continues to be made on expanding 4G+. Swisscom also carried out localised tests of 5G in seven Swiss cities in 2018. The volume of data transferred on the mobile network is constantly on the rise. As a result and owing to the stringent legal framework conditions, the mobile network has to be expanded with new mobile telephony sites. Microcells can enhance the mobile sites. Thanks to a Swisscom innovation, they can even be installed in the floor and also be used in business premises and indoor public areas by means of antennas.

See www.swisscom.ch/networkcoverage



A comprehensive introduction of 5G is delayed due to the strict legal limits (ONIR – Ordinance on Protection against Non-Ionising Radiation). 5G is the mobile communication standard of digitisation and vitally important to Switzerland as a business centre, enabling speeds of up to 10 Gbps, real-time reaction and much larger capacities than current standards. By putting in place the first 5G infrastructure, Swisscom is highlighting its leadership in technology and laying the foundation for the further development of 5G applications. Swisscom has been working together with Ericsson, the EPFL and Ypsomed since 2016 on research into the new standard as part of the “5G for Switzerland” programme. Its expectation is that 5G will drive forward networking in the form of the Internet of Things.

Swisscom is continually expanding its broadband network, extending the product range and increasing the number of antenna sites. It coordinates site expansions with other mobile providers wherever feasible and now shares nearly a quarter of its approximately 8,400 antenna sites with other providers. At the end of 2018, Swisscom had around 5,800 exterior units and 2,600 mobile communication antennas in buildings. And with around 5,500 hotspots in Switzerland, it is also the country’s leading provider of public wireless local area networks.

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, in addition to the LTE-M and narrowband IoT access technologies, has added other platforms to its connectivity platforms. The low power network now serves over 96% of the population. The use of many new applications by customers is evidence of IoT’s increasing momentum. Swisscom’s broad IoT portfolio offers all the components needed to implement applications nationally and internationally.

Mobile frequencies

Transmission of mobile signals requires the availability of suitable frequencies. In Switzerland, such frequencies are allocated on a technology-neutral basis, i.e. any mobile communications technology can be transmitted on the available frequencies. In 2012, the Federal Communications Commission (ComCom) allocated the frequencies 800 MHz, 900 MHz, 1,800 MHz, 2,100 MHz and 2,600 MHz. Swisscom currently uses these frequencies to offer its customers services via the 4G, 3G and 2G mobile communications technologies. At the beginning of 2019, further mobile radio frequencies – 700 MHz, 1,400 MHz, 2,600 MHz and 3,500 MHz – will be allocated in Switzerland, primarily for transmission via 5G. Licences are issued by way of an auction.

IT infrastructure and platforms

Not only are bandwidths in the networks constantly increasing, but so is the usage of cloud services. Swisscom is positioning itself as a trustworthy provider of private, public and hybrid cloud services and expanding its portfolio with the help of internationally renowned partners.

With its newly defined cloud strategy, Swisscom is positioning itself as a reliable IT partner with a broad range of services. On the one hand, newly developed Swisscom solutions such as the Enterprise Service Cloud are gaining greater acceptance on the Swiss market. On the other, Swisscom is expanding its services with public cloud services (such as Amazon Web Services or Microsoft Azure) in order to address customers’ individual needs.

The switch to data transmission only by means of Internet Protocol (All IP), together with the expansion of connectivity services, is increasing the requirements imposed on locations that previously provided telephony services. The virtualisation of network functions is bringing about the creation of new geographically redundant IT platforms, in addition to those in Zurich and Lausanne, that can process large volumes of data with short reaction times.

Swisscom consistently uses cloud platforms to provide internal and external communication services. It operates these cloud platforms in its own geographically redundant data centres, enabling efficient, automated use and targeted improvement of the customer experience.

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. Swisscom is continuing to make use of the standardised systems created by its partners rather than developing its own infrastructures. The focus on the development of market-specific value-adding services based on such infrastructure is beginning to bear fruit. The industrialisation of IT continues to make headway, as does the development of modern applications that benefit from the opportunities offered by the platforms, cut costs and ensure maximum stability.

Nevertheless, the old and new technologies will continue to exist and function side-by-side over the coming years. Here Swisscom is establishing itself in the digital transformation by using 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

In Italy, the introduction of broadband started relatively late, but the gap in coverage by next-generation access networks is now almost closed. By the end of 2018, 87% of homes and businesses had been connected to the ultra-fast broadband network. Fastweb has contributed to this development with substantial investments in its network infrastructure. Fastweb's own network infrastructure consists of a fibre-optic network. With ultra-fast broadband connections (FTTH, FTTS and Fixed Wireless Access), Fastweb reaches around 12 million homes and businesses or 45% of the population. For another 10 million homes and businesses, Fastweb can provide ultra-fast broadband services based on wholesale services from TIM.

In mobile communications, Fastweb acquired a 3.5 GHz mobile spectrum from Tiscali in 2018 as well as the Fixed Wireless Access business area. In addition, at an auction in 2018, Fastweb acquired mobile radio frequencies in the 26 GHz spectrum. This enables Fastweb to drive the development of 5G services and converged offerings.

IT infrastructure

Fastweb operates four large data centres in Italy with a total surface area of 8,000 square metres. The IT infrastructure consists of around 6,000 servers (4,500 virtual servers and 1,500 physical servers), 900 databases and 5 petabytes of storage capacity. One data centre is managed by a technology partner with responsibility for setting up, designing and adapting the centre as well as for the operational aspects of Fastweb's IT infrastructure. Two data centres are mainly used for corporate business services, including housing, the cloud or other ICT managed services.

Employees

In an environment that is changing at headlong speed, 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. For example, Swisscom now allows its employees five training days a year. It lives up to its claim to be a family-friendly company by facilitating mobile working and increasing maternity and paternity leave. At the end of 2018, Swisscom had 19,845 full-time equivalent employees, of whom 17,147 or 86% were employed in Switzerland. Swisscom is also training around 960 apprentices in Switzerland.

Employees in Switzerland

Introduction

Swisscom, as Switzerland's leading ICT company, is at the centre of the action where digitisation is concerned. It wants to seize the opportunity to take the lead in the market both now and in the future. This requires satisfied employees who use their skills, experience and personalities to inspire customers in the networked world on a daily basis. Swisscom operates in an environment characterised by very rapid change. Knowledge that was up to date yesterday may be outdated tomorrow. One consequence of this is that jobs will be lost in areas where the core business is declining, while new jobs will be created in growth areas. Most of these job losses occur through natural fluctuation and (early) retirement. Thanks to foresighted planning, prudent vacancy management and retraining, redundancies are being kept to a minimum. This is another reason why Swisscom invests in the employability of its employees by giving them five training days a year. A wide range of opportunities for personal development is available to employees both externally and on-the-job, including project assignments in other areas of the company or specialisms for which employees apply via an online marketplace, workshops on new technologies and agile ways of working, progress meetings, talent programmes and numerous training courses. 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). Both sets of terms and conditions of employment govern, among other things, working hours and working models, salaries and salary payments, professional development, holidays and absences, providing for more than the minimum envisaged by the Code of Obligations. In the year under review, 99.7% of the employees in Switzerland were on open-ended contracts (prior year: 99.6%). Part-time employees made up 20.2% (prior year: 19.6%). The fluctuation rate, representing departing employees in Switzerland, amounted to 6.8% of the workforce (prior year: 6.3%). Further information on HR matters can be found in the Sustainability Report.

Collective employment agreement (CEA)

Swisscom is committed to fostering constructive dialogue with its social partners (the syndicom union and the transfair staff association) as well as the employee associations (employee representatives in the various divisions). The collective employment agreement (CEA) and the social plan, with their fair and jointly drafted provisions, are negotiated by Swisscom Ltd and its social partners and applicable to Swisscom Ltd's employees. Subsidiaries such as Swisscom (Switzerland) Ltd adopt the CEA, either in its original form or as adapted to specific sectors or lines of business, by means of an affiliation agreement. Cablex Ltd is concluding its own CEA with the social partners. In May 2018, Cablex and the social partners worked out a new CEA, which will enter into force on 1 January 2019.

Under the Telecommunications Enterprise Act (TEA), Swisscom is obliged to draw up a collective employment agreement in consultation with the employee associations. In the event of any controversial issues, an arbitration commission must be convened which will support the social partners by providing suggestions for solutions. The present CEA has been in force since 1 July 2018. At the end of December 2018, 82% of the workforce in Switzerland were covered by the CEA (prior year: 83%).

When negotiating the Swisscom CEA 2018, the parties put particular emphasis on employees' professional development: Swisscom employees will be entitled to five training days a year from 1 January 2019 onwards. The revised "mobile working" rules give greater priority to employees' work-life balance, and maternity leave has been extended to 18 weeks, with paternity leave increased to three weeks. Fathers are also entitled to take an extra month of unpaid leave in the child's first year of life. By granting these extensions, Swisscom is reiterating its commitment to offering family-friendly working conditions. The CEA also accords the social partners and employee representations a greater or lesser degree of entitlement to information, participation and co-decision making in various areas.

Social plan

The objective of the social plan is to formulate socially acceptable restructuring measures and avoid job cuts. It sets out the benefits provided to employees covered by the CEA who are affected by redundancy. Furthermore, the social plan makes use of the relevant means to increase the employability of employees and provides for retraining measures in the event of long-term job cuts. Responsibility for implementing the social plan lies with Worklink AG, a subsidiary of Swisscom. It provides employees with advice and support in their search for new employment and arranges temporary external or internal work placements. The services it offers include skill assessments, career advice and coaching sessions to enhance employability. Swisscom also supports special employment schemes, such as phased partial retirement or temporary placements in similar areas of expertise, in line with its commitment to providing fair solutions for older employees affected by changes in skill set requirements or redundancy. In 2018, 88% of those affected found a new job before the end of the social plan programme (prior year: 77%). For employees with management contracts, there is a regulation comparable to the social plan which supports them in their professional reorientation, taking into account their employment conditions.

Employee remuneration

Salary system

Competitive pay packages help to attract and retain highly skilled and motivated specialists and managerial staff. Swisscom's salary system comprises a basic salary, a variable performance-related component and bonuses. The basic salary is determined based on function, individual performance and the job market. The performance-related salary component is contingent on business performance as well as individual performance in the case of executive functions. The company's success is measured by the achievement of overriding objectives such as financial ratios, customer loyalty and the implementation of the Swisscom Group's strategy. Individual performance is measured on the basis of the achievement of results- and conduct-related contributions. Details on remuneration paid to members of the Group Executive Board are provided in the Remuneration Report.
See report **page 90**

Pay round and payroll development

In 2018, Swisscom and its social partners signed an agreement on the pay round for the year under review. With effect from April 2018, salaries for employees subject to the CEA were increased by 1.1% of the total payroll, dependent on performance. Employees with salaries in the entry-level or market segment received a salary increase of at least 0.5% subject to their performance. The performance of employees whose salaries are in the upper range of the respective salary band was rewarded by a one-off payment. Specific adjustments were made to salaries that needed to be brought in line with the market. The total payroll for managers increased by 1.1% to allow for individual salary adjustments. Compared to the prior year, the total payroll in Switzerland fell by 3.3% to CHF 2.0 billion.

Staff development

Swisscom's market environment is constantly changing. The company invests in targeted professional training for its employees and managers in order to maintain and improve their employability and the company's competitiveness in the long term. Employees have the opportunity to attend internal and external training programmes. As a pioneer in the field of digitisation in Switzerland, Swisscom is dedicated to getting to grips with the working models of the future. By doing this, it provides employees and management with a learning environment in which they can develop new skills and shape their own professional development. In 2018, every Swisscom employee spent 3.0 days (prior year: 3.1 days) on learning, training and development.

Employee satisfaction

The Pulse survey gives Swisscom employees an opportunity to submit their feedback on a wide variety of issues relating to their personal work situation twice a year. The results and the comments in which employees give their assessments are available to all employees in real time. They enable every employee, the teams and the organisation as a whole to respond quickly to the feedback and start to make improvements. A survey of this type fosters a culture of feedback which creates a basis on which Swisscom and its employees can grow together. The rate of responses to the Pulse survey is constantly rising: a total of 83% of employees (2017: 62%) participated in the two 2018 surveys. Some 78%, i.e. more than two thirds, of the employees participating in the survey said they were highly likely to recommend Swisscom as an employer. Swisscom's ratings are generally higher than the benchmarks in the dimensions surveyed.

Diversity

The different points of view, experiences, ideas and skills of every single employee, which are expressed in everyday collaboration, are what make Swisscom a successful and innovative company. To promote diversity, Swisscom focuses in its activities on the dimensions of gender, inclusion, generations and language regions. In relation to gender, for example, Swisscom 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. They also help to offer women attractive working conditions in what is a largely technical work environment. For that reason, Swisscom takes the promotion of talent very seriously. Swisscom is also committed to making jobs available to people with physical or psychological impairments in order to (re)integrate them into the workforce. The proportion of posts for such people has increased from 0.64% to 0.93% since 2014. The aim is that at least 1% of posts at Swisscom should be earmarked for the purpose of inclusion. 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.

Employees in Italy

Employment agreement for the telecoms sector

Statutory terms and conditions of employment in Italy are based on the Contratto collettivo nazionale di lavoro (CCNL), a state collective employment agreement. The CCNL defines the terms and conditions of employment between Swisscom's Italian subsidiary Fastweb and its employees. It also contains provisions governing relations between Fastweb and the unions. Fastweb engages in dialogue with the unions and the employee representatives and, in the event of major operational changes, involves them at an early stage.

Industry-wide collective agreement for employees

The working week for employees covered by the CCNL is 40 hours. Benefits include five weeks' annual leave, 20 weeks' maternity leave and one day of paternity leave. In the event of incapacity for work due to illness or accident, Fastweb guarantees full payment of salary for 180 days and half the salary for a further 185 days.

Working time model

The company's terms and conditions of employment enable employees to achieve a healthy balance between their work requirements and private needs. These include in particular the following measures agreed with the unions in the Conciliazione famiglia e lavoro in 2001: flexible office working hours, choice of shifts for mothers and temporary part-time work for mothers.

Employee remuneration

Fastweb offers competitive salary packages aimed at attracting and retaining highly qualified specialists and managers. The company's salary system comprises a basic salary, a collective variable profit-sharing bonus for non-managerial staff and a variable performance-related component for managerial staff which is contingent on meeting individual goals and company targets. The basic salary is determined according to function, individual performance and the situation in the labour market. The variable profit-sharing bonus is based on the Premio di risultato agreed separately with the unions. Fastweb respects the legal minimum salary defined by the CCNL.

Discover 5G

In Burgdorf, 5G data transmissions were carried out for the first time via a fully standardised 5G network.

At Ypsomed, 5G and the “factory of the future” are already a reality. Together with Swisscom, the medical devices manufacturer tested 5G in an industrial setting. The fully automated, 5G digitised production line is gradually bringing jobs back to Switzerland, for example, and is strengthening Switzerland as a business location.

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. After a gap of ten years, its corporate identity and corporate design have been refreshed. Swisscom's vision, values and promise have been reviewed, refined and simplified. The range of services and products Swisscom offers is also being constantly adapted to its customers' needs. As a result, both residential and business customers have seen changes and improvements to their inOne, Swisscom TV and other services. In line with the current trend in Italy, Fastweb is encouraging the convergence of its mobile and fixed-line customer bases.

Swisscom brands

The Swisscom brand is managed strategically as an intangible asset and an important element of the Group's reputation management. It provides optimum support for Swisscom's business activities, gives guidance to customers and partners, and also acts to attract and motivate current and potential staff.

The brand is implemented across all units in a consistent and high-quality manner. At the same time, it has to be extremely flexible, bridging the gap between known and new concepts and likewise standing for network and infrastructure, best experiences and entertainment, as well as ICT and digitisation.

Core business products and services are offered under the Swisscom brand, as well as under the secondary brands Wingo and SimplyMobile (Coop Mobile from 9 January 2019) and the third-party brand M-Budget. Its portfolio also includes other brands which are associated with other themes and business areas. The Teleclub, Kitag and Cinetrade brands, also operated by Swisscom, help to position the Group in the entertainment field. Outside Switzerland, Swisscom's main market is Italy, where it operates under the Fastweb brand. The strategic management and development of the entire brand portfolio is an integral part of corporate communications.

swisscom

mila KITAG localsearch wingo

FASTWEB TELECLUB cablex

Extract of the brand portfolio

Society, technology and the environment are changing ever more rapidly. A brand must absorb these changes and be ahead of them. For this reason, Swisscom revamped its ten-year corporate identity and corporate design in the year under review: Swisscom's vision, values and promise have been reviewed in terms of their relevance to the customer, refined and simplified. Swisscom expects its employees to demonstrate trustworthiness, commitment and curiosity in everything they do. On this basis, Swisscom will present itself as a reliable provider, build on its position as market leader and open up new business areas. Swisscom gives its customers the opportunity to take advantage of the networked future easily.

Specifically, Swisscom has made its corporate design more flexible and increasingly geared it to digital applications. The design is intended to highlight still more the customers and their possibilities. The Swisscom promise and design are visible in all offers and products as well as in its communication measures.

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

External rankings also confirm this image. In the "Switzerland 50" survey carried out by Brand Finance, Swisscom ranks in eighth place. This makes it one of the most valuable brands in Switzerland, worth over CHF 6 billion according to Brand Finance.

Products and services in Switzerland

Residential Customers

In order to provide its customers with the best communications experiences, Swisscom is constantly adjusting its portfolio of offerings to meet customer needs. It has further developed the inOne subscriptions introduced in 2017 and made them even more attractive. The modular structure of inOne subscriptions enables customers to select the performance of individual components according to their needs and to easily deploy new mobile devices such as smart watches, trackers or tablets.

Offerings for private individuals

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. For all components, customers can choose from three separately priced profiles with varying levels of service. 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, inOne can be easily adapted to individuals' needs.

In 2018, Swisscom further expanded the inOne mobile subscription, so that customers benefit not only from faster surfing, but can also add on devices such as tablets, laptops, smart watches, GPS trackers or a second smartphone easily and inexpensively, all under the same contract they already have. Customers are increasingly keen to have devices of this kind with a mobile connection.

This year, too, Swisscom TV has enhanced its appeal to customers by making a wider range of TV channels available and making the user interface even simpler to enable customers to find the programmes of interest to them from among the many others on offer. Swisscom TV was also assigned "theme worlds", each bundling together different types of content on particular subjects. In the summer of 2018, Swisscom TV customers were the only viewers in the country able to watch the FIFA World Cup in top TV quality thanks to UHD. For the 2018/2019 football season, Swisscom acquired the transmission rights to the UEFA Champions League and the UEFA Europa League, becoming the only Swiss broadcaster to broadcast all matches live.

Swisscom targets its other brands – Wingo, SimplyMobile (Coop Mobile from 9 January 2019) 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. SimplyMobile offers a mobile subscription with a data allowance that does not expire at the end of the month, to the exclusion of anything else.

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. Customers can securely save their important documents, passwords and notes in Docsafe. Swisscom is also continually upgrading its service offerings, thus catering to changing customer needs.

Offerings for SMEs

Swisscom offers small businesses a bundled package for Internet and telephony called “inOne SME”. “Smart Business Connect” gives SMEs with more complex needs an individual solution for Internet, telephony, collaboration, security and networking. inOne SME and Smart Business Connect both contain integrated services such as Internet failure protection and can be supplemented with Swisscom TV or Swisscom TV Public. IT products such as the cloud and managed services are becoming more popular among SMEs. Since early 2018, “Smart ICT” has enabled customers with an interest in IT outsourcing to benefit from global solutions. 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. The IT offering includes, for example, computing services, cloud-based software and managed workplace solutions. The SME portfolio is completed by mobile subscriptions tailored to the needs of business customers. With its modern offerings, Swisscom prepares SMEs for the challenges of a networked world and shows them the new opportunities presented by a mobile, flexible working environment. 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).

Enterprise Customers

As digitisation is fundamentally changing business processes, business models, the customer experience and the working world in companies, solid communication networks are indispensable. Swisscom makes use of its many years of experience as an integrated telecommunications and IT company in supporting customers through the digitisation process. It works together with customers to develop future-oriented solutions, supported by one of the most comprehensive ICT portfolios in Switzerland, which comprises cloud, outsourcing, workplace and UCC solutions, as well as mobile phone solutions, networking solutions, location networking, business process optimisation, SAP solutions, security and authentication solutions (mobile ID) and a full range of services tailored to the banking industry, ranging from IT and business outsourcing to trend research. In 2018, Swisscom’s primary concern was to expand its cloud offering and the IT security, digital consulting and software development services it provides. Swisscom also offers new solutions for the Internet of Things, including additional access technologies, additional management platforms and access to an international ecosystem in which national and international solutions can be developed. 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.

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 that makes tailored bandwidths and service level agreements possible. Swisscom Wholesale also provides basic offerings for the connection (interconnection) of telecoms systems and services as well as infrastructure products such as the shared use of cable ducts. Swisscom Wholesale is also opening up advanced business areas in the over-the-top (OTT) content field.

Products and services in Italy

Fastweb provides its residential and corporate customers with voice and broadband services through its own ultra-fast broadband network as well as via unbundled access lines and wholesale products of TIM. In 2017, Fastweb enhanced its convergence offerings by launching a mobile 4G service on the market, making its coverage and performance the best in Italy. Fastweb’s offerings are characterised by simplicity (price plans), transparency (no promotions or hidden costs) and convergence (fixed network and mobile communications bundled together). Fastweb has also established a leading role in the corporate business sector, most notably in the public administration segment. Finally, Fastweb has upgraded its WiFi sharing solution (WoW-Fi), which can turn a customer's home router into a potential Wi-Fi access point for the entire Fastweb community. The customer modem – known as FastGate – has one of the best WiFi performances on the market, while a mobile app further enhances the customer experience.

Customer satisfaction

Swisscom Switzerland conducts segment-specific surveys and studies in order to measure customer satisfaction. It measures customer satisfaction twice a year, in the second and fourth quarters of the year. The Wholesale segment measures customer satisfaction once a year. For all segments, the most important metrics are the extent to which customers are willing to recommend Swisscom to others and the related Net Promoter Score (NPS), which depicts the emotional aspects of customer loyalty as well as revealing customers' attitudes towards Swisscom. It is calculated from the difference between "promoters" (customers who would strongly recommend Swisscom) and "critics" (customers who would only recommend Swisscom with reservations or would not recommend the company). Swisscom also conducts the following segment-specific surveys and studies:

- The **Residential Customers segment** conducts representative surveys to determine customer satisfaction and customers' willingness to recommend Swisscom to others. Callers to the Swisscom hotline and visitors to the Swisscom Shops are questioned regularly about waiting times and staff friendliness. Product studies also regularly survey buyers and users to determine product satisfaction, service and quality.
- The **Enterprise Customers segment** conducts surveys among customers to measure satisfaction along the customer experience chain. Feedback instruments are also used at key customer contact points in order to determine customer satisfaction. After each interaction with the service desk or after placing orders, IT users can submit feedback or enter their comments in the order system. Customers can also assess the quality and success of their projects on completion.
- The **Wholesale segment** measures customer satisfaction along the entire customer experience chain.

The results of these studies and surveys help Swisscom to improve its services and products and influence the variable performance-related component of employees' pay.

The FIFA World Cup was the sporting event of the year, and Swisscom TV customers were able to have an even better experience of it by watching it in UHD (Ultra High Definition). And with Teleclub, fans can also follow every UEFA Champions League and UEFA Europa League match live. Thanks to Swisscom TV, fans can experience the excitement and atmosphere of matches in their own homes, just as if they were in the stadium.

Watch live

Whether you're watching from the stands or your sofa, there's nothing like the excitement of a football match.

Innovation and development

At Swisscom, innovation takes place in all areas of the company as well as beyond. One of the main drivers of economic sustainability is innovation, which is also an important lever that makes it possible to remain relevant in the core business, to generate growth in new markets and digitise internal work processes. Swisscom is focusing its innovation activities on seven areas of innovation, which in turn directly help the Group achieve its goals.

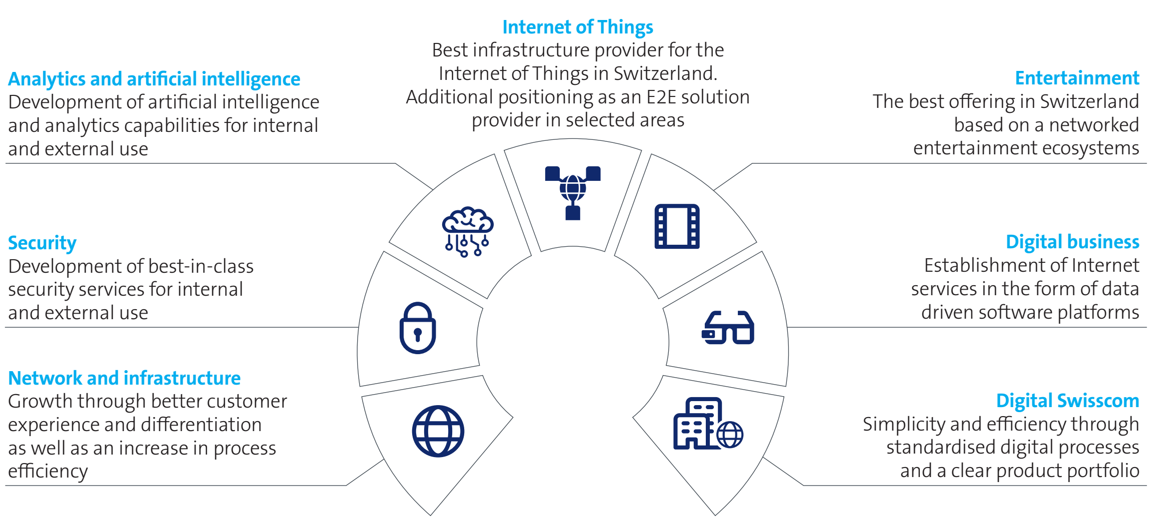
Innovation as an important driver

Swisscom's business environment is rapidly changing, so innovation and development – i.e. the commercially successful implementation of new ideas – are becoming increasingly important. Innovation is a fundamental driver of economic sustainability. Swisscom now derives much of its revenue from products that are only a few years old. Innovation is also an important lever that makes it possible to remain relevant in the core business, to generate growth in new markets and digitise internal work processes. Swisscom strives to anticipate strategic challenges, new growth areas and future customer needs at an early stage. Innovations are therefore driven by various approaches such as "Open Innovation", "Cooperation", "Ventures" and "Enabling Services". It follows that innovation takes place in all areas of Swisscom and beyond, driven by partnerships with, for example, universities, start-ups and established technology companies. These are important success factors for actively shaping the ICT future in Switzerland.

See www.swisscom.ch/innovation

Innovation focused on specific topics

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



Swisscom continually invests in progressive solutions in these areas of innovation. The aim 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 opportunities offered by the digital world, from cities to alpine huts throughout Switzerland. By means of All IP transformation, it is consistently pushing ahead with the strict separation of access technologies and services in its fixed network. Its innovative architecture also enables it to renew all components from the core network to the connection. Only a few suppliers worldwide are able to match the consistency with which it is pursuing this development. Swisscom is thus laying the foundations for the rapid introduction of new services in the future and is always ahead of other providers in making new developments available to its customers.

In the area of mobile communications, Swisscom has strongly promoted 5G as the next generation of mobile communications standards. In spring 2018, Swisscom, together with the medical company Ypsomed, presented the first 5G applications based on fully digitised process chains, from the delivery of raw materials and the manufacture of products through to provision and delivery. For the first time, all hardware and software components were added directly via a 5G antenna. This was followed in the second half of 2018 by the first 5G test networks, in Burgdorf, Guttannen and Lucerne.

Swisscom has massively expanded its cloud offering with a multicloud approach in 2018. Customers have the choice of global public clouds as well as Swisscom's own Enterprise Service Cloud, whose data storage facility leads the field in Switzerland. Swisscom helps companies migrate their IT to the cloud and hence to benefit from even greater agility, faster processes and lower costs. Swisscom also uses its own clouds for services such as MyCloud. The 5G mobile communications standard allows the network and the cloud to grow even closer together and opens up new possibilities for Swisscom and its customers.

Internet of Things

- **Nationwide networks in Switzerland for the Internet of Things (IoT):** Swisscom has further expanded its IoT portfolio. In addition to the LTE-M and narrowband IoT access technologies, it has added the Vodafone Global Data Service platforms to its connectivity management platforms. LTE-M and narrow band IoT are dedicated technologies for IoT applications and are a variant within the 4G/LTE standard. The low power network now serves over 96% of the population. In 2018, Swisscom gained another cooperation partner in the shape of the SBB, which, among other things, offers locations for network densification. The use of many new applications by customers is evidence of IoT's increasing momentum. Swisscom's broad IoT portfolio offers all the components needed to implement applications within Switzerland and abroad. Swisscom also supports companies and start-ups through various formats, such as Techie Tuesday (a technical consultation hour all about IoT) or the LPN Bootcamps, in order to make it possible for them to enter the IoT and develop it further.

See www.swisscom.ch/lpn

- **Smart City:** In 2018, Swisscom united the various initiatives within the company around the concept of smart cities to form a team and is expanding this in line with the market. As part of the Carbosense IoT project, Swisscom, together with Empa, the Swiss Data Science Centre (SDSC) and Decentlab, has given an example of how the IoT helps cities and regions in making fact-based decisions. Swisscom has been actively involved in the establishment of the Smart City Hub as a way of channelling the smart city initiatives throughout Switzerland.

Analytics and artificial intelligence

- **Artificial intelligence (AI):** Swisscom makes targeted use of artificial intelligence to offer its customers an even better service. For example, AI is used in customer service, to detect network faults or to enhance the efficiency of internal processes. In addition, Swisscom uses AI and data analytics to help its customers evaluate data in a targeted manner.

Security

- **Security thanks to artificial intelligence:** Threats from the Internet are constantly growing in number and becoming increasingly intelligent. Swisscom is already using artificial intelligence (AI) to help repel attacks by automatically detecting attacks and dangers and promptly initiating appropriate countermeasures to protect the company, its infrastructure and customers. As a result, Swisscom improves and accelerates everyday processes and makes the work of security experts easier. The AI-based procedure takes tangible form in the Swisscom 24/7 Security Operations Centre, which is offered as a service to business customers.

In addition, the Internet Guard service blocks an average of eight million accesses to dangerous websites per month, actively protecting Swisscom customers. Swisscom signed up to the Cybersecurity Tech Accord in 2018 and is as such publicly committed to providing its customers and users with the best possible protection against cyber-attacks and to raising awareness of network security and of self-protection capabilities.

Entertainment

- **esports:** With the “Swisscom Hero League powered by ESL”, Swisscom has founded its own Swiss esports league in cooperation with ESL. This is aimed at both professionals and the population at large. Swisscom TV has also expanded its range by adding the esports league, several game channels and an own game theme world. The theme world bundles the best gaming programmes, videos and apps from all sources on Swisscom TV. Swisscom is also constantly optimising all network components to meet the needs of gamers. In addition to high broadband coverage, these improvements include fast response times (ping) and high upload speeds. In order to fulfil its social responsibility, Swisscom’s commitment to esports also comprises offers in the media skills programme. An edition of the digital guidebook “enter” was dedicated to games and esports and a new course module for parents and teachers was developed. Swisscom sees games and developments in the gaming industry as not only a social trend, but also as drivers for the introduction of new technologies and an economic factor for Switzerland that should not be underestimated.
- **Swisscom TV:** The FIFA World Cup was the most important sporting event of 2018, and the quality of the broadcasts in Switzerland was unprecedented, since Swisscom TV customers were able to watch the matches on SRG channels (SRF, RTS and RSI) in crystal-clear ultra-high definition (UHD) and high dynamic range (HDR) for the first time. High dynamic range (HDR), when combined with UHD, enhances quality in a way viewers cannot fail to notice at once. UHD quadruples the number of pixels compared to HD, while HDR provides much higher contrast and a much wider colour spectrum. Televised images are not only sharper, but also feature a noticeable visual depth for the first time ever.

Digital Swisscom

To get ahead in a digital world, Swisscom must first digitise itself and become a model digital company. In 2018 it therefore again took consistent steps to digitise its network, its workplaces and its processes. Agile collaboration models and cloud-based production speed up innovation cycles, increasing the number of points of contact and enhancing customer proximity. One far-reaching consequence of digitisation – which can even be described as a paradigm shift – can be seen in new cooperation models with partners. Swisscom has entered into IoT-related cooperation agreements with SBB, Swiss Post and NeoVac in order to rapidly consolidate the network via each partner’s locations. Swisscom also works closely with selected partners on various network issues.

Swisscom is also taking the next step on the road to a smart cooperation culture by further developing its own workplaces. The introduction of a hybrid workplace environment – a combination of Microsoft Office 365 Cloud services and Swisscom’s own data centre – simplifies access to data from any mobile and registered end device. In addition, the smart environment enhances usability and data security. Swisscom is making progress towards the working world of the future, playing an active part in the paradigm shift and gaining valuable experience from which its customers will ultimately benefit.

Swisscom has pressed further onward with the introduction of agile models, which include SAFe Frameworks and BizDevOps. They serve to promote and implement developments in faster innovation cycles both within Swisscom and in cooperation with customers. These cooperation models also offer employees interesting further training opportunities, increase the attractiveness of the individual functions in the company and enable them to take advantage of all the opportunities offered by cloud-based development. The basis for this is the digitisation of networks, for example with All IP.

In 2018, Swisscom made even greater use of artificial intelligence (AI) in customer service. Customer advisors rely on adaptive algorithms to analyse and classify e-mails automatically. In network operations, AI helps to analyse potential disruptive factors and to rectify network problems automatically.

Digital business

In the field of digital business innovation, Swisscom supported developments within and outside its own company in 2018 by promoting intrapreneurship and by setting up joint ventures with strategic partners.

- **Kickbox:** Expanding the in-house intrapreneurship programme and making it a cross-company innovation ecosystem providing employees with resources (for example, time and budget) to realise innovation projects.
- **FinTech:** Launching three FinTech joint ventures together with partners. The Credit Exchange is a platform for the granting of mortgages. It brings together banks, insurers, pension funds and others, and enables end customers to choose the

mortgage that represents the best value for them. Daura enables unlisted companies to register or issue equities via blockchain and to transfer them securely worldwide. Digitised shares of this kind make it possible for such companies to extend their circle of potential investors. Book-entry securities such as shares are becoming increasingly digitised. Daura is the first step towards making Swisscom a leading provider of digital property registration, custody and transfer services. The intended next step is that Custodigit AG should be established as a platform for regulated financial services, providing its end customers with a safe place to store their digital assets.
- **IoT – foundation of autoSense with AMAG:** The company connects vehicles to the Internet. With the autoSense app and a compact adapter, users gain direct access to valuable information about the journey and their vehicle. The service currently includes a logbook, remote diagnostics and warnings of engine problems. Additional digital services for refuelling and parking as well as tailor-made vehicle insurance are planned.
- **Digital identity:** In spring 2018, SwissSign Group AG was founded as the sponsor of SwissID. The company is widely supported by state-owned enterprises as well as by finance and insurance companies. The shareholders want SwissID to become a means of establishing an open and simple system for digital identification. Swisscom has acquired a stake in the SwissSign Group.

In addition to its activities in innovation fields, Swisscom is constantly investigating the opportunities presented by new technologies, such as the disruptive blockchain technology, drones and robotics. The aim is for Swisscom to provide the best infrastructure for a digital Switzerland, tap new growth markets and offer its customers the best services and products.

Many Swiss SMEs have not generally benefited from digitisation up to now. Swisscom's subsidiary Swisscom Directories Ltd (localsearch) helps SMEs in the digital world achieve success, enabling them to be found online, to acquire new customers and secure their loyalty; in these ways, localsearch helps SMEs use digital marketing to make their mark. Thanks to localsearch's MyPRESENCE, SMEs gain access to over 25 online services with just one central entry. MyPRESENCE was launched in November 2017 and has already amassed more than 5,000 customers. In addition, the local.ch and search.ch directories operated by localsearch have the most extensive reach in Switzerland.

See **www.localsearch.ch**

See **www.local.ch**

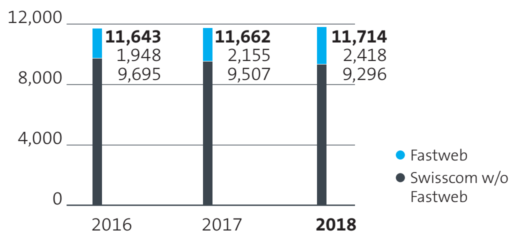
A new way of shopping

Advice, service and shopping all under one roof.

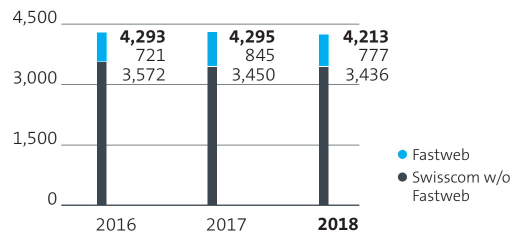
The newly opened House of Swisscom in Basel offers customers a truly novel shopping experience. Retail and business customers can obtain competent advice, have devices repaired, discover the innovation zone or relax in the Swisscom Lounge.

Financial review

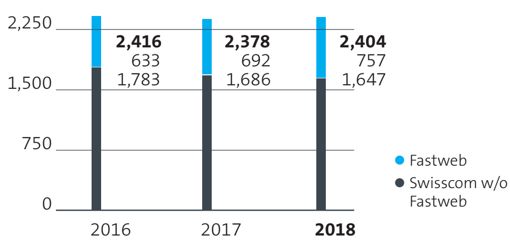
Net revenue
in CHF million



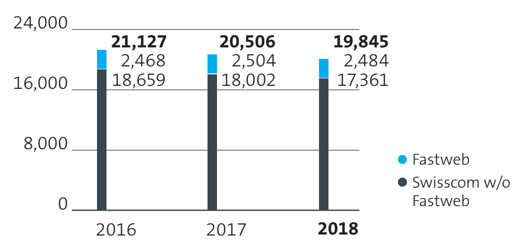
EBITDA
in CHF million



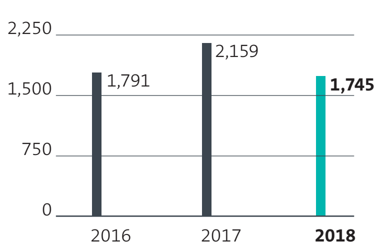
Capital expenditure
in CHF million



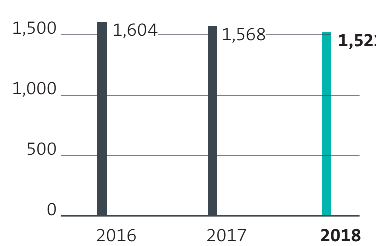
Headcount
in full-time equivalents



Operating free cash flow
in CHF million



Net income
in CHF million



Summary

In CHF million, except where indicated	2018	2017	Change
Net revenue [1]	11,714	11,662	0.4%
Operating income before depreciation and amortisation (EBITDA) [1]	4,213	4,295	–1.9%
EBITDA as % of net revenue	36.0	36.8	
Operating income (EBIT)	2,069	2,131	–2.9%
Net income	1,521	1,568	–3.0%
Earnings per share (in CHF)	29.48	30.31	–2.7%
Operating free cash flow	1,745	2,159	–19.2%
Capital expenditure in property, plant and equipment and intangible assets	2,404	2,378	1.1%
Net debt at end of year	7,393	7,447	–0.7%
Full-time equivalent employees at end of year (number)	19,845	20,506	–3.2%

1 Swisscom has applied IFRS 15 "Revenue from Contracts with Customers" since 1 January 2018. The prior year's figures have not been adjusted. If IFRS 15 had not been applied, net revenue in 2018 would be CHF 5 million lower and EBITDA CHF 43 million higher.

Swisscom's net revenue rose by 0.4% to CHF 11,714 million. On the basis of constant exchange rates, it fell by 0.3%. Revenue in the Swiss core business declined as a result of intense competition and market saturation by CHF 241 million or 2.7% to CHF 8,817 million. Revenue from telecommunications services fell by CHF 242 million or 3.7%, which can be attributed to price pressure and declining revenue from fixed-line telephony. The number of revenue generating units (RGU) dropped by 2.3% compared with the previous year to 11.9 million. The Italian subsidiary Fastweb reported strong revenue and customer growth. Revenue rose by EUR 160 million or 8.2% to EUR 2,104 million, while the number of broadband customers increased by 96,000 or 3.9% to 2.55 million and the number of mobile lines climbed by 367,000 or 34.5% to 1.43 million.

Operating income before depreciation and amortisation (EBITDA) declined by 1.9% to CHF 4,213 million. In the previous year, results were impacted by non-recurring items, including one-off income from legal disputes at Fastweb amounting to CHF 102 million and net expenses associated with headcount reductions in the Swiss business of CHF 61 million. Furthermore, in 2018, the year-on-year development of EBITDA was impacted by new requirements governing the revenue recognition of customer contracts (IFRS 15). In the Swiss core business, EBITDA fell by CHF 137 million or 3.9% on a like-for-like basis. The drop in revenue was partially offset by savings in indirect costs. At Fastweb, EBITDA rose in local currency by 5.6% on a like-for-like basis as a result of the growth in revenue.

Consolidated operating income (EBIT) contracted by CHF 62 million or 2.9% to CHF 2,069 million, while net income was down CHF 47 million or 3.0% to CHF 1,521 million. Payment of an unchanged dividend of CHF 22 per share for the 2018 financial year will be proposed to the Annual General Meeting.

Capital expenditure rose by CHF 26 million or 1.1% to CHF 2,404 million. Progress continues to be made on expanding the broadband networks. In Switzerland, capital expenditure for the expansion of the broadband networks remained at a high level. With other investments declining, capital expenditure in Switzerland fell overall by CHF 33 million or 2.0% to CHF 1,645 million. Capital expenditure at Fastweb rose by EUR 35 million or 5.6% to EUR 657 million. This rise resulted from the acquisition of mobile radio frequencies.

Operating free cash flow declined by CHF 414 million or 19.2% to CHF 1,745 million, mainly due to the movement in net working capital, which, unlike the previous year, was negative. At CHF 7,393 million, net debt was CHF 54 million lower than at the end of 2017, while the ratio of net debt to EBITDA rose from 1.7 to 1.8.

Headcount decreased year-on-year by 661 FTEs or 3.2% to 19,845 FTEs. In Switzerland, headcount fell by 541 FTEs or 3.1% to 17,147 FTEs as a result of the declining core business. Over half of the reduction was offset by natural fluctuation and vacancy management.

For 2019, Swisscom expects net revenue of around CHF 11.4 billion, EBITDA of over CHF 4.3 billion and capital expenditure of around CHF 2.3 billion. Subject to achieving its targets, Swisscom will propose payment of an unchanged attractive dividend of CHF 22 per share for the 2019 financial year at the 2020 Annual General Meeting.

Segment results

In CHF million, except where indicated	2018	2017	Change
Net revenue			
Residential Customers	5,924	6,053	–2.1%
Enterprise Customers	2,410	2,510	–4.0%
Wholesale [1]	894	944	–5.3%
IT, Network & Infrastructure	159	167	–4.8%
Intersegment elimination	(570)	(616)	–7.5%
Swisscom Switzerland	**8,817**	**9,058**	**–2.7%**
Fastweb	2,426	2,164	12.1%
Other Operating Segments	907	850	6.7%
Group Headquarters	2	1	100.0%
Intersegment elimination	(438)	(411)	6.6%
Revenue from external customers [2]	**11,714**	**11,662**	**0.4%**
Operating income before depreciation and amortisation (EBITDA)			
Residential Customers	3,373	3,482	–3.1%
Enterprise Customers	755	822	–8.2%
Wholesale	446	446	0.0%
IT, Network & Infrastructure	(1,166)	(1,250)	–6.7%
Swisscom Switzerland	**3,408**	**3,500**	**–2.6%**
Fastweb	777	845	–8.0%
Other Operating Segments	186	180	3.3%
Group Headquarters	(78)	(111)	–29.7%
Reconciliation item pension cost [3]	(60)	(92)	–34.8%
Intersegment elimination	(20)	(27)	–25.9%
Operating income before depreciation and amortisation (EBITDA) [2]	**4,213**	**4,295**	**–1.9%**

1 Including intersegment recharges of services performed by other network providers.
2 Swisscom has applied IFRS 15 “Revenue from Contracts with Customers” since 1 January 2018. The prior year’s figures have not been adjusted. If IFRS 15 had not been applied, net revenue in 2018 would be CHF 5 million lower (Swisscom Switzerland CHF –9 million; Fastweb CHF +4 million) and EBITDA CHF 43 million higher (Swisscom Switzerland CHF +12 million; Fastweb CHF +31 million).
3 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 three operating divisions Swisscom Switzerland, Fastweb and Other Operating Segments. Group Headquarters, which includes non-allocated costs, is reported separately. Swisscom Switzerland comprises the customer segments Residential Customers, Enterprise Customers and Wholesale, as well as the IT, Network & Infrastructure division. Fastweb is a telecommunications provider for residential and business customers in Italy. Other Operating Segments primarily comprises the Digital Business division, Swisscom Broadcast Ltd (radio transmitters) and cablex Ltd (network construction and maintenance).

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

Segment expense comprises direct costs, personnel expenses and other operating costs less capitalised costs of self-constructed assets and other income. Segment expense includes ordinary employer contributions as pension fund expense. The difference between the ordinary employer contributions and the past service cost under IAS 19 is reported as a reconciliation item between the operating incomes of the segments and Group operating income.

Swisscom Switzerland

In CHF million, except where indicated	2018	2017	Change
Net revenue and results			
Telecom services	6,222	6,464	–3.7%
Solution business	1,042	1,084	–3.9%
Merchandise	705	648	8.8%
Wholesale	566	578	–2.1%
Revenue other	202	203	–0.5%
Revenue from external customers	**8,737**	**8,977**	**–2.7%**
Intersegment revenue	80	81	–1.2%
Net revenue [1]	**8,817**	**9,058**	**–2.7%**
Direct costs	(1,972)	(1,943)	1.5%
Indirect costs	(3,437)	(3,615)	–4.9%
Segment expenses	**(5,409)**	**(5,558)**	**–2.7%**
Segment result before depreciation and amortisation (EBITDA) [1]	**3,408**	**3,500**	**–2.6%**
Margin as % of net revenue	38.7	38.6	
Depreciation, amortisation and impairment losses	(1,502)	(1,485)	1.1%
Segment result	**1,906**	**2,015**	**–5.4%**
Operational data at end of period in thousand			
Fixed telephony access lines	1,788	2,047	–12.7%
Broadband access lines retail	2,033	2,014	0.9%
Swisscom TV access lines	1,519	1,467	3.5%
Mobile access lines	6,551	6,637	–1.3%
Revenue generating units (RGU)	11,891	12,165	–2.3%
Bundles	1,970	1,898	3.8%
Unbundled fixed access lines	87	107	–18.7%
Broadband access lines wholesale	481	435	10.6%
Capital expenditure and headcount			
Capital expenditure in property, plant and equipment and intangible assets	1,620	1,654	–2.1%
Full-time equivalent employees at end of year (number)	14,478	15,157	–4.5%

1 Swisscom has applied IFRS 15 "Revenue from Contracts with Customers" since 1 January 2018. The prior year's figures have not been adjusted. If IFRS 15 had not been applied, net revenue in 2018 would be CHF 9 million lower and EBITDA CHF 12 million higher.

Net revenue for Swisscom Switzerland fell by CHF 241 million or 2.7% to CHF 8,817 million as a result of fierce competition and the downward trend in fixed-line telephony. Revenue from telecommunications services decreased by CHF 242 million or 3.7% to CHF 6,222 million. Of this decline, CHF 173 million (–3.2%) was attributable to the Residential Customers segment and CHF 69 million (–6.3%) to the Enterprise Customers segment. In the Residential Customers segment, the fall is due to price pressure and a declining subscriber base in fixed-line telephony, which contracted in this segment by 199,000 or 10.8% to 1.64 million. Competition led to price pressure in the Enterprise Customers segment as well, while customers were also able to optimise their needs with the switch to All IP. In the solutions business, net revenue decreased by CHF 42 million or 3.9% to CHF 1,042 million due to strong competition and lower volumes in the banking sector. The Enterprise Customers segment recorded incoming orders of around CHF 2.5 billion (prior year: CHF 2.7 billion). For Wholesale, the increased demand for broadband connections largely offset the decline in revenue from inbound roaming. The demand for bundled offerings is still high.

The number of inOne customers is constantly growing. As of the end of 2018, Swisscom Switzerland's inOne customers numbered 2.33 million, which is 988,000 more than in the previous year. This means that inOne covers 54% of all mobile subscriptions and 57% of fixed-line broadband connections of residential customers. The number of revenue generating units decreased by 274,000 or 2.3% to 11.9 million, chiefly as a result of the downward trend in fixed-line telephony. Year-on-year, the number of fixed-line telephony connections fell by 259,000 or 12.7% to 1.79 million. The number of mobile subscribers in this saturated market declined by 86,000 or 1.3% to 6.55 million. Swisscom increased the number of subscribers to its postpaid lines by 34,000 or 0.7% to 4.68 million, whereas the number of prepaid lines decreased by 120,000 or 6.9% to 1.87 million. The markets for broadband and TV are also saturated, and customer growth remains sluggish. The number of broadband connections rose by 19,000 or 0.9% to 2.03 million, while TV connections increased by 52,000 or 3.5% to 1.52 million.

Segment expense fell by CHF 149 million or 2.7% to CHF 5,409 million. Excluding non-recurring items such as provisions recognised for headcount reduction in 2017 and the first-time application of new IFRS accounting standards in 2018, the decrease was 2.0% on a like-for-like basis. Direct costs increased by CHF 29 million or 1.5% to CHF 1,972 million. The costs for purchasing goods rose, whereas those for retaining and acquiring subscribers fell. Indirect costs were CHF 178 million or 4.9% lower at CHF 3,437 million. On a like-for-like basis, the decline was CHF 121 million or 3.4% due to cost savings. Headcount fell year-on-year by 679 FTEs or 4.5% to 14,478. The costs saved were able to make up for around half of the decline in revenue. The segment result before depreciation and amortisation was CHF 92 million or 2.6% lower at CHF 3,408 million, resulting in a decline of 3.9% on a like-for-like basis. Capital expenditure fell by CHF 34 million or 2.1% to CHF 1,620 million. Capital expenditure for the expansion of the broadband networks remained at a high level, while other investments decreased.

Fastweb

In EUR million, except where indicated	**2018**	2017	Change
Residential Customers	1,050	986	6.5%
Corporate Business	780	710	9.9%
Wholesale	267	240	11.3%
Revenue from external customers	**2,097**	**1,936**	**8.3%**
Intersegment revenue	7	8	–12.5%
Net revenue [1]	**2,104**	**1,944**	**8.2%**
Segment expenses	(1,430)	(1,185)	20.7%
Segment result before depreciation and amortisation (EBITDA) [1]	**674**	**759**	**–11.2%**
Margin as % of net revenue	32.0	39.0	
Capital expenditure in property, plant and equipment and intangible assets	657	622	5.6%
Full-time equivalent employees at end of year (number)	2,484	2,504	–0.8%
Broadband access lines at end of period in thousand	2,547	2,451	3.9%
Mobile access lines at end of period in thousand	1,432	1,065	34.5%

1 Swisscom has applied IFRS 15 “Revenue from Contracts with Customers” since 1 January 2018. The prior year’s figures have not been adjusted. If IFRS 15 had not been applied, net revenue in 2018 would be EUR 4 million higher and EBITDA EUR 27 million higher.

Fastweb’s net revenue rose by EUR 160 million or 8.2% year-on-year to EUR 2,104 million thanks to customer growth. Despite difficult market conditions, Fastweb’s broadband customer base grew by 96,000 or 3.9% to around 2.55 million in 2018. Fastweb is also growing in the fiercely competitive mobile telephony market. The number of mobile lines rose by 367,000 or 34.5% to 1.43 million within twelve months. Residential customer revenue rose by EUR 64 million or 6.5% to EUR 1,050 million as a result of customer growth. Despite the high level of competition, Fastweb held its strong position in the market for business customers. Revenue from corporate business increased by EUR 70 million or 9.9% to EUR 780 million, while wholesale business revenue was up by EUR 27 million or 11.3% to EUR 267 million. The segment result before depreciation and amortisation was EUR 85 million or 11.2% lower at EUR 674 million. In the previous year, one-off income from legal disputes amounting to EUR 95 million had been received. On a like-for-like basis, EBITDA rose by 5.6% as a result of the growth in revenue. Overall, capital expenditure rose year-on-year by EUR 35 million or 5.6% to EUR 657 million. This includes EUR 64 million for investments in mobile radio frequencies. Fastweb’s headcount was practically unchanged year-on-year at 2,484 FTEs.

Other Operating Segments

In CHF million, except where indicated	2018	2017	Change
Revenue from external customers	558	529	5.5%
Intersegment revenue	349	321	8.7%
Net revenue	**907**	**850**	**6.7%**
Segment expenses	(721)	(670)	7.6%
Segment result before depreciation and amortisation (EBITDA)	**186**	**180**	**3.3%**
Margin as % of net revenue	20.5	21.2	
Capital expenditure in property, plant and equipment and intangible assets	46	58	–20.7%
Full-time equivalent employees at end of year (number)	2,649	2,580	2.7%

The net revenue of the Other Operating Segments rose year-on-year by CHF 57 million or 6.7% to CHF 907 million. The increase was mainly due to higher revenue from construction services rendered by cablex. The segment result before depreciation and amortisation improved year-on-year by 3.3% or CHF 6 million to CHF 186 million. This corresponds to a profit margin of 20.5%. Headcount rose by 69 FTEs or 2.7% to 2,649 FTEs, driven primarily by the hiring of new employees at cablex.

Group Headquarters and reconciliation

In CHF million, except where indicated	2018	2017	Change
Group Headquarters	(78)	(111)	–29.7%
Reconciliation pension cost	(60)	(92)	–34.8%
Intersegment elimination	(20)	(27)	–25.9%
Operating income before depreciation and amortisation (EBITDA)	**(158)**	**(230)**	**–31.3%**

The net costs not allocated to the operating segments, which comprise Group Headquarters, pension cost reconciliation and inter-segment eliminations, declined by CHF 72 million overall year-on-year. Non-recurring items contributed to the reduction in Group Headquarters net costs, which amounted to CHF 33 million. These items included costs incurred in 2017 for the recognition of various provisions. Also, in 2018 revenue was generated from the reimbursement of levies, and the measures to reduce the cost base showed effects. The reconciliation item for pension cost is the difference between the total of employer contributions and the cost under IFRS. The cost reduction here of CHF 32 million came about mainly as a result of changes in assumptions (in particular regarding the discount rate). Inter-segment eliminations pertain to unrealised profits on capitalised work of other Group companies.

Depreciation and amortisation, non-operating results

In CHF million, except where indicated	2018	2017	Change
Operating income before depreciation and amortisation (EBITDA)	**4,213**	**4,295**	**–1.9%**
Depreciation, amortisation and impairment losses	(2,144)	(2,164)	–0.9%
Operating income (EBIT)	**2,069**	**2,131**	**–2.9%**
Net interest expense	(128)	(149)	–14.1%
Other financial result	(30)	(11)	172.7%
Result of equity-accounted investees	5	(11)	
Income before income taxes	**1,916**	**1,960**	**–2.2%**
Income tax expense	(395)	(392)	0.8%
Net income	**1,521**	**1,568**	**–3.0%**
Share of net income attributable to equity holders of Swisscom Ltd	1,527	1,570	–2.7%
Share of net income attributable to non-controlling interests	(6)	(2)	200.0%
Earnings per share (in CHF)	29.48	30.31	–2.7%

Depreciation and amortisation fell by CHF 20 million or 0.9% year-on-year to CHF 2,144 million. The amortisation of intangible assets related to business combinations declined, amounting to CHF 37 million (prior year: CHF 50 million). Net interest expense declined by CHF 21 million to CHF 128 million as a result of lower average interest costs. Income tax expense was CHF 395 million (prior year: CHF 392 million), corresponding to an effective income tax rate of 20.6% (prior year: 20.0%).

Net income fell by CHF 47 million or 3.0% to CHF 1,521 million, primarily due to the non-recurring items described in the summary. Earnings per share fell accordingly from CHF 30.31 to CHF 29.48.

Cash flows

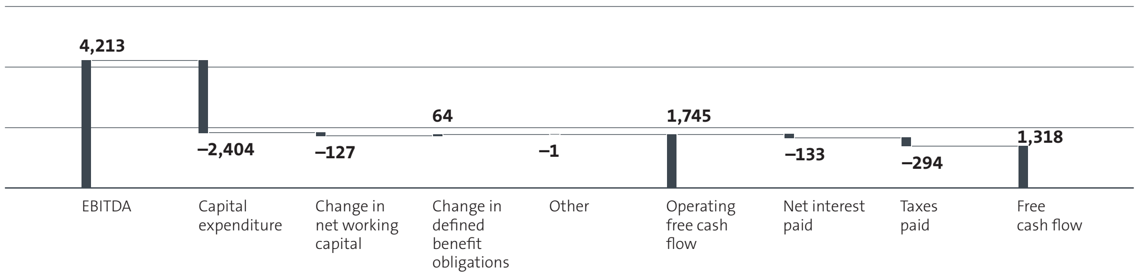
In CHF million	2018	2017	Change
Operating income before depreciation and amortisation (EBITDA)	4,213	4,295	(82)
Capital expenditure in property, plant and equipment and intangible assets	(2,404)	(2,378)	(26)
Change in defined benefit obligations	64	36	28
Change in net working capital and other cash flows from operating activities	(127)	214	(341)
Dividends paid to non-controlling interests	(1)	(8)	7
Operating free cash flow	**1,745**	**2,159**	**(414)**
Net interest paid	(133)	(155)	22
Income taxes paid	(294)	(289)	(5)
Free cash flow	**1,318**	**1,715**	**(397)**
Net expenditures for company acquisitions and disposals	(113)	(106)	(7)
Other cash flows from investing activities, net	19	120	(101)
Issuance of financial liabilities	1,451	757	694
Repayment of financial liabilities	(1,571)	(1,158)	(413)
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Other cash flows	(9)	(9)	–
(Net decrease) net increase in cash and cash equivalents	**(45)**	**179**	**(224)**

Free cash flow declined year-on-year by CHF 397 million to CHF 1,318 million, mainly due to lower operating free cash flow. Operating free cash flow decreased by CHF 414 million to CHF 1,745 million, due chiefly to the movement in net working capital. The positive movement in the previous year resulted primarily from an increase in trade payables. In 2018, the balances of liabilities moved in the opposite direction, and this had a negative impact on the change in net working capital. Also, in the previous year, provisions were recognised that were used in 2018, resulting in a cash outflow.

Net expenditure for company acquisitions and disposals amounted to CHF 113 million (prior year: CHF 106 million). This chiefly includes payments for the acquisition of the Fixed Wireless division and mobile radio frequencies of Tiscali by Fastweb and investments in equity-accounted investee Flash Fiber in connection with the network expansion in Italy (prior year: purchase of a Tiscali business division by Fastweb and acquisition of the remaining shares of Cinetrade). In 2018, Swisscom took up debenture bonds in the amounts of CHF 300 million and EUR 500 million. In addition, short-term bank loans were taken up in order to repay a 3.25% debenture bond for CHF 1,385 million upon maturity.

Development of free cash flow

in CHF million



Capital expenditure

In CHF million, except where indicated	2018	2017	Change
Fixed access and infrastructure	496	486	2.1%
Expansion of the fibre-optic network	490	469	4.5%
Mobile network	307	271	13.3%
Customer driven	77	81	−4.9%
Projects and others [1]	250	347	−28.0%
Swisscom Switzerland	**1,620**	**1,654**	**−2.1%**
Fastweb	757	692	9.4%
Other Operating Segments	46	58	−20.7%
Group Headquarters and eliminations	(19)	(26)	−26.9%
Total capital expenditure	**2,404**	**2,378**	**1.1%**
Thereof Switzerland	1,645	1,678	−2.0%
Thereof foreign countries	759	700	8.4%
Total capital expenditure as % of net revenue	20.5	20.4	

1 Including All IP migration.

Capital expenditure rose year-on-year by CHF 26 million or 1.1% to CHF 2,404 million, corresponding to 20.5% of net revenue (prior year: 20.4%). Swisscom Switzerland accounted for 67% of 2018 capital expenditure, while Fastweb accounted for 32% and Other Operating Segments for 1%.

Capital expenditure incurred by Swisscom Switzerland declined year-on-year by CHF 34 million or 2.1% to CHF 1,620 million, corresponding to 18.4% of net revenue (prior year: 18.3%). Capital expenditure for the expansion of the broadband networks with the latest technologies remained at a high level, while other investments decreased.

Fastweb increased its capital expenditure by CHF 65 million or 9.4% to CHF 757 million. In local currency, it remained at the same high level as the previous year, totalling EUR 657 million. The increase of EUR 35 million or 5.6% in capital expenditure resulted from the acquisition and extension of mobile radio frequencies in the amount of EUR 64 million. Fastweb is continuing the expansion of the ultra-fast broadband networks in Italy as planned. The ratio of capital expenditure to revenue was 31.2% (prior year: 32.0%).

Net asset position

In CHF million	31.12.2018	01.01.2018	Change
Property, plant and equipment	10,894	10,697	197
Goodwill	5,164	5,186	(22)
Intangible assets	1,858	1,758	100
Trade receivables	2,189	2,359	(170)
Trade payables	(1,658)	(1,753)	95
Provisions	(1,032)	(1,077)	45
Other operating assets and liabilities, net	(18)	(183)	165
Net operating assets	**17,397**	**16,987**	**410**
Net debt	(7,393)	(7,447)	54
Defined benefit obligations	(1,196)	(1,048)	(148)
Income tax assets and liabilities, net	(895)	(804)	(91)
Equity-accounted investees and other non-current financial assets	295	253	42
Equity	**8,208**	**7,941**	**267**
Equity ratio at end of year	36.3	35.3	
Ratio net debt/EBITDA	1.8	1.7	

Operating assets

Net operating assets rose by CHF 0.4 billion or 2.4% to CHF 17.4 billion. The increase was mainly attributable to increased capital expenditure in property, plant and equipment and intangible assets as a result of high levels of investment. The net carrying amount of goodwill was CHF 5.2 billion, the bulk of which relates to Swisscom Switzerland (CHF 4.3 billion). This goodwill arose primarily in 2007 in connection with the repurchase of the 25% stake in Swisscom Mobile Ltd sold to Vodafone in 2001. Following the repurchase, the mobile, fixed-network and solutions businesses were organisationally combined and merged to create the new company Swisscom (Switzerland) Ltd. The valuation risk of this goodwill item is extremely low. The net carrying amount of Fastweb's goodwill is EUR 0.5 billion (CHF 0.6 billion). Fastweb's carrying amount in the consolidated financial statements totals EUR 2.9 billion (CHF 3.3 billion).

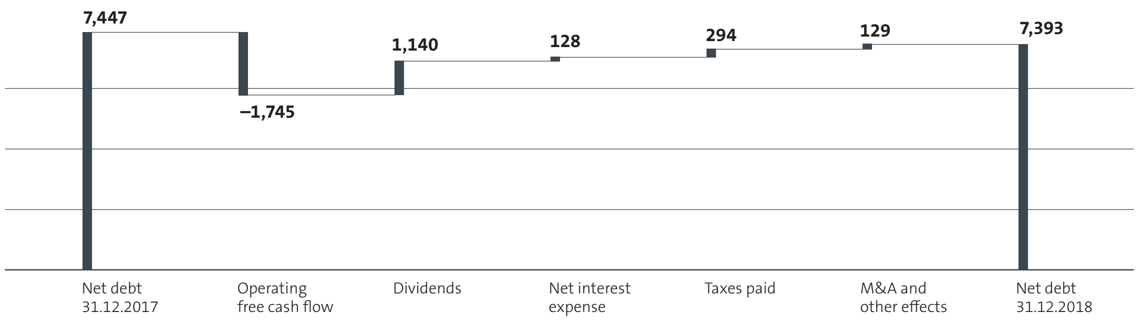
Net debt

Swisscom aims to maintain a single-A credit rating. Net debt comprises financial liabilities less cash and cash equivalents, current financial assets, non-current certificates of deposit and derivative financial instruments for financing.

In CHF million	31.12.2018	31.12.2017
Debenture bonds	5,554	6,137
Bank loans	1,233	760
Private placements	426	493
Finance lease liabilities	384	461
Other financial liabilities	570	435
Total financial liabilities	**8,167**	**8,286**
Cash and cash equivalents	(474)	(525)
Non-current certificates of deposit	(145)	(145)
Non-current derivative financial instruments for financing	(81)	(99)
Other current financial assets	(74)	(70)
Net debt	**7,393**	**7,447**
Operating income before depreciation and amortisation (EBITDA)	4,213	4,295
Ratio net debt/EBITDA	1.8	1.7

Development of net debt

in CHF million



The ratio of net debt to EBITDA was 1.8 at the end of 2018 (prior year: 1.7). In recent years, Swisscom has taken advantage of favourable capital market conditions with a view to optimising the interest and maturity structure of the Group's financial obligations. The share of the Group's variable interest-bearing financial liabilities amounts to 26%.

As at 31 December 2018, Swisscom's financial liabilities amounted to CHF 8.2 billion. Around 85% of the financial liabilities have a residual term to maturity of more than one year. Financial liabilities with a term of one year or less amounted to CHF 1.3 billion at 31 December 2018. In 2018, the average interest expense on all financial liabilities was 1.0% (prior year: 1.7%), and the average residual term to maturity was 5.4 years. A large proportion of the financial liabilities will fall due for repayment if a shareholder other than the Swiss Confederation gains majority control over Swisscom.

In CHF million	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due within 6 to 10 years	Due after 10 years	Total
Bank loans	564	361	–	269	–	1,194
Debenture bonds	–	564	1,314	2,727	909	5,514
Private placements	278	–	–	–	150	428
Finance lease liabilities	21	16	30	48	269	384
Other financial liabilities	394	90	32	–	–	516
Total interest-bearing financial liabilities	**1,257**	**1,031**	**1,376**	**3,044**	**1,328**	**8,036**

Post-employment benefits

Defined benefit obligations recognised in the consolidated financial statements are measured in accordance with IFRS provisions. Net defined benefit obligations amounted to CHF 1.2 billion, which represents a CHF 0.2 billion increase year-on-year. This is mainly due to the negative return on plan assets. In accordance with the Swiss accounting standards applicable to the pension fund (Swiss GAAP ARR), the funding surplus amounts to CHF 0.3 billion, corresponding to a coverage ratio of 103% on the plan's assets of CHF 10.5 billion. The main reasons for the difference of CHF 1.5 billion compared with IFRS are the application of differing actuarial assumptions, for example with regard to the discount rate, life expectancy or risk sharing (CHF 0.9 billion), as well as a different actuarial measurement method (CHF 0.6 billion). Unlike Swiss GAAP, IFRS measurement takes into account future salary, contribution and pension increases and early retirements.

Equity

Equity of CHF 8.2 billion (prior year: CHF 7.6 billion) and an equity ratio of 36.3% (prior year: 34.7%) were reported in the 2018 consolidated financial statements. The increase of CHF 0.6 billion reported in equity resulted in part because the net income was not distributed in its entirety as dividends. In addition, a change in accounting policies (IFRS 15) had a positive net effect on equity. The foreign currency differences arising from the translation of foreign subsidiaries are recognised in equity. On 31 December 2018, cumulative currency translation losses amounted to CHF 1.7 billion (after tax).

Distributable reserves are not determined on the basis of the equity as reported in the consolidated financial statements but rather on the basis of equity as reported in the separate financial statements of Swisscom Ltd. The equity totalled CHF 6.5 billion in the 2018 separate financial statement of Swisscom Ltd. The difference of CHF 1.7 billion as compared to the equity disclosed in the consolidated balance sheet is largely due to earnings retained by subsidiaries and different accounting policies. Under Swiss company law, share capital and that part of the general reserves representing 20% of the share capital may not be distributed. On 31 December 2018, Swisscom Ltd held distributable reserves of CHF 6.4 billion.

Value-oriented business management

Key performance indicators for planning and managing business operations are revenue, operating income before depreciation and amortisation (EBITDA) and capital expenditure. The enterprise value/EBITDA ratio also permits comparisons of Swisscom's enterprise value derived from the share price on the balance sheet date with that of similar companies (European telecommunications companies) as well as with the prior year. The members of the Board of Directors and Group Executive Board are paid a portion of their remuneration in the form of Swisscom shares, which are blocked for a period of three years. They are also subject to a minimum shareholding requirement. Variable remuneration based on financial and non-financial targets, the partial settlement of remuneration in shares and the minimum shareholding requirement ensure that the financial interests of management are aligned with the interests of shareholders.

In CHF million, except where indicated	**31.12.2018**	31.12.2017
Enterprise value		
Market capitalisation	24,331	26,859
Net debt	7,393	7,447
Defined benefit obligations	1,196	1,048
Equity-accounted investees and other non-current financial assets	(295)	(253)
Non-controlling interests	(15)	(11)
Enterprise value (EV)	**32,610**	**35,090**
Operating income before depreciation and amortisation (EBITDA)	4,213	4,295
Ratio enterprise value/EBITDA	**7.7**	**8.2**

Swisscom's enterprise value decreased by 7.1% or CHF 2.5 billion to CHF 32.6 billion in 2018. The reason for this was a decline in market capitalisation of 9.4% or CHF 2,6 billion. The lower enterprise value caused the ratio of enterprise value to EBITDA to drop to 7.7 (prior year: 8.2). Swisscom's relative market valuation is therefore well above the average for comparable companies in Europe's telecoms sector. The higher ratio is supported by the solid market position Swisscom has achieved thanks to a high level of investment and an attractive dividend policy, as well as the lower interest rates and lower corporate income tax rates in Switzerland as compared to other European countries.

Statement of added value

Thanks to a modern, high-performance network infrastructure and a comprehensive, needs-driven service offering, Swisscom makes an important contribution to Switzerland's competitiveness and economic success and generates direct added value.

Operating added value is equivalent to net revenue less goods and services purchased, other indirect costs and depreciation and amortisation. Personnel expense in the statement of added value is treated as use of added value rather than as an intermediate input.

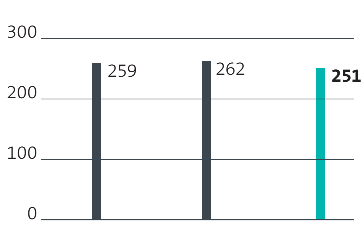
In CHF million	Switzerland 2018	Abroad 2018	**Total 2018**	Switzerland 2017	Abroad 2017	Total 2017
Added value						
Net revenue	**9,274**	**2,440**	**11,714**	**9,476**	**2,186**	**11,662**
Capitalised self-constructed assets and other income	347	114	461	325	183	508
Direct costs	(2,001)	(953)	(2,954)	(1,946)	(775)	(2,721)
Other operating expenses [1]	(1,571)	(601)	(2,172)	(1,594)	(549)	(2,143)
Depreciation and amortisation [2]	(1,521)	(586)	(2,107)	(1,528)	(586)	(2,114)
Intermediate inputs	**(4,746)**	**(2,026)**	**(6,772)**	**(4,743)**	**(1,727)**	**(6,470)**
Operating added value	**4,528**	**414**	**4,942**	**4,733**	**459**	**5,192**
Other non-operating result [3]			(62)			(72)
Total added value			**4,880**			**5,120**
Allocation of added value						
Employees [4]	2,531	224	2,755	2,666	244	2,910
Public sector [5]	335	25	360	376	18	394
Shareholders (dividends)			1,141			1,148
Third-party lenders (net interest expense)			128			149
Company (retained earnings) [6]			496			519
Total added value			**4,880**			**5,120**

1 Other operating expense: excluding taxes on capital and other taxes not based on income.
2 Depreciation and amortisation: excluding amortisation of acquisition-related intangible assets such as brands or customer relations.
3 Other non-operating result: financial result excluding 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 taxes, taxes on capital and other taxes not based on income.
6 Company: including changes in deferred income taxes and defined benefit obligations.

Of the consolidated operating added value of CHF 4.9 billion, 92% or CHF 4.5 billion was generated in Switzerland, which was 4.3% less than in the previous year. At the same time, added value per FTE was 3.8% lower at CHF 251,000. In addition to direct added value, purchases from suppliers provide significant indirect added value for Switzerland's economic development. Taking into account capital expenditure instead of depreciation and amortisation, the purchasing volume in the Swiss business was around CHF 4.9 billion in 2018, with added value contributed by suppliers in Switzerland of approximately 60% or CHF 2.9 billion.

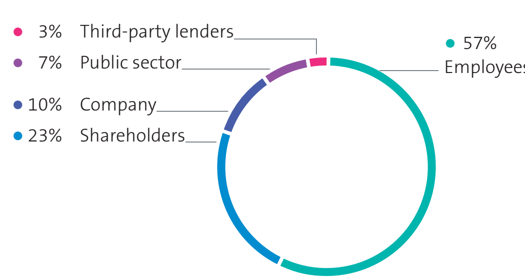
Swisscom development of value added per employee in Switzerland

in CHF thousand



Allocation of added value

in %



Financial outlook

In CHF million, except where indicated	2018 Reported	Impact IFRS 16	Change w/o IFRS 16	**2019 Outlook**
Net revenue				
Swisscom Group	**11,714**	**–**	**(300)**	**~ CHF 11.4 bn**
Swisscom without Fastweb		–	(300)	~ CHF 9.0 bn
Fastweb		–	> 0	> EUR 2.1 bn
Operating income before depreciation and amortisation (EBITDA)				
Swisscom Group	**4,213**	**~200**	**< 0**	**> CHF 4.3 bn**
Swisscom without Fastweb		~180	< 0	< CHF 3.6 bn
Fastweb		~20	> 0	> EUR 0.7 bn
Capital expenditure				
Swisscom Group	**2,404**	**–**	**< 0**	**~ CHF 2.3 bn**
Swisscom without Fastweb		–	< 0	~ CHF 1.6 bn
Fastweb		–	< 0	~ EUR 0.6 bn

For 2019, Swisscom expects net revenue of around CHF 11.4 billion, EBITDA of over CHF 4.3 billion and capital expenditure of around CHF 2.3 billion. Due to strong competition and price pressure and the ongoing decline in the number of fixed-line telephone connections, Swisscom expects revenue to be slightly lower without Fastweb. Fastweb's revenue is expected to increase slightly from 2018. The outlook for EBITDA in 2019 reflects the effect of a new accounting standard for leasing (IFRS 16) applicable from 2019 onwards. Under this standard, the costs for rental and leasing of property, plant and equipment are no longer recognised as operating expenses, but are instead capitalised as right-of-use assets and recognised as lease liabilities. Rental and lease costs are now recognised in the income statement below EBITDA as amortisation of right-of-use assets and interest on lease liabilities. This effect increases the reported EBITDA by around CHF 200 million. On a like-for-like basis and excluding the effects of IFRS 16, Group EBITDA will be lower in 2019 than in 2018. This has little impact on net income. For Swisscom, excluding Fastweb, the decline in revenue cannot be fully compensated by cost savings. In contrast, an increase in EBITDA is anticipated for Fastweb on a like-for-like basis. Capital expenditure in Switzerland, excluding costs for acquiring additional mobile radio frequencies at auction, will be slightly less than in the previous year. Fastweb's capital expenditure is expected to be lower, because the EUR 64 million spent on mobile radio frequencies in 2018 will no longer recur. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2019 financial year at the 2020 Annual General Meeting.

Capital market

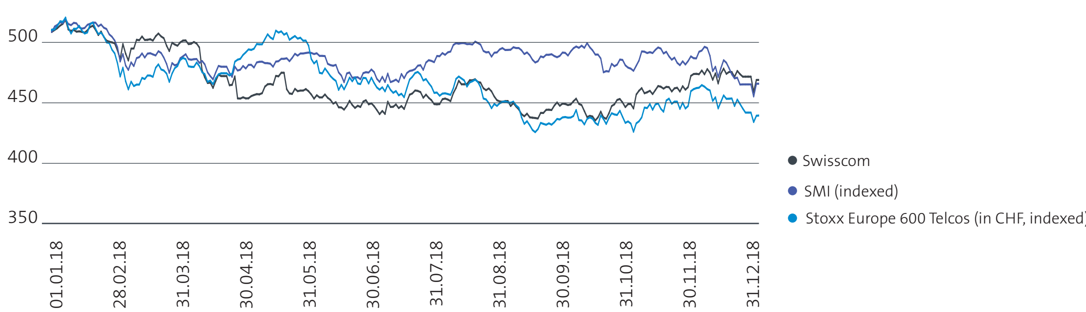
Swisscom's shares are listed on the SIX Swiss Exchange. The creditworthiness of Swisscom is regularly assessed by international rating agencies.

Swisscom share

Swisscom's market capitalisation as at 31 December 2018 amounted to CHF 24.3 billion (previous year: CHF 26.9 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 2018

in CHF



The Swiss Market Index (SMI) fell by 10.2% compared with the previous year. The Swisscom share price decreased by 9.4% to CHF 469.70, outperforming the Stoxx Europe 600 Telecommunications Index (–16.4% in CHF; –13.2% in EUR). Average daily trading volume fell by 3% to 151,185 shares. The total trading volume of Swisscom shares in 2018 amounted to CHF 17.6 billion.

See www.swisscom.ch/shareprice

Shareholder return

On 10 April 2018, Swisscom paid out an ordinary dividend of CHF 22 per share. Based on the closing price at the end of 2017, this equates to a return of 4.2%. Taking into account the decline in the share price, the Swisscom share achieved a total shareholder return (TSR) of –5.2% in 2018. The TSR for the SMI was –7.1% and for the Stoxx Europe 600 Telecommunications Index –11.8% in CHF and –8.3% 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

	31.12.2018			31.12.2017		
	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	70,206	4,995,716	9.6%	69,837	5,042,232	9.7%
Institutions	2,904	20,412,227	39.4%	2,938	20,365,711	39.3%
Total	**73,111**	**51,801,943**	**100.0%**	**72,776**	**51,801,943**	**100.0%**

The majority shareholder as at 31 December 2018 was the Swiss Confederation, which is obligated by current law to hold the majority of the capital and voting rights. As at 31 December 2018, some 20% of the shares were held in unregistered shareholdings.

Analysts' recommendations

Investment specialists analyse Swisscom's business performance, results and market situation on an ongoing basis. Their findings and recommendations offer valuable indicators for investors. Twenty-four analysts regularly publish studies on Swisscom. At the end of 2018, 16% of the analysts recommended a buy rating for the Swisscom share, 42% a hold rating and 42% a sell rating. The average price target at 31 December 2018, according to the analysts' estimates, was CHF 470 per share.

Dividend policy

Swisscom pursues a return policy with a stable dividend. At the forthcoming Annual General Meeting on 2 April 2019, the Board of Directors will propose an unchanged ordinary dividend of CHF 22 per share for the 2018 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 31.9 billion to its shareholders: CHF 19.9 billion in dividend payments, CHF 1.6 billion in capital reductions and CHF 10.4 billion in share buybacks. Swisscom has paid out a total of CHF 389 per share since the initial public offering. Together with the overall increase in share price of CHF 130 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 a diversification of financing instruments, markets and currencies. Swisscom's solid financial standing enabled it unrestricted access to money and capital markets again in 2018.

Risks

Changes in markets, competition, customer behaviour, technology, the regulatory environment and government policy are drivers of risk. Swisscom's risk management system is aimed at safeguarding the company's enterprise value. New offerings in the areas of digitisation and IT services should compensate for sagging revenue from the traditional core business. Over the long term, the trend in the ICT market will necessitate major changes in the approach to risks related to the business model, technology and human capital.

Risk situation

Risks are driven by changes in markets, competition, customer behaviour, technology, the regulatory environment and government policy. The importance of established telecommunications services is continuing to decline. New services in the areas of digitisation and IT services, such as cloud services, security products and communication between machines, should compensate for the loss of revenue from the traditional core business. Over the long term, the trend in the ICT market will necessitate major changes in the approach to risks related to the business model, technology and human capital, while forthcoming regulatory decisions pose a latent risk that could impact Swisscom's financial development. The key risk factors are addressed below. The main risk factors in the supply chain are reported separately in the Sustainability Report.

Risk factors

Telecommunications market

Competition driven by national infrastructure providers and service providers who do not have their own telecoms infrastructure is growing and exerting pressure on the business. During this transformation, the complexity resulting from the parallel operation of old and new technologies has to be reduced to enable new, attractive services. Here there is a risk that the revenue from the classic telecoms business will not be secured sustainably during the transformation process, while technical complexity remains undiminished. Moreover, a trend can currently be observed towards national and international cooperation among telecommunications providers, the purpose of which is to provide low-cost services internationally and exploit major synergies and economies of scale. There is a risk that Swisscom will not be able to align its cost structures with its current and future competitors, which would narrow its scope for investment, innovation and price reductions. If such risks materialise, this could delay implementation of the strategy or have a detrimental effect on customer satisfaction. Swisscom has initiated measures in various areas to manage these risks.

Politics and regulation

The manner in which regulations are implemented (e.g. in telecommunications, antitrust and copyright legislation) entails risks for Swisscom, which could have an adverse impact on the company's financial position and results of operations. Sanctions by the Competition Commission could also reduce Swisscom's operating results and cause reputational damage to the company. Finally, excessively high political demands (e.g. those imposed on universal service provision) threaten to fundamentally undermine the current competitive system.

Increasing bandwidth in the access network

Customer demand for broadband access is growing rapidly, as is the popularity of mobile devices and IP-based services (smartphones, IPTV, OTTs, etc.). Swisscom faces tough competition from cable companies and other network operators as it strives to meet current and future customer needs and defend its own market share. The network expansion this necessitates calls for major investments. To mitigate financial risks and ensure optimum network coverage, network expansion is geared towards population density and customer demand. Substantial risks would arise if Swisscom were forced to spend more on network expansion than planned, or if projected long-term earnings were to fall. Swisscom minimises the risks by adapting the broadband expansion of the access network to changing conditions and technical opportunities on an ongoing basis.

Employees

Constant changes in background conditions and markets mean that corporate culture also has to continuously adapt. The key challenges in this context lie in maintaining employee motivation and high staff loyalty despite the pressure on costs, as well as managing growth and efficiency, increasing employees' ability to adapt and renew their skills and ensuring that Swisscom remains an attractive employer.

Competitive dynamics, regulation and recoverability of Fastweb's assets

The competitive dynamics carry risks which could have a detrimental impact on Fastweb's strategy and jeopardise projected revenue growth. The impairment test performed in 2018 confirmed the recoverable value of Fastweb's assets. The recoverability of Fastweb's net assets recognised in the consolidated financial statements is contingent above all on achieving the financial targets set out in the business plan (revenue growth, improvement in EBITDA margin and reduction in capital expenditure ratio). If future growth is lower than projected, there is a risk that this will result in a further impairment loss. Major uncertainty also surrounds the future interest rate trend and the country risk premium. An increase in interest rates or the country risk premium could lead to an impairment loss. Fastweb's business operations are also influenced by European and Italian telecommunications legislation. Regulatory risks can jeopardise the achievement of targets and reduce the enterprise value.

Business interruption

Usage of Swisscom's services is heavily dependent on technical infrastructure such as communications networks and IT platforms. Any major disruption to business operations poses a financial risk as well as a substantial reputational risk. Force majeure, natural disasters, human error, hardware or software failure, criminal acts by third parties (e.g. computer viruses, hacking) and the ever-growing complexity and interdependence of modern technologies can cause damage or interruption to operations. Built-in redundancy, contingency plans, deputising arrangements, alternative locations, careful selection of suppliers and other measures are designed to ensure that Swisscom can deliver the level of service that customers expect at all times.

Information and security technologies

Swisscom is switching analogue telephony to Internet Protocol (IP). This transformation should enable Swisscom to produce more flexibly and efficiently than before. The experience with IP technology to date has been positive. Swisscom's complex IT architecture entails risks during both the implementation and operating phases. These risks have the potential to delay the rollout of new services, increase costs and impact competitiveness. The transformation is being closely monitored by the Group Executive Board. The area of Internet security has developed and changed with immense speed with respect to technology, economics and society and their interdependencies. New innovations and capabilities go hand in hand with new opportunities as well as new risks. The wider the variety of opportunities for attack, the more difficult prevention becomes, making it even more important for potential threats to be recognised at an early stage, systematically understood and quickly averted.

Health and the environment

Electromagnetic radiation (e.g. from mobile antennas or mobile handsets) has repeatedly been claimed to be potentially harmful to the environment and health. Under the terms of the Ordinance on Non-Ionising Radiation (ONIR), Switzerland has adopted the precautionary principle and introduced limits for base stations that are ten times stricter than those prescribed by the EU. The public's wary attitude, in particular towards mobile antenna sites, is impeding Swisscom's network expansion. Even without stricter legislation, public concerns about the effects of electromagnetic radiation on the environment and health could further hamper the construction of wireless networks in the future and drive up costs.

Climate change poses risks for Swisscom. These risks are driven by legal and regulatory changes, changes to physical climatic parameters (increased levels of precipitation, higher average temperatures and temperature extremes, and melting permafrost) and other economic and reputational factors. The resulting developments could impact the operability of Swisscom's telecoms infrastructure, particularly in view of the potential risk to base stations, transmitter stations and local exchanges. The analysis of the risks posed by climate change is based on the official reports of the Federal Office for the Environment (FOEN) on climate change (CH2014 Impacts and CH2018 Climate Scenarios). Swisscom also publishes its own annual climate report.

See **www.cdp.net**

Swisscom Group five-year review

In CHF million, except where indicated		2014	2015	2016	2017	**2018**
Net revenue and results						
Net revenue		11,703	11,678	11,643	11,662	11,714
Operating income before depreciation and amortisation (EBITDA)		4,413	4,098	4,293	4,295	4,213
EBITDA as % of net revenue	%	37.7	35.1	36.9	36.8	36.0
Operating income (EBIT)		2,322	2,012	2,148	2,131	2,069
Net income		1,706	1,362	1,604	1,568	1,521
Earnings per share	CHF	32.70	26.27	30.97	30.31	29.48
Balance sheet and cash flows						
Equity at end of year		5,486	5,242	6,522	7,645	8,208
Equity ratio at end of year	%	26.2	24.8	30.4	34.7	36.3
Cash flow from operating activities		3,565	3,702	3,722	4,091	3,720
Capital expenditure in property, plant and equipment and intangible assets		2,436	2,409	2,416	2,378	2,404
Net debt at end of period		8,120	8,042	7,846	7,447	7,393
Employees						
Full-time equivalent employees at end of year	number	21,125	21,637	21,127	20,506	19,845
Average number of full-time equivalent employees	number	20,433	21,546	21,543	20,836	20,083
Operational data at end of period						
Fixed telephony access lines in Switzerland	in thousand	2,778	2,629	2,367	2,047	1,788
Broadband access lines retail in Switzerland	in thousand	1,890	1,958	1,992	2,014	2,033
Mobile access lines in Switzerland	in thousand	6,540	6,625	6,612	6,637	6,551
Swisscom TV access lines in Switzerland	in thousand	1,165	1,331	1,418	1,467	1,519
Revenue generating units (RGU) Switzerland	in thousand	12,373	12,543	12,389	12,165	11,891
Unbundled fixed access lines in Switzerland	in thousand	180	128	128	107	87
Broadband access lines wholesale in Switzerland	in thousand	262	315	364	435	481
Broadband access lines in Italy	in thousand	2,072	2,201	2,355	2,451	2,547
Swisscom share						
Number of issued shares at end of period	in million of shares	51.802	51.802	51.802	51.802	51.802
Market capitalisation at end of year		27,067	26,056	23,627	26,859	24,331
Closing price at end of period	CHF	522.50	503.00	456.10	518.50	469.70
Closing price highest	CHF	587.50	580.50	528.50	527.00	530.60
Closing price lowest	CHF	467.50	471.10	426.80	429.80	427.00
Ordinary dividend per share	CHF	22.00	22.00	22.00	22.00	22.00 [1]
Ratio payout/earnings per share	%	67.27	83.75	71.04	72.59	74.63
Information Switzerland						
Net revenue		9,586	9,764	9,665	9,476	9,274
Operating income before depreciation and amortisation (EBITDA)		3,788	3,461	3,572	3,451	3,419
Capital expenditure in property, plant and equipment and intangible assets		1,751	1,822	1,774	1,678	1,645
Full-time equivalent employees at end of year	number	18,272	18,965	18,372	17,688	17,147

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

Corporate Governance and Remuneration Report

Corporate Governance

Remuneration Report

Corporate Governance

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

1 Principles

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

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

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

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

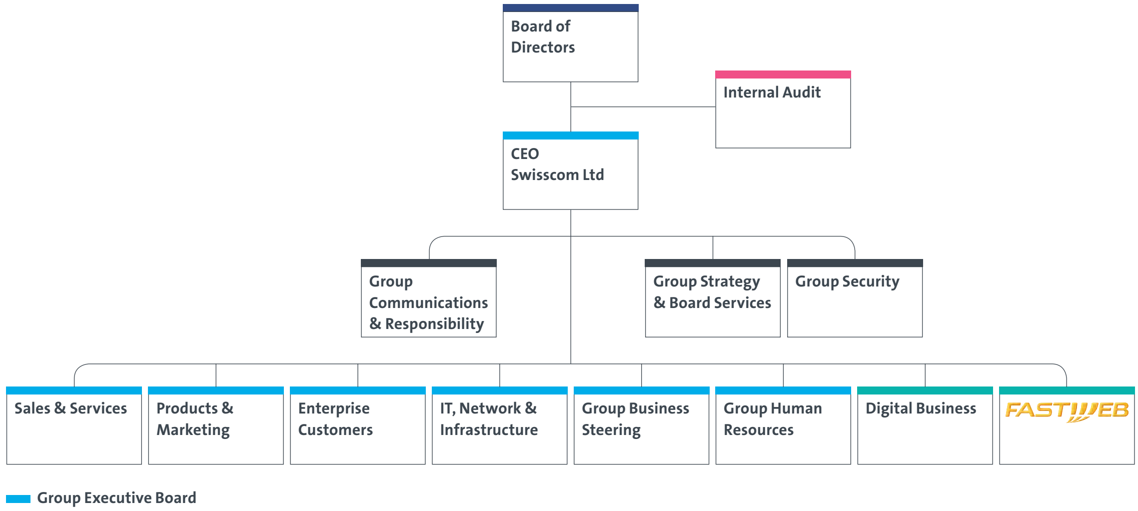
See www.swisscom.ch/basicprinciples

2 Group structure and shareholders

2.1 Group structure

2.1.1 Operational Group structure

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



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

See report **pages 153—154**

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

See report **page 46**

2.1.2 Listed company

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

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

As at 31 December 2018, the stock market capitalisation of Swisscom Ltd was CHF 24,331 million. The Swisscom Group comprises no other listed companies.

2.2 Major shareholders

Pursuant to Article 120 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIA), there is a duty to disclose shareholdings to Swisscom Ltd and SIX Swiss Exchange whenever a person or group subject to the disclosure obligation reaches, exceeds or falls below 3, 5, 10, 15, 20, 25, $33^{1/3}$, 50 or $66^{2/3}$ per cent of the voting rights of Swisscom Ltd, irrespective of whether or not the voting rights can be exercised. The detailed disclosure requirements and the method for calculating these limits are specified in the FINMA Financial Market Infrastructure Ordinance (FMIO-FINMA). Under the FMIO-FINMA, nominee companies, which are not able to independently decide how voting rights are exercised, need not report when any of their shareholdings reach, exceed or fall below these limits. The shareholding notifications can be viewed on the website of SIX Exchange Regulation at https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

In the 2018 reporting year, no shareholdings subject to Article 120 FMIA were reported to Swisscom. In August 2017, BlackRock, Inc., New York, reported a shareholding of 3.44% of the voting rights in Swisscom Ltd. According to the Swisscom share register, Chase Nominees Ltd., London, held 4.6% of the voting rights in Swisscom Ltd on 31 December 2018.

On 31 December 2018, the Swiss federal government (Swiss Confederation), as majority shareholder, continued to hold 50.95% of the issued share capital of Swisscom Ltd, which is unchanged from the previous year. The Telecommunications Enterprises Act (TEA) provides that the Swiss Confederation shall hold the majority of the share capital and voting rights of Swisscom Ltd.

2.3 Cross-participations

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

3 Capital structure

3.1 Capital

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

See report **page 167**

3.2 Shares, participation and profit-sharing certificates

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

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

The holder of an ADR possesses the rights listed in the Deposit Agreement (e.g. the right to issue instructions for the execution of voting rights and the right to dividends). The Bank of New York Mellon Corporation, which acts as the ADR depository, is listed as the shareholder in the share register. ADR holders are therefore unable to directly enforce or exercise shareholder rights. The Bank of New York Mellon Corporation exercises the voting rights in accordance with the instructions it receives from the ADR holders. If it does not receive instructions, it does not exercise the voting rights.

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

See report **page 86**

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

See report **page 57**

3.3 Limitations on transferability and nominee registrations

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

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

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

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

3.4 Convertible bonds, debenture bonds and options

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

See report **page 122**

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

4 Board of Directors

4.1 Members of the Board of Directors

As of 31 December 2018, the Board of Directors comprised the following non-executive members:

Name	Nationality	Year of birth	Function	Taking office at the Annual General Meeting
Hansueli Loosli [1]	Switzerland	1955	Chairman	2009
Roland Abt	Switzerland	1957	Member	2016
Valérie Berset Bircher [2]	Switzerland	1976	Member, representative of the employees	2016
Alain Carrupt	Switzerland	1955	Member, representative of the employees	2016
Frank Esser [3]	Germany	1958	Deputy Chairman	2014
Barbara Frei	Switzerland	1970	Member	2012
Anna Mossberg	Sweden	1972	Member	2018
Catherine Mühlemann	Switzerland	1966	Member	2006
Renzo Simoni [4]	Switzerland	1961	Member, representative of the Confederation	2017

1 Since 1 September 2011 Chairman.
2 Resignation from the Board of Directors as of 31 December 2018.
3 Nominated to Deputy Chairman as of 4 April 2018.
4 Designated by the Swiss Confederation.

Valérie Berset Bircher, the representative of the employees, resigned from her position on the Board of Directors on 31 December 2018 for professional reasons. The Board of Directors will thus consist of eight members from 1 January 2019 until the election of a replacement, which will take place on 2 April 2019. Theophil Schlatter, Vice-Chairman, stepped down from the Board of Directors at the Annual General Meeting on 4 April 2018. Anna Mossberg was elected as his replacement on the Board of Directors.

4.2 Education, professional activities and affiliations

Key details of the career and qualifications of each member of the Board of Directors are provided in the summary below, along with the mandates held outside the Group and other significant activities. Pursuant to the Articles of Incorporation, Board members may perform no more than three additional mandates in listed companies and no more than ten additional mandates in non-listed companies. In total, they may not perform more than ten such additional mandates. These restrictions on the number of mandates do not apply to mandates performed by a Board member by order of Swisscom or to mandates in interest groups, charitable associations, institutions and foundations or employee retirement-benefit foundations. The number of mandates held by order of Swisscom is limited to ten, while the number of mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations is limited to seven. Prior to accepting new mandates outside the Swisscom Group, the Board members are obligated to consult the Chairman of the Board of Directors. Details on the regulation of external mandates, in particular the definition of the term "mandate" and information on other mandates that do not fall under the aforementioned numerical restrictions for listed and non-listed companies, are set out in Article 8.3 of the Articles of Incorporation. No member of the Board of Directors exceeds the limits set for mandates.

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

Hansueli Loosli

Commercial apprenticeship; Swiss Certified Expert in Financial Accounting and Controlling

Career history

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

Mandates in listed companies

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

Mandates in non-listed companies

Mandates of the Coop Group: Chairman of the Board of Directors, Coop Group Association, Basel; Chairman of the Board of Directors, Transgourmet Holding AG, Basel; Chairman of the Board of Directors, Coop Mineraloel AG, Allschwil. Other mandate: Member of the Advisory Board, Deichmann SE, Essen

Other significant activities

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Roland Abt
Doctorate in business administration (Dr. oec.)

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

Mandates in listed companies
Member of the Board of Directors of Conzzeta AG, Zurich

Mandates in non-listed companies
Member of the Board of Directors, Raiffeisenbank, Zufikon; Chairman of the Board of Directors, Eisenbergwerk Gonzen AG, Sargans; member of the Board of Directors of Aargau Verkehr AG (AVA), Aarau (formerly BDWM Transport AG, Bremgarten)

Other significant activities
–

Valérie Berset Bircher
Doctorate in law (Dr. iur.)

Career history
2005 Office of the International Labour Organization (ILO), specialist in employment law in the Department of International Labour Standards; 2006–2007 International Organization for Standardization (ISO), Human Resources Department; 2007–2018 Deputy Head of the International Labour Affairs section of the State Secretariat for Economic Affairs (SECO) in which role she has served on committees of the United Nations (UN) and the International Labour Organization (ILO) addressing economics, finance and development issues and as a member of the Federal Advisory Committee for the National Contact Points on OECD Guidelines for Multinational Companies and the tripartite ILO Committee; 2011–2014 and since 2017 Member of the ILO Board of Directors; since 2019 Head of the International Labour Affairs section of the State Secretariat for Economic Affairs (SECO)

Mandates in non-listed companies
Member of the Board of Directors, Worklink AG, March–December 2018

Other significant activities
Member of the Committee on Freedom of Association, ILO, Geneva

Alain Carrupt
Swiss school-leaving certificate in economics

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

Mandates
–

Other significant activities
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Frank Esser
Graduate in business administration, Doctorate in Economics (Dr. rer. pol.)

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

Mandates in listed companies
Member of the Supervisory Board, Dalenys Group S.A (formerly Rentabiliweb Group S.A.S.), Brussels, up until May 2018; member of the Board of Directors, interXion Holding N.V., Amsterdam

Other significant activities
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Barbara Frei

Degree in mechanical engineering, ETH; Doctorate (Dr. sc. techn.), ETH; Master of Business Administration, IMD Lausanne

Career history

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

Mandates in listed companies

Since March 2018, member of the Board of Directors, Swiss Prime Site, Olten

Mandates in non-listed companies

Schneider Electric Group: CEO of ELSO GmbH, Merten GmbH, Schneider Electric GmbH, Schneider Electric Holding Germany GmbH, SE Real Estate GmbH and Schneider Electric “Austria” Ges.m.b.H, and member of the Supervisory Board of Schneider Electric Sachsenwerk GmbH; since March 2018, Chairman of the Board of Directors, Schneider Electric (Schweiz) AG, Ittigen; since April 2018, Delegate of the Board of Directors, Feller AG, Horgen

Other significant activities

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Anna Mossberg

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

Career history

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

Mandates in listed companies

Member of the Board of Directors of Swedbank AB, Sweden

Other significant activities

–

Catherine Mühlemann
Lic. phil. I

Career history
1994–1997 Swiss Television DRS, Head of Media Research; 1997–1999 SF1 and SF2, Programme Executive; 1999–2001 TV3, Programme Director; 2001–2003 MTV Central, CEO; 2003–2005 MTV Central & Emerging Markets, CEO; 2005–2008 MTV Central & Emerging Markets and Viva Media AG (Viacom), CEO; since 2008 Andmann Media Holding GmbH, Baar, partner, until December 2012 owner

Mandates in listed companies
Member of the Supervisory Board, Tele Columbus AG, Berlin

Mandates in non-listed companies
Vice-Chairwoman of Switzerland Tourism; member of the Supervisory Board of Messe Berlin GmbH, Berlin

Other significant activities
–

Renzo Simoni
Doctorate in mechanical engineering (Dr. sc. techn.), ETH

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

Mandates in non-listed companies
Member of the Board of Directors, Gruner AG, Basel; since June 2018, member of the Board of Directors, Rhätische Bahn AG

Other significant activities
Member of the Advisory Committee of DB Stuttgart-Ulm GmbH (PSU) Project Company ("Stuttgart 21") of the German State Railways; Chairman of the Board of the Psychiatric Hospital of the University of Zurich

4.3 Election and term of office
Under the terms of the Articles of Incorporation, the Board of Directors comprises between seven and nine members and, if necessary, the number can be increased temporarily. Under the Articles of Incorporation of Swisscom Ltd, the Swiss Confederation is entitled to appoint two representatives to the Board of Directors of Swisscom Ltd. Currently, Renzo Simoni is the only representative appointed by the Federal government. Under the terms of the Telecommunications Enterprise Act (TEA), employees must be granted appropriate representation on the Board of Directors of Swisscom Ltd. The Articles of Incorporation also stipulate that the Board of Directors is to include two employee representatives. Employees are entitled to make proposals for their employee

representatives. Since the Annual General Meeting of April 2016, the elected employee representatives have been Valérie Berset Bircher and Alain Carrupt. Valérie Berset Bircher was nominated by the transfair staff association and Alain Carrupt was nominated by the syndicom trade union. Valérie Berset Bircher terminated her mandate with effect from 31 December 2018 for professional reasons. With the exception of the representative of the Swiss Confederation, the Board of Directors of Swisscom Ltd is elected by the shareholders at the Annual General Meeting. The Annual General Meeting elects the members and the Chairman of the Board of Directors as well as the members of the Compensation Committee individually for a term of one year. The term of office runs until the conclusion of the following Annual General Meeting. Re-election is permitted. If the office of the Chairman is vacant or the number of members of the Compensation Committee falls below the minimum number of three members, the Board of Directors nominates a chairman from among its members or appoints the missing member(s) of the Compensation Committee to serve until the conclusion of the next Annual General Meeting. Otherwise, the Board of Directors constitutes itself.

The maximum term of office for members elected by the Annual General Meeting, as a rule, is a total of twelve years. This flexible arrangement makes it possible for shareholders to extend the maximum term of office in exceptional cases if special circumstances exist. Members who reach the age of 70 retire from the Board as of the date of the next Annual General Meeting. The maximum term of office and age limit for the representative of the Swiss Confederation are determined by the Federal Council.

4.4 Independence

To determine independence, the Board of Directors applies the criteria set out in the Swiss Code of Best Practice for Corporate Governance. Independent members are thus understood to mean non-executive members of the Board of Directors who were never a member of the executive management or who have not been a member of the executive management for at least three years and who have no or only comparatively minor business relations with the company. The term of office of a member of the Board of Directors is not a criterion that can be used to assess independence. No members of the Board of Directors hold an executive role within the Swisscom Group or have held such a role in any of the three business years prior to the reporting year. The Board members have no significant commercial links with Swisscom Ltd or the Swisscom Group. The Swiss Confederation, represented on the Board by Renzo Simoni, holds the majority of the capital and voting rights in Swisscom in accordance with the TEA. Customer and supplier relationships exist between the Swiss Confederation and Swisscom. Details of these are provided in Note 6.2 to the consolidated financial statements.

See report **page 157**

4.5 Internal organisation and modus operandi

The Board of Directors is responsible for the strategic and financial management of Swisscom and for monitoring the company's executive management. As the supreme governing body of the company, it has decision-making authority unless such authority is granted to the Annual General Meeting by virtue of law. The Board of Directors has delegated individual tasks to committees. The standing committees of the Board of Directors of Swisscom Ltd were constituted as follows as at 31 December 2018:

Board of Directors

Finance Committee
Frank Esser [1]
Alain Carrupt
Anna Mossberg
Catherine Mühlemann
Hansueli Loosli

Audit Committee
Roland Abt [1]
Valérie Berset Bircher [2]
Renzo Simoni
Hansueli Loosli

Compensation Committee
Barbara Frei [1]
Roland Abt
Frank Esser
Renzo Simoni
Hansueli Loosli [3]

[1] Chairman (-woman) of the Committee of the Board of Directors
[2] Resigned from the Board of Directors as of 31 December 2018
[3] Without voting rights

The Board of Directors is usually convened once per month by the Chairman (except in November and July) for a one-to-two-day meeting. Further meetings are convened as business requires. In the event that the Chairman is hindered, the meeting is convened by the Vice-Chairman. The CEO, the CFO and the Head of Group Strategy & Board Services regularly attend the meetings of the Board of Directors. The Chairman sets the agenda. Any Board member may request the inclusion of further items on the agenda. Board members receive documents prior to the meeting to allow them to prepare for the items on the agenda. To further ensure appropriate reporting to the members of the Board, the Board of Directors invites members of the Group Executive Board, senior employees of Swisscom, auditors and other internal and external experts, as appropriate, to attend its meetings on specific issues. Furthermore, the Chairman of the Board of Directors and the CEO report to each meeting of the Board of Directors on particular events, on the general course of business and major business transactions, as well as on any measures that have been implemented.

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

See www.swisscom.ch/basicprinciples

The Board of Directors attaches great importance to the ongoing development and continuing education of the Board and its individual members. The Board of Directors and the committees conduct self-assessments, usually once a year and most recently in January 2018. A one-day mandatory training course was held at the beginning of 2018. Each quarter, the members of the Board of Directors also have the opportunity to explore the upcoming challenges facing the Group and business divisions in-depth as part of "company experience days". The majority of members of the Board of Directors regularly take advantage of these opportunities. New Board members are given a task-specific introduction to their duties. At a one-day introduction, they are provided with an overview of Group management and the current operational challenges. They are also introduced to topics related to the Italian subsidiary Fastweb and attend task-related training sessions. Whenever possible, the members of the Board of Directors attend the Swisscom Group's annual management meeting.

The following table gives an overview of the Board of Directors' meetings, conference calls and circular resolutions in 2018.

	Meetings	Conference calls	Circular resolutions
Total	12	3	2
Average duration (in hours)	6:29	0:46	–
Participation:			
Hansueli Loosli, Chairman	12	3	2
Roland Abt	12	3	2
Valérie Berset Bircher	12	3	2
Alain Carrupt	12	3	2
Frank Esser, Deputy Chairman	12	3	2
Barbara Frei	12	3	2
Anna Mossberg [1]	8	3	2
Catherine Mühlemann	12	3	2
Theophil Schlatter, Deputy Chairman [2]	4	0	0
Renzo Simoni	12	3	2

1 Elected to the Board of Directors as of 4 April 2018.

2 Resigned from the Board of Directors as of 4 April 2018.

4.6 Chairman of the Board of Directors

Hansueli Loosli has been a member of the Board of Directors since 2009 and Chairman of the Board since September 2011. The tasks and responsibilities of the Chairman are defined in the Organisational Rules. In the event that the Chairman of the Board of Directors is hindered, the Vice-Chairman, Frank Esser, takes over his tasks and responsibilities.

See www.swisscom.ch/basicprinciples

4.7 Committees of the Board of Directors

The Board of Directors has three standing committees (Audit, Finance and Compensation) and one ad-hoc committee (Nomination) tasked with carrying out detailed examinations of matters of importance. The committees usually consist of three to six members. As a rule, each member of the Board of Directors sits on at least one of the standing committees. Subject to being appointed to the Compensation Committee (without voting rights), the Chairman of the Board of

Directors is a member of all the standing committees. The standing committees are chaired by other members, however. The chairs of the committees report verbally on the latest committee meetings at the next meeting of the Board of Directors. All members of the Board of Directors also receive copies of all Finance and Audit Committee meeting minutes. The minutes of the Compensation Committee are provided to the other members of the Board of Directors upon request.

Finance Committee

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

See www.swisscom.ch/basicprinciples

The Finance Committee is convened by the Chairman or at the request of a Committee member as often as business requires, but as a rule once per quarter. The CEO, the CFO and the Head of Group Strategy and Board Services attend meetings of the Finance Committee. Depending on the agenda item, other members of the Group Executive Board, the Management Boards of the strategic Group companies and project managers are called upon to also attend the meetings.

The following table gives an overview of the Finance Committee's composition, meetings, conference calls and circular resolutions in 2018.

	Meetings	Conference calls	Circular resolutions
Total	4	–	–
Average duration (in hours)	3:47	–	–
Participation:			
Frank Esser, Chairman	4	–	–
Alain Carrupt	4	–	–
Anna Mossberg [1]	3	–	–
Catherine Mühlemann	4	–	–
Renzo Simoni [2]	0	–	–
Hansueli Loosli	4	–	–

1 Elected to the Board of Directors as of 4 April 2018.

2 Resigned from the Finance Committee as of 4 April 2018.

Audit Committee

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

See www.swisscom.ch/basicprinciples

From 1 January 2019, the Audit Committee will consist of three independent members. The Chairman of the Committee is an expert in the financial field, and the majority of the remaining Committee members are experienced in finance and accounting. The Audit Committee is convened by the Chairman or at the request of a Committee member as often as business requires, but at least once per quarter. The CEO, CFO, Head of Group Strategy & Board Services, Head of Accounting, Head of Internal Audit and the external auditors attend the Audit Committee meetings. Depending on the agenda, other members of Swisscom management are called upon to attend. The Audit Committee can also involve independent third parties such as lawyers, public accountants and tax experts as required.

The following table gives an overview of the Audit Committee's composition, meetings, conference calls and circular resolutions in 2018.

	Meetings	Conference calls	Circular resolutions
Total	7	0	–
Average duration (in hours)	4:42	0:00	–
Participation:			
Roland Abt, Chairman [1]	7	0	–
Theophil Schlatter, Chairman [1, 2]	2	0	–
Valérie Berset Bircher	7	0	–
Renzo Simoni [3]	5	0	–
Hansueli Loosli [1]	7	0	–

1 Financial expert.
2 Resigned from the Board of Directors as of 4 April 2018.
3 Nominated to the Audit Committee as of 4 April 2018.

Compensation Committee
For information on the Compensation Committee, refer to the section "Remuneration Report".
See report **page 90**

Nomination Committee
The Nomination Committee is formed on an ad-hoc basis for the purpose of preparing the groundwork for electing new members to the Board of Directors and the Group Executive Board when needed. The Committee is presided over by the Chairman and its composition is determined on a case-by-case basis. The Committee carries out its work based on a specific requirements profile defined by the Board of Directors and presents suitable candidates to the Board of Directors. The Board of Directors appoints the members of the Group Executive Board and decides upon the motion to be submitted to the Annual General Meeting for the election and approval of members of the Board of Directors. The Nomination Committee is convened by the Chairman or at the request of a Committee member as often as business requires. A Nomination Committee comprising the following members was formed in the 2018 financial year for the election of a member of the Group Executive Board: Hansueli Loosli (Chair), Valérie Berset Bircher and Frank Esser. The Committee held one meeting, which lasted three hours and twenty-five minutes. Another Nomination Committee was formed to appoint the successor to the Board of Directors; it comprised Hansueli Loosli (Chairman), Frank Esser, Renzo Simoni and Barbara Frei. This Committee held two meetings lasting an average of two hours.

4.8 Assignment of powers of authority

The Telecommunications Enterprise Act (TEA) refers to the Swiss Code of Obligations regarding the non-transferable and irrevocable duties of the Board of Directors of Swisscom Ltd. Pursuant to Article 716a of the Code of Obligations, the Board of Directors is responsible for the overall management and supervision of persons entrusted with managing the company's operations. It decides on the appointment and removal of members of the Group Executive Board.

The Board of Directors also sets the strategic, organisational, financial planning and accounting guidelines, including the tax strategy, taking into account the goals that the Swiss Confederation, as majority shareholder, aims to achieve. The Swiss Federal Council formulates these goals for a four-year period in accordance with the provisions of the TEA.
See **www.swisscom.ch/targets_2018-2021**

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

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

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

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

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

4.9.1 Risk management

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

See report **pages 59—60**

4.9.2 Internal control system and financial reporting

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

4.9.3 Compliance management

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

4.9.4 Internal auditing

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

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

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

5 Group Executive Board

5.1 Members of the Group Executive Board

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

See report pages 64—65

An overview of the composition of the Group Executive Board as at 31 December 2018 is given in the table below.

Name	Nationality	Year of birth	Function	Appointed to the Group Executive Board as of
Urs Schaeppi [1]	Switzerland	1960	CEO Swisscom Ltd	March 2006
Mario Rossi	Switzerland	1960	CFO Swisscom Ltd	January 2013
Hans C. Werner	Switzerland	1960	CPO Swisscom Ltd	September 2011
Marc Werner	Switzerland and France	1967	Head of Sales & Services	January 2014
Urs Lehner	Switzerland	1968	Head of Enterprise Customers	June 2017
Heinz Herren [2]	Switzerland	1962	Head of IT, Network & Infrastructure	January 2014
Dirk Wierzbitzki	Germany	1965	Head of Products & Marketing	January 2016

1 Since November 2013 CEO.

2 Resigned from the Group Executive Board as of 31 January 2019.

Heinz Herren left the Group Executive Board on 31 January 2019. Christoph Aeschlimann (born in 1977) was named as the new member of the Group Executive Board on 1 February 2019 and will assume the role of Head of IT, Network & Infrastructure.

5.2 Education, professional activities and affiliations

Key details of the careers and qualifications of the members of the Group Executive Board are provided below along with a summary of the mandates they hold outside the Group and other significant activities. Pursuant to the Articles of Incorporation, the Group Executive Board members may perform no more than one additional mandate in listed companies and no more than two additional mandates in non-listed companies. In total, they may not perform more than two such additional mandates. These restrictions on the number of mandates do not apply to mandates performed by an Executive Board member by order of Swisscom or to mandates in interest groups, charitable associations, institutions and foundations or employee retirement-benefit foundations. The number of mandates held by order of Swisscom is limited to ten, while the number of mandates in interest groups, charitable associations, institutions and foundations, and employee benefit foundations is limited to seven. Prior to accepting new mandates outside the Swisscom Group, the members of the Group Executive Board are obligated to obtain the approval of the Chairman of the Board of Directors. Details on the regulation of external mandates, in particular the definition of the term "mandate" and information on other mandates that do not fall under the aforementioned numerical restrictions for listed and non-listed companies, are set out in Article 8.3 of the Articles of Incorporation.

None of the members of the Group Executive Board exceed the set limits for mandates.

See www.swisscom.ch/basicprinciples

Urs Schaeppi

Degree in engineering (Dipl. Ing. ETH) and business administration (lic. oec. HSG)

Career history

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

Mandates by order of Swisscom

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

Other significant activities

Member of the Board of Directors, Swiss-American Chamber of Commerce, Zurich; member of the Executive Board, Glasfasernetz Schweiz, Berne; member of the Advisory Board of the Department of the Department of Economics of the University of Zurich; member of the Steering Committee of digitalswitzerland, Zurich (formerly Digital Zurich 2025); member of the Advisory Board on Digital Transformation for the Federal Department of the Environment, Transport, Energy and Communications (DETEC) and the Federal Department of Economic Affairs, Education and Research (EAER)

Mario Rossi
Commercial apprenticeship; Swiss Certified Public Accountant

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

Mandates by order of Swisscom
Vice-President of the Board of Trustees, comPlan, Berne; since February 2018, member of the Board of Directors, Belgacom International Carrier Services S.A., Brussels

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

Other significant activities
Member of the Sanctions Committee of SIX Swiss Exchange AG, Zurich; since July 2018, member of the Board of Directors of SwissHoldings, Berne

Hans C. Werner
Graduate in business management, PhD in business administration (Dr. oec.)

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

Mandates by order of Swisscom
Member of the Board, Swiss Employer's Association, Zurich; member of the Board of Trustees, comPlan, Berne

Other significant activities
President of the Institute Council of the International Institute of Management in Technology (iimt) of the University of Fribourg

Marc Werner

Technical apprenticeship with specialised secondary school diploma, Swiss Certified Marketing Executive; Senior Management Programme (University of St. Gallen); Senior Executive Programme, London Business School; Leading Change and Organizational Renewal (LCOR) Programme, Harvard Business School

Career history

1997–2000 Minolta (Schweiz) AG, Head of Marketing and Sales and member of the Executive Management; 2000–2004 Bluewin AG, Head of Marketing & Sales, member of the Executive Board; 2005–2007 Swisscom Fixnet Ltd, Head of Marketing & Sales Residential Customers; 2008–2013 Swisscom (Switzerland) Ltd: 2008–2011 Head of Marketing & Sales Residential Customers and Deputy Head of Residential Customers, 2012–2013 Head of Customer Service Residential Customers and Deputy Head of Residential Customers; September 2013–December 2015 Swisscom: Head of Residential Customers division, since January 2016 Head of Sales & Services and since January 2014 member of the Swisscom Group Executive Board

Mandates by order of Swisscom

Chairman of the Board of Directors, siroop AG, Zurich, until April 2018; member of the Board of Directors, Digital Festival AG; since October 2018, member of the Board of Trustees, "Stiftung für Marketing in der Unternehmensführung"

Other significant activities

Member of the Communications Council of KS/CS – Communication Switzerland (formerly the Verband SW Schweizer Werbung), Zurich; member of the Executive Board of the SWA-ASA – Association of Swiss Advertisers, Zurich, until March 2018; member of the Executive Board of the SVC Swiss Venture Club

Urs Lehner

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

Career history

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

Mandates

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Other significant activities

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Heinz Herren
Degree in electrical engineering (HTL)

Career history
1994–2000 3Com Corporation; 2000 Inalp Networks Inc.; 2001–2007 Swisscom Fixnet AG: 2001–2005 Head of Marketing Wholesale, 2005–2007 Head of Small and Medium-Sized Enterprises; 2007–December 2012 Swisscom, member of the Group Executive Board; 2007–2013 Swisscom (Switzerland) Ltd: 2007–2010 Head of Small and Medium-Sized Enterprises, 2011–2013 Head of Network & IT; 2014–January 2019 Swisscom, Head of IT, Network & Infrastructure (formerly IT, Network & Innovation) and again member of the Group Executive Board

Mandates in non-listed companies
Member of the Board of Directors, Schweizerische Mobiliar Genossenschaft, Berne

Mandates by order of Swisscom
Member of the Board of Directors, Belgacom International Carrier Services S.A., Brussels; member of the Board of Directors and Board Committee of economiesuisse, Zurich

Other significant activities
–

Dirk Wierzbitzki
Degree in electrical engineering (Dipl. Ing.)

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

Mandates by order of Swisscom
Member of the Board of Directors, SoftAtHome, Paris; since April 2018, member of the Board of Directors, Admeira AG, Berne and member of the Board of Directors, Adtelier AG, Berne

Other significant activities
–

Christoph Aeschlimann (from 1 February 2019)
Degree in computer science (Dipl. Ing.), École polytechnique fédérale de Lausanne (EPFL); MBA, McGill University (Canada)

Career history

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

Mandates

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Other significant activities

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5.3 Management agreements

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

6 Remuneration, shareholdings and loans

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

See report page 90

7 Shareholders' participation rights

7.1 Voting right restrictions and proxies

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

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

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

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

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

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

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

7.2 Statutory quorum requirements

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

- Introduction of restrictions on voting rights
- Change in the Articles of Incorporation concerning special quorums for resolutions

7.3 Convocation of the Annual General Meeting and agenda items

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

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

See www.swisscom.ch/basicprinciples

7.4 Representation at the Annual General Meeting

Shareholders may be represented at the Annual General Meeting by another shareholder with voting rights or by the independent proxy elected by the Annual General Meeting. The law firm Reber Rechtsanwälte, Zurich, was appointed as independent proxy for the period up until the conclusion of the General Annual Meeting in April 2019. Partnerships and legal entities may be represented by authorised signatories, while minors and wards may be represented by their legal representative, even if the representative is not a shareholder.

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

7.5 Entries in the share register

Shareholders entered in the share register with voting rights are entitled to vote at the Annual General Meeting. To ensure due procedure, the Board of Directors defines a cut-off date at its own discretion for determining voting entitlements, which is a few business days before the respective Annual General Meeting. Entries in and deletions from the share register can be made at any time, regardless of the cut-off date. The cut-off date is announced with the invitation to the Annual General Meeting and also published in the financial calendar on the Swisscom website. Shareholders entered in the share register with voting rights as of 4 p.m. on 31 March 2018 were entitled to vote at the Annual General Meeting of 4 April 2018. Shareholders entered in the share register with voting rights as of 5 p.m. on 28 March 2019 are entitled to vote at the Annual General Meeting of 2 April 2019.

8 Change of control and defensive measures

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

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

See report page 90

9 Auditor

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

The statutory auditor is appointed annually by the Annual General Meeting following a proposal submitted by the Board of Directors. Re-election is permitted. The policies for appointing the statutory auditor have been set forth in a policy by the Board of Directors. A new invitation to tender is issued for the statutory auditor's mandate at least every 10 to 14 years. The statutory auditor's tenure is limited to 20 years. The Audit Committee steers the selection process, defines transparent selection criteria and submits two proposals accompanied by a substantiated recommendation in favour of one audit firm to the Board of Directors.

KPMG AG, Muri bei Bern, has acted as the statutory auditor of Swisscom Ltd and its Group companies (with the exception of the Italian subsidiary Fastweb S.p.A, which is audited by PriceWaterhouseCoopers S.p.A.) since 1 January 2004. As regulated by the Swiss Code of Obligations, the person who leads the audit may only perform the mandate for a maximum of seven years. Hanspeter Stocker of KPMG AG has been responsible for the audit mandate as Auditor-in-charge since 2015.

In 2018, the Board of Directors issued a new call for tenders for the audit mandate for Swisscom Ltd and its Group companies – with the exception of Fastweb S.p.A. The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 2 April 2019 that PricewaterhouseCoopers AG (PwC) be elected as the new auditor. The function of Auditor-in-charge is to be assumed by Peter Kartscher.

9.2 Audit fees

Remuneration for the auditing services provided by KPMG AG in 2018 amounted to CHF 2,869 thousand (prior year: CHF 2,843 thousand). PricewaterhouseCoopers S.p.A. as auditors for Fastweb received an audit fee of CHF 770 thousand in 2018 (prior year: CHF 671 thousand).

9.3 Supplementary fees

The fees charged by KPMG AG for additional audit-related services amounted to CHF 278 thousand (prior year: CHF 388 thousand), and the fees for other services were CHF 63 thousand (prior year: CHF 121 thousand). The audit-related services comprise certifications of electronic signatures. The other services comprise tax advisory services.

The fees charged by PricewaterhouseCoopers S.p.A. for additional audit-related and other services for Fastweb amounted to CHF 201 thousand (prior year: CHF 319 thousand).

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

The Audit Committee verifies the qualifications and independence of the statutory auditors as a licensed, state-supervised auditing firm as well as the quality of the audit services performed on behalf of the Board of Directors. It is also responsible for observing the statutory rotation principle for the Auditor-in-charge and for reviewing and issuing the new invitations to tender for the audit mandate. The Audit Committee approves the integrated strategic audit plan, which includes the annual audit plan of both the internal and external auditors, and the annual fee for the auditing services provided to the Group and Group companies. It has defined guidelines for additional service mandates (including a list of prohibited services). In a regulation, it has also set a threshold for fees charged for additional services, which is defined as a percentage of the audit fees. In order to ensure the independence of the auditors, additional service mandates must be approved by the Audit Committee where the fee exceeds CHF 300 thousand. The Audit Committee requires that the CFO reports to it quarterly and the auditors annually on current mandates being performed by the auditors, broken down according to audit services, audit-related services and non-audit services.

The statutory auditors, represented by the Auditor-in-charge and his deputy, usually attend all Audit Committee meetings. They inform the Committee in detail on the performance and results of their work, in particular regarding the annual financial statement audit. They submit a written report to the Board of Directors and the Audit Committee on the conduct and results of the audit of the annual financial statements, as well as on their findings with regard to accounting and the internal control system. Finally, the Chairman of the Audit Committee liaises closely with the Auditor-in-charge beyond the meetings of the Committee and regularly reports to the Board of Directors. The auditor attended the five ordinary meetings of the Audit Committee held in 2018. Internal Audit was represented at all seven meetings held in 2018. Neither the auditor nor Internal Audit participated in the meetings of the full Board of Directors.

10 Information policy

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

See www.swisscom.ch/financialreports
See www.swisscom.ch/cr-report2018

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

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

See https://www.swisscom.ch/adhoc

The comprehensive minutes of the Annual General Meeting of 4 April 2018 and minutes from past meetings are available on the Swisscom website.

See www.swisscom.ch/generalmeeting

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

See report page 181

11 Financial calendar

- Annual General Meeting for the 2018 financial year: 2 April 2019, St. Jakobshalle, Basel
- 1st Quarter Interim Report: 2 May 2019
- Half-year Interim Report: 15 August 2019
- 3rd Quarter Interim Report: 31 October 2019
- Annual Report 2019: February 2020

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

See **www.swisscom.ch/financialcalendar**

Remuneration Report

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

1 Governance

1.1 General principles

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

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

See www.swisscom.ch/basicprinciples

As in previous years, the Remuneration Report will be put to a consultative vote at the Annual General Meeting on 2 April 2019.

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

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

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

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

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

See www.swisscom.ch/basicprinciples

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

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

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

1.3 Election, composition and modus operandi of the Compensation Committee

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

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

See www.swisscom.ch/basicprinciples

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

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The following table gives an overview of the composition of the Committee, the Committee meetings, conference calls and circular resolutions held or taken in 2018.

	Meetings	Conference calls	Circular resolutions
Total	3	–	–
Average duration (in hours)	1:18	–	–
Participation:			
Barbara Frei, Chairwoman	3	–	–
Roland Abt [1]	2	–	–
Frank Esser	3	–	–
Theophil Schlatter [2]	1	–	–
Renzo Simoni [3]	3	–	–
Hansueli Loosli [4]	3	–	–

1 Elected to the Compensation Committee as of 4 April 2018.
2 Resigned from the Board of Directors as of 4 April 2018.
3 Representative of the Confederation.
4 Participation without voting rights.

2 Remuneration of the Board of Directors

2.1 Principles

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

See www.swisscom.ch/basicprinciples

The remuneration is made up of a Director's fee that varies in relation to the member's function, meeting attendance fees, social insurance contributions and any applicable fringe benefits. No variable performance-related emoluments are paid. The members of the Board of Directors are obligated to draw a portion of their fee in the form of equity shares and to comply with the requirements on minimum shareholdings, thus ensuring they directly participate financially in the performance of Swisscom's shares. The remuneration is normally reviewed every December for the following year for ongoing appropriateness. In December 2017, the Board of Directors assessed the appropriateness of the remuneration as part of a discretionary decision based on the study published in 2017 by ethos, the Swiss Foundation for Sustainable Development. This study provides information on the remuneration of management committees in Switzerland's 200 largest listed companies that are constituents of the Swiss Performance Index. No external consultants were called on with regard to the structuring of remuneration. The Board of Directors opted not to adjust remuneration for the 2018 financial year.

2.2 Remuneration components

Director's fee

The Director's fee is made up of a basic emolument and functional allowances as compensation for the individual functions. The following net amounts (excluding employee social insurance contributions) are paid per year:

in CHF/net

Base salary per member	110,000		
Functional allowances [1]		Chairmanship	Member
Presidium	255,000		
Vice presidium	20,000		
Representative of the Confederation	40,000		
Finance Committee		20,000	10,000
Audit Committee		50,000	10,000
Remuneration Committee		20,000	10,000

1 No functional allowance is paid for participation in ad-hoc committees appointed on a case-by-case basis.

Under the Management Incentive Plan, the members of the Board of Directors are obligated to draw 25% of their Director's fee in the form of shares, with Swisscom adding a 50% top-up to the amount to be invested in shares. In this manner, the remuneration (excluding meeting attendance fees and fringe benefits) is made up of a two-thirds cash portion and a one-third equity share portion. The amount of the share purchase obligation can vary in the case of members who join, leave or assume or give up a function during the year. Shares are allocated on the basis of their value accepted for tax purposes, rounded up to the next whole number of shares, and are subject to a blocking period of three years. This restriction on disposal also applies if members leave the company during the blocking period. The shares, which are allocated in April of the year following the reporting year in question, are recorded at market value on the date of allocation. The share-based remuneration is augmented by a factor of 1.19 in order to take account of the difference between the tax value and the market value. In April 2018, a total of 1,486 shares were allocated to the members of the Board of Directors (prior year: 1,493 shares) with a tax value of CHF 390 per share (prior year: CHF 387). Their market value was CHF 464 (prior year: CHF 461) per share.

Meeting attendance fees

For meetings, attendance fees of CHF 1,100 net are paid for each full day and CHF 650 net for each half-day.

Social insurance contributions and fringe benefits

Swisscom pays the contributions to social insurance, in particular old-age and survivors' insurance and unemployment insurance, for the members of the Board of Directors. The disclosed remuneration paid to the members of the Board of Directors includes the share of social insurance contributions payable by the employee. The share of contributions payable by Swisscom in its role as employer is disclosed separately and is also included in the total remuneration.

The disclosure of service-related and non-cash benefits and expenses relies on a tax-based point of view. No significant service-related or non-cash benefits are rendered. Expenses are reimbursed on the basis of actual costs incurred. Accordingly, neither service-related and non-cash benefits nor out-of-pocket expenses are included in the reported remuneration.

2.3 Total remuneration

The total remuneration paid to the individual members of the Board of Directors for the 2018 and 2017 financial years is presented in the tables below, broken down into individual components. The higher amount of total remuneration for 2018 is attributable to the fact that a greater number of meetings and conference calls were held and the employer contributions to social security were higher.

	Base salary and functional allowances				
2018, in CHF thousand	Cash remuneration	Share-based payment	Meeting attendance fees	Employer contributions to social security	**Total 2018**
Hansueli Loosli	314	186	34	29	563
Roland Abt	127	85	26	14	252
Valérie Berset Bircher [1]	102	57	24	11	194
Alain Carrupt	96	57	19	10	182
Frank Esser	130	80	22	13	245
Barbara Frei	112	66	18	11	207
Anna Mossberg [2,3]	60	52	13	24	149
Catherine Mühlemann	96	57	19	10	182
Theophil Schlatter [4]	52	4	6	3	65
Renzo Simoni	136	80	22	14	252
Total remuneration to members of the Board of Directors	**1,225**	**724**	**203**	**139**	**2,291**

1 The cash remuneration (including meeting attendence fees) for the mandate as member of the Board of Directors of Worklink AG of CHF 6,500 is included.
2 Elected to the Board of Directors as of 4 April 2018.
3 Anna Mossberg is liable to social insurance contributions in Sweden. No employee contributions were included.
4 Resigned from the Board of Directors as of 4 April 2018.

2017, in CHF thousand	Base salary and functional allowances: Cash remuneration	Base salary and functional allowances: Share-based payment	Meeting attendance fees	Employer contributions to social security	Total 2017
Hansueli Loosli	315	186	28	29	558
Roland Abt	96	57	21	10	184
Valérie Berset Bircher	96	57	22	10	185
Alain Carrupt	96	57	18	10	181
Frank Esser	120	71	21	12	224
Barbara Frei	112	66	16	11	205
Catherine Mühlemann	96	57	18	10	181
Theophil Schlatter	158	93	21	12	284
Renzo Simoni [1]	90	78	15	10	193
Hans Werder [2]	45	3	5	2	55
Total remuneration to members of the Board of Directors	**1,224**	**725**	**185**	**116**	**2,250**

1 Elected to the Board of Directors as of 3 April 2017.
2 Resigned from the Board of Directors as of 3 April 2017.

The total remuneration paid to the members of the Board of Directors for the 2018 financial year is within the maximum total amount approved by the 2017 Annual General Meeting (AGM) for 2018 of CHF 2.5 million.

2.4 Minimum shareholding requirement

The members of the Board of Directors are required to maintain a minimum shareholding equivalent to one annual emolument (basic emolument plus functional allowances). They have four years to acquire the shareholding, in the form of the blocked shares paid as part of remuneration and, as necessary, through share purchases on the open market. Compliance with the shareholding requirement is reviewed annually by the Compensation Committee.

If a member's shareholding falls below the minimum requirement due to a drop in the share price, the difference must be made up by no later than the time of the next review. In justified cases, such as personal hardship or legal obligations, the Chairman of the Board of Directors can approve individual exceptions at his discretion.

2.5 Shareholdings of the members of the Board of Directors

As at 31 December 2017 and 2018, the members of the Board of Directors and/or related parties held blocked and non-blocked shares as shown in the table below. None of the individuals required to make notification holds voting shares exceeding 0.1% of the share capital.

Number	**31.12.2018**	31.12.2017
Hansueli Loosli	3,113	2,733
Roland Abt	379	205
Valérie Berset Bircher	329	213
Alain Carrupt	329	213
Frank Esser	642	478
Barbara Frei	919	784
Anna Mossberg [1]	112	–
Catherine Mühlemann	1,559	1,443
Theophil Schlatter [2]	–	1,419
Renzo Simoni	324	160
Total shares held by the members of the Board of Directors	**7,706**	**7,648**

1 Elected to the Board of Directors as of 4 April 2018.
2 Resigned from the Board of Directors as of 4 April 2018.

3 Remuneration of the Group Executive Board

3.1 Principles

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

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

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

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

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

See www.swisscom.ch/basicprinciples

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

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

For the purpose of assessing market values, Swisscom relies on cross-sector market comparisons with Swiss companies as well as international sector comparisons. These two comparative perspectives allow Swisscom to form an optimal overview of the relevant employment market for managerial positions. No new comparative studies were taken into consideration in the year under review. The studies by Willis Towers Watson were referred to for this purpose, as in the previous reporting year. The comparison with the Swiss market covers major companies domiciled in Switzerland from various sectors, with the exception of the financial and pharmaceutical sectors. On average, these companies generate revenue of CHF 4.7 billion and employ 13,000 people. The sector comparison covers telecommunications companies from eleven western European countries with an average revenue of CHF 8.9 billion and an average workforce of 18,800 employees. The evaluation of the two comparative studies takes into account the extent of responsibility in terms of revenue, number of employees and international scope.

As a rule, the Compensation Committee reviews the individual remuneration paid to members of the Group Executive Board every three years of employment. Taking into account the benchmarks, the Board of Directors adjusted the salary of one member of the Group Executive Board during the course of the reporting year in order to reflect the performance of this member and to bring the salary into line with standard market remuneration levels.

3.2 Remuneration components

Base salary

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

Variable performance-related salary component

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

Targets for the variable performance-related salary component

The targets underlying the variable performance-related salary component are adopted annually in December for the following year by the Board of Directors following a proposal submitted by the Compensation Committee. The targets relevant to the reporting year were revised slightly by the Compensation Committee in line with the Group's continuing corporate strategy. The targets are based on the Swisscom Group's budget figures for 2018.

The targets for the members of the Group Executive Board consist of financial as well as business transformation targets. The financial targets include revenue, earnings before interest, taxes, depreciation and amortisation as a percentage of revenue (EBITDA margin), and a free cash flow proxy. The business transformation targets are summarised under the Business Transformation Multiplier (BTM) and include the Net Promoter Score for residential and business customers, which is a recognised indicator of customer loyalty, an availability coefficient, growth targets and net cost savings targets. Further information on customer satisfaction can be found in the Management Commentary.

See report **page 35**

Segment targets are tailored to the function of each Group Executive Board member. As in the previous year, these include financial targets for the Italian subsidiary Fastweb S.p.A. (Fastweb), based on which the Group Executive Board members delegated by Swisscom to Fastweb's Board of Directors are measured. The target structure thus takes account of the following two strategic priorities of Swisscom: strengthening the core business by offering the best infrastructure, whereby the results achieved are rewarded, and focusing on future success, whereby realisation of new growth opportunities and the best customer experiences is incentivised in particular.

A lower and an upper limit apply to the weighting of the two priorities, with the maximum possible target achievement being 130%.

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

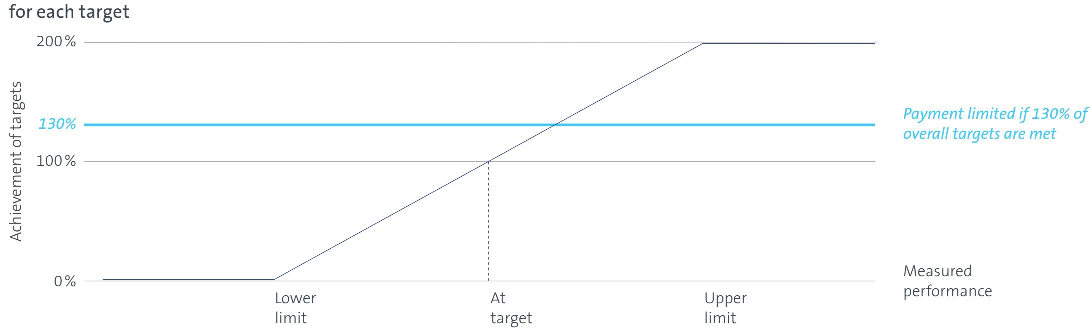
Target levels	Objectives	Weighting of targets level CEO	Weighting of targets level of other members of the Group Executive Board
Financial performance factor	Net revenue	24%	24–30%
	EBITDA margin	24%	24–30%
	Free cash flow proxy	32%	32–40%
	Segment targets	20%	0–20%
	Total finance target factor	**100%**	
Business transformations targets	Net promoter score	40%	40%
	Availability key indicator	20%	20%
	Growth	20%	20%
	Net cost savings	20%	20%
	Total business transformation multiplicator	**100%**	

Achievement of targets

The Compensation Committee determines the level of target achievement in the subsequent year once the consolidated financial statements become available. Its decision is based on an assessment of the extent to which targets have been met using a scale for the overachievement and underachievement of each target. The achievement of an individual target can vary from 0% (if the lower limit is not achieved) to 200% (if the upper limit is exceeded).

Achievement scale

for each target



Payment of the performance-related salary component is based on individual target achievement and is limited if 130% of overall targets are met (weighted target achievement across all individual targets).

The overall achievement of targets governing the payment of the performance-related component is calculated according to the weighting of the individual targets. These targets consist of financial and business transformation targets, which are multiplied by one another as factors. The amount paid out is limited to a maximum of 130% of the performance-related bonus. In determining the level of target achievement, the Compensation Committee has a degree of discretion in assessing the effective management performance, allowing special factors such as fluctuations in exchange rates to be taken into account. Based on the overall achievement of targets, the Compensation Committee submits a proposal for approval to the Board of Directors for the amount of the performance-related salary component to be paid to the Group Executive Board and the CEO.

In the year under review, the financial targets of the Group were on the whole exceeded. The business transformation targets were not fully met.

The resulting payment of the performance-related component is 99% of the performance-related bonus for the CEO and between 99% and 104% of the performance-related bonus for the other members of the Group Executive Board.

Payment of the variable performance-related salary component

The variable performance-related salary component for a given financial year is paid in April of the following year, with 25% being paid in the form of Swisscom shares, in accordance with the Management Incentive Plan. Group Executive Board members may opt to increase the share component up to a maximum of 50% of the total variable performance-related compensation. The remaining portion of the performance-related component is settled in cash. In the event of a departure from the Group Executive Board during the course of the year, the payment of the performance-related component for the current year is generally made in cash only. The decision of what percentage of the variable performance-related salary component is to be drawn in the form of shares must be communicated prior to the end of the reporting year, but no later than in November following the publication of the third-quarter results. In the year under review, three members of the Group Executive Board opted for a higher share component. The shares are allocated on the basis of their tax value, rounded up to whole numbers of shares, and are subject to a three-year blocking period. This restriction on disposal also applies if the employment relationship is terminated during the blocking period. The share-based remuneration disclosed in the year under review is augmented by a factor of 1.19 in order to take account of the difference between the market value and the tax value. The market value is determined as of the date of allocation. The allocation of shares for the 2018 reporting year will be made in April 2019.

In April 2018, a total of 1,974 shares (prior year: 2,121 shares) with a tax value of CHF 390 (prior year: CHF 387) per share and a market value of CHF 464 (prior year: CHF 461) per share were allocated for the 2017 financial year to the members of the Group Executive Board.

Pension fund and fringe benefits

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

See report pages 144—149

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

3.3 Total remuneration

The following table shows the total remuneration paid to the members of the Group Executive Board for the 2017 and 2018 financial years, broken down into individual components and including the highest amount paid to one member. In the year under review, the variable performance-related salary component for members of the Group Executive Board (CHF 2,760 thousand in total) was around 75% of the base salary (CHF 3,694 thousand in total). The total remuneration paid to the highest-earning member of the Group Executive Board (CEO, Urs Schaeppi) decreased by 2.1% compared to the prior year. The decrease in total remuneration paid to the Group Executive Board and the CEO is primarily attributable to the lower variable remuneration as compared to the prior year.

In CHF thousand	**Total Group Executive Board 2018**	Total Group Executive Board 2017	**Thereof Urs Schaeppi 2018**	Thereof Urs Schaeppi 2017
Fixed base salary paid in cash	3,694	3,736	882	882
Variable performance-related remuneration paid in cash	1,874	1,966	459	486
Variable performance-related remuneration paid in shares [1]	886	901	182	193
Service-related and non-cash benefits	95	92	22	21
Employer contributions to social security [2]	575	591	137	145
Retirement benefits	892	847	147	141
Total remuneration to members of the Group Executive Board	**8,016**	**8,133**	**1,829**	**1,868**
Benefits paid following retirement from Group Executive Board [3]	605	629	–	–
Total remuneration paid to Group Executive Board, incl. benefits paid following retirement from Board	**8,621**	**8,762**	**1,829**	**1,868**

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

Total remuneration paid to the members of the Group Executive Board for the 2018 financial year is within the maximum total amount approved by the 2017 Annual General Meeting (AGM) for 2018 of CHF 9.7 million.

3.4 Minimum shareholding requirement

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

3.5 Shareholdings of the members of the Group Executive Board

Blocked and non-blocked shares held by members of the Group Executive Board and/or related parties as at 31 December 2017 and 2018 are indicated in the table below. None of the individuals required to make notification holds voting shares exceeding 0.1% of the share capital.

Number	**31.12.2018**	31.12.2017
Urs Schaeppi (CEO)	4,380	3,964
Mario Rossi	1,483	1,236
Hans C. Werner	1,259	1,068
Marc Werner	1,158	750
Urs Lehner	290	115
Heinz Herren	1,856	1,586
Dirk Wierzbitzki	604	234
Total shares held by the members of the Group Executive Board	**11,030**	**8,953**

3.6 Employment contracts

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

4 Other remuneration

4.1 Remuneration for additional services

Swisscom may pay remuneration to members of the Board of Directors for assignments in Group companies and assignments performed by order of Swisscom (Article 6.4 of the Articles of Incorporation). Only Valérie Berset Bircher, who was elected to the Board of Directors of Worklink AG on 19 March 2018, received remuneration for additional activities in the 2018 reporting year, amounting to CHF 7,500 gross per year. For attending meetings, fees of CHF 1,000 gross are paid for each full day and CHF 500 gross for each half-day. The remuneration is paid all in cash. Expenses are reimbursed on the basis of actual costs incurred. The remuneration is commensurate with the assignment and level of responsibility. It is determined by the Board of Directors of Worklink AG by discretionary decision and assessed every two years for appropriateness. Valérie Berset Bircher stepped down from her position on the Board of Directors of Worklink AG on 31 December 2018 for professional reasons.

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

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

In the year under review, no remuneration was paid to former members of the Board of Directors in connection with their earlier activities as a member of a governing body of the company and/or which are not at arm's length. With the exception of the remuneration paid to the member of the Group Executive Board who stepped down in 2017 in fulfilment of contractual commitments during the notice period, no such remuneration was paid to former members of the Group Executive Board. There were also no payments made to individuals who are closely related to any former or current member of the Board of Directors or the Group Executive Board which are not at arm's length.

4.3 Loans and credits granted

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

In the 2018 financial year, Swisscom granted no collateral, loans, advances or credit facilities of any kind either to former or current members of the Board of Directors or related parties, or to former or current members of the Group Executive Board or related parties. There are therefore no corresponding receivables outstanding.

Report of the Statutory Auditor

To the General Meeting of Shareholders of Swisscom Ltd, Ittigen (Berne)

We have audited the accompanying remuneration report of Swisscom Ltd for the year ended 31 December 2018. The audit was limited to the information according to articles 14 - 16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies contained in the sections 2.3, 2.5, 3.3, 3.5 and 4.1 to 4.3 on pages 90 to 100 of the remuneration report.

Responsibility of the Board of Directors

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the remuneration report for the year ended 31 December 2018 of Swisscom Ltd. complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Hanspeter Stocker
Licensed Audit Expert
Auditor in Charge

Toni Wattenhofer
Licensed Audit Expert

Gümligen-Berne, 6 February 2019

KPMG AG, Hofgut, PO Box 112, CH-3073 Gümligen-Berne

Financial statements

Consolidated statement of comprehensive income

In CHF million, except for per share amounts	Note	2018	2017
Income statement			
Net revenue	1.1	**11,714**	**11,662**
Direct costs	1.2	(2,954)	(2,721)
Personnel expense	1.2, 4.1	(2,815)	(3,002)
Other operating expense	1.2	(2,193)	(2,152)
Capitalised self-constructed assets and other income	1.2	461	508
Operating income before depreciation, amortisation and impairment losses		**4,213**	**4,295**
Depreciation, amortisation and impairment losses	3.2–3.4	(2,144)	(2,164)
Operating income		**2,069**	**2,131**
Financial income	2.4	28	44
Financial expense	2.4	(186)	(204)
Result of equity-accounted investees	5.3	5	(11)
Income before income taxes		**1,916**	**1,960**
Income tax expense	6.1	(395)	(392)
Net income		**1,521**	**1,568**
Other comprehensive income			
Actuarial gains and losses from defined benefit pension plans	2.1	(62)	679
Change in fair value of equity instruments	2.1	9	–
Items that will not be reclassified to income statement		**(53)**	**679**
Foreign currency translation adjustments of foreign subsidiaries	2.1	(40)	143
Change in available-for-sale financial assets	2.1	–	(5)
Change in cash flow hedges	2.1	6	(5)
Other comprehensive income from equity-accounted investees	2.1	1	2
Items that are or may be reclassified subsequently to income statement		**(33)**	**135**
Other comprehensive income		**(86)**	**814**
Comprehensive income			
Net income		1,521	1,568
Other comprehensive income		(86)	814
Comprehensive income		**1,435**	**2,382**
Share of net income and comprehensive income			
Equity holders of Swisscom Ltd		1,527	1,570
Non-controlling interests		(6)	(2)
Net income		**1,521**	**1,568**
Equity holders of Swisscom Ltd		1,441	2,384
Non-controlling interests		(6)	(2)
Comprehensive income		**1,435**	**2,382**
Earnings per share			
Basic and diluted earnings per share (in CHF)	2.1	**29.48**	**30.31**

Consolidated balance sheet

In CHF million	Note	31.12.2018	31.12.2017
Assets			
Cash and cash equivalents		474	525
Trade receivables	3.1	2,189	2,389
Other operating assets	3.1	1,243	729
Other financial assets		82	78
Current income tax assets	6.1	2	10
Total current assets		**3,990**	**3,731**
Property, plant and equipment	3.2	10,894	10,697
Goodwill	3.3	5,164	5,186
Intangible assets	3.4	1,858	1,758
Equity-accounted investees	5.3	174	152
Other financial assets		339	337
Deferred tax assets	6.1	167	197
Total non-current assets		**18,596**	**18,327**
Total assets		**22,586**	**22,058**
Liabilities and equity			
Financial liabilities	2.2	1,361	1,834
Trade payables	3.1	1,658	1,753
Provisions	3.5	131	177
Other operating liabilities	3.1	1,127	1,165
Current income tax liabilities	6.1	250	213
Total current liabilities		**4,527**	**5,142**
Financial liabilities	2.2	6,806	6,452
Defined benefit obligations	4.3	1,196	1,048
Provisions	3.5	901	900
Deferred gain on sale and leaseback of real estate	2.2	134	146
Deferred tax liabilities	6.1	814	725
Total non-current liabilities		**9,851**	**9,271**
Total liabilities		**14,378**	**14,413**
Share capital		52	52
Capital reserves		136	136
Retained earnings	2.1	9,759	9,155
Foreign currency translation adjustments	2.1	(1,728)	(1,689)
Other reserves	2.1	4	2
Equity attributable to equity-holders of Swisscom Ltd		**8,223**	**7,656**
Non-controlling interests		(15)	(11)
Total equity		**8,208**	**7,645**
Total liabilities and equity		**22,586**	**22,058**

Consolidated statement of cash flows

In CHF million	Note	2018	2017
Net income		1,521	1,568
Income tax expense	6.1	395	392
Result of equity-accounted investees	5.3	(5)	11
Financial income	2.4	(28)	(44)
Financial expense	2.4	186	204
Depreciation, amortisation and impairment losses	3.2–3.4	2,144	2,164
Gain on sale of property, plant and equipment	1.2	(17)	(24)
Loss on disposal of property, plant and equipment		7	2
Expense for share-based payments		1	2
Change in provisions	3.5	(57)	51
Change in defined benefit obligations	4.3	64	36
Change in operating assets and liabilities	3.1	(70)	165
Change in deferred gain from the sale and leaseback of real estate	2.2	(12)	(12)
Interest received		24	26
Dividends received	5.3	18	20
Interest paid	2.2	(157)	(181)
Income taxes paid	6.1	(294)	(289)
Cash flow from operating activities		**3,720**	**4,091**
Purchase of property, plant and equipment and intangible assets	3.2, 3.4	(2,404)	(2,378)
Sale of property, plant and equipment and intangible assets		21	30
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5.2	(78)	(63)
Purchase of equity-accounted investees	5.2	(35)	(20)
Proceeds from sale of equity-accounted investees	5.2	–	76
Purchase of other financial assets		(31)	(58)
Proceeds from other financial assets		32	158
Cash flow used in investing activities		**(2,495)**	**(2,255)**
Issuance of financial liabilities	2.2	1,451	757
Repayment of financial liabilities	2.2	(1,571)	(1,158)
Dividends paid to equity holders of Swisscom Ltd	2.1	(1,140)	(1,140)
Dividends paid to non-controlling interests		(1)	(8)
Acquisition of non-controlling interests	5.2	–	(99)
Other cash flows from financing activities		(9)	(9)
Cash flow used in financing activities		**(1,270)**	**(1,657)**
(Net decrease) net increase in cash and cash equivalents		**(45)**	**179**
Cash and cash equivalents at 1 January		525	329
Foreign currency translation adjustments in respect of cash and cash equivalents		(6)	17
Cash and cash equivalents at 31 December		**474**	**525**

Consolidated statement of changes in equity

In CHF million	Share capital	Capital reserves	Retained earnings	Foreign currency translation adjustments	Other reserves	Equity attributable to equity holders of Swisscom	Non-controlling interests	**Total equity**
Balance at 31 December 2016	**52**	**136**	**8,148**	**(1,834)**	**12**	**6,514**	**8**	**6,522**
Net income	–	–	1,570	–	–	1,570	(2)	1,568
Other comprehensive income	–	–	679	145	(10)	814	–	814
Comprehensive income	**–**	**–**	**2,249**	**145**	**(10)**	**2,384**	**(2)**	**2,382**
Dividends paid	–	–	(1,140)	–	–	(1,140)	(8)	(1,148)
Other changes	–	–	(102)	–	–	(102)	(9)	(111)
Balance at 31 December 2017	**52**	**136**	**9,155**	**(1,689)**	**2**	**7,656**	**(11)**	**7,645**
Change in accounting policies [1]	–	–	300	–	(4)	296	–	296
Balance at 1 January 2018	**52**	**136**	**9,455**	**(1,689)**	**(2)**	**7,952**	**(11)**	**7,941**
Net income	–	–	1,527	–	–	1,527	(6)	1,521
Other comprehensive income	–	–	(53)	(39)	6	(86)	–	(86)
Comprehensive income	**–**	**–**	**1,474**	**(39)**	**6**	**1,441**	**(6)**	**1,435**
Dividends paid	–	–	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	–	–	(30)	–	–	(30)	3	(27)
Balance at 31 December 2018	**52**	**136**	**9,759**	**(1,728)**	**4**	**8,223**	**(15)**	**8,208**

1 See «General informations and amendements of financial statement reporting policies» in the Notes to the consolidated financial statements.

Notes to the consolidated financial statements

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

General information and changes in accounting policies

General information

The Swisscom Group (hereinafter referred to as "Swisscom") provides telecommunication services and is active primarily in Switzerland and Italy. The consolidated financial statements as of and for the year ended 31 December 2018 comprise Swisscom Ltd, as parent company, and its subsidiaries. Swisscom Ltd is a limited-liability company incorporated in accordance with Swiss law under a private statute and has its registered office in Ittigen (Berne). Its address is: Swisscom Ltd, Alte Tiefenaustrasse 6, 3048 Worblaufen. Swisscom is listed on the SIX Swiss Exchange. The number of issued shares is unchanged from the prior year and aggregates 51,801,943. The shares have a nominal value of CHF 1 and are fully paid-up. Each share entitles the holder to one vote. The majority shareholder of Swisscom Ltd remains, as in the prior year, the Swiss Confederation ("Confederation"). The Confederation is obligated by current law to hold the majority of the capital and voting rights. The Board of Directors of Swisscom has approved the issuance of these consolidated financial statements on 6 February 2019. As of this date, no material events after the reporting date have occurred. The consolidated financial statements will be submitted for approval to the Annual General Meeting of Shareholders of Swisscom Ltd to be held on 2 April 2019.

Basis of preparation

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

Significant judgements, estimates and assumptions in applying the accounting policies

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

Description	Further information
Useful lives of property, plant and equipment and intangible assets	Note 3.2 and 3.4
Recoverability of Goodwill	Note 3.3
Provisions for dismantlement and restoration costs	Note 3.5
Provision for regulatory and competition law procedures	Note 3.5
Defined benefit obligations	Note 4.3

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

As from 1 January 2018 onwards, Swisscom adopted various amendments to existing International Financial Reporting Standards (IFRS) and Interpretations, which, with the exception of the amendments below, have no material impact on the results or financial position of the Group.

Standard	Name
IFRIC 22	Foreign currency transactions and advance consideration
Amendements to IFRS 2	Classification and measurement of share-based payment transactions
IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers and related clarifications to IFRS 15
Various	Amendments to IFRS 2014–2016

Further information as to the changes in IFRS which must be applied in 2019 or later are set out in Note 6.3. The new IFRS Standards adopted have the following impact on shareholders' equity as of 1 January 2018:

In CHF million	31.12.2017	Application IFRS 9	Application IFRS 15	**01.01.2018**
Trade receivables	2,389	(30)	–	2,359
Other operating assets	729	(2)	435	1,162
Deferred tax assets	197	7	(3)	201
Other financial assets	415	11	–	426
Other assets	18,328	–	–	18,328
Total assets	**22,058**	**(14)**	**432**	**22,476**
Other operating liabilities	1,165	–	45	1,210
Deferred tax liabilities	725	1	76	802
Other liabilities	12,523	–	–	12,523
Total liabilities	**14,413**	**1**	**121**	**14,535**
Total equity	**7,645**	**(15)**	**311**	**7,941**
Total liabilities and equity	**22,058**	**(14)**	**432**	**22,476**

IFRS 9 "Financial Instruments"

The Standard encompasses new rules to classify and measure financial assets and liabilities, the recognition of impairments and the recording of hedging relationships. The new provisions have resulted in changes to the classification of other financial assets. In addition, equity instruments which until now were measured at cost must now be measured at fair value. The classification and carrying amounts of other financial assets in the accordance with the previous and new provisions are as follows:

In CHF million	Classification according to IAS 39	Classification according to IFRS 9	Carrying amount according to IAS 39	**Carrying amount according to IFRS 9**
Term deposits	Loans and receivables	At amortised cost	7	7
Certificates of deposit	Loans and receivables	At amortised cost	145	145
Loans	Loans and receivables	At amortised cost	49	49
Equity instruments	Available-for-sale	At fair value through other comprehensive income	53	64
Quoted debt instruments	Fair value through profit or loss	At amortised cost	61	61
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	100	100
Total other financial assets			**415**	**426**

Under the new provisions relating to impairments, impairment losses on financial assets are to be recognised earlier. Impairment losses on financial assets as of 1 January 2018 increased by CHF 32 million before income taxes as a result of the initial adoption of IFRS 9. No changes for Swisscom will ensue from the recording of hedging relationships. Equity as of 1 January 2018 declined by CHF 15 million as a result of the initial adoption of IFRS 9. The prior year's comparative figures were not restated.

IFRS 15 "Revenue from Contracts with Customers"

In contrast to the provisions in force until now, the new standard provides for a single, principles-based, five-step model which is to be applied to all contracts with customers. In accordance with IFRS 15, the amount which is expected to be received from customers as consideration for the transfer of goods and services to the customer is to be recognised as revenue. As regards determining the point of time or over-time criteria, it is no longer a question of the transfer of risks and rewards but of the transfer of control over the goods and services to the customer. With regards to multi-element contracts, IFRS 15 explicitly rules that the transaction price is to be allocated to each identified performance obligation in proportion to the relative stand-alone selling prices. Furthermore, the new standard contains new rules regarding the costs to fulfill and to obtain a contract as well as guidelines as to the question when such costs are to be capitalised. In addition, the new standard requires new, more detailed presentation and disclosure information. IFRS 15 will have the following material impact on the consolidated financial statements of Swisscom:

Revenues

- If a mobile handset is sold as part of a bundled offering with a mobile-phone contract, it is considered as a multi-element contract. Previously in such multi-element contracts, the subsidy granted on the mobile handset was allocated in full to the mobile handset and recognised accordingly in full upon conclusion of the contract. Under the new rules, the revenue is to be reallocated over the pre-delivered components (mobile handset) with the result that the revenue will be recognised earlier. The total revenue remains unchanged over the whole duration of the contract.
- Swisscom makes bundled offerings which include broadband and TV as well as an optional fixed-line connection with telephony services. Service fees are fixed. Routers and set-top boxes are sold in conjunction with such bundled offerings which previously were recognised as revenue in full at the time of sale. Because of their technical requirements, the routers and set-top boxes can be used exclusively for Swisscom services. Conversely, Swisscom services can only be used with Swisscom routers and set-top boxes. For this reason, the routers and set-top boxes do not constitute separate performance obligations. Revenues from the sale of routers and set-top boxes are thus distributed over the term of the underlying service contract.
- Previously, connection fees were deferred and recognised as revenue over the minimum contract period. Should no minimum contract period exist, the revenue was recognised at the time of activation. Non-refundable connection fees which do not constitute a separate performance obligation in future are considered as part of the total transaction price and allocated to the separate performance obligations arising under the customer contract on a pro-rata basis.

Contract costs

- Handset subsidies and commissions paid to dealers (costs to obtain a contract) were previously expensed immediately. In future, directly attributable costs to obtain a contract are capitalised and expensed over the life of the contract.
- The costs of routers and set-top boxes were previously expensed at the time of sale in accordance the revenue recognition policy. In future, they will also be capitalised as directly attributable costs to fulfill a contract and expensed over the term of the underlying service contract.

Swisscom has elected to apply the modified retrospective approach for the initial adoption of IFRS 15. In accordance with this transitional method, Swisscom must apply IFRS 15 retrospectively only for those contracts which had not been fulfilled as of 1 January 2018. The cumulative effect in applying the standard was recognised in equity as of 1 January 2018, with no effect on the income statement. The prior year's comparative figures were not restated. Equity as of 1 January 2018 increased by CHF 311 million as a result of the adoption of the new standard. The impact is the result of the initial recognition of contract assets and liabilities as well as deferred costs to obtain a contract and costs to fulfill a contract. How IFRS 15 will impact future results will depend on future business models and products, the mix of distribution channels as well as future movements in volumes, prices and costs.

Presented below are the relevant financial-statement positions measured in accordance with the previous and new accounting policies:

In CHF million	IFRS 15 2018	IAS 18/IAS 11 2018	Adjustment
Income statement			
Net revenue	**11,714**	**11,709**	**5**
Direct costs	(2,954)	(2,859)	(95)
Personnel expense	(2,815)	(2,815)	–
Other operating expense	(2,193)	(2,193)	–
Capitalised self-constructed assets and other income	461	414	47
Operating income before depreciation, amortisation and impairment losses	**4,213**	**4,256**	**(43)**
Depreciation, amortisation and impairment losses	(2,144)	(2,144)	–
Operating income	**2,069**	**2,112**	**(43)**
Financial income	28	28	–
Financial expense	(186)	(186)	–
Result of equity-accounted investees	5	5	–
Income before income taxes	**1,916**	**1,959**	**(43)**
Income tax expense	(395)	(404)	9
Net income	**1,521**	**1,555**	**(34)**

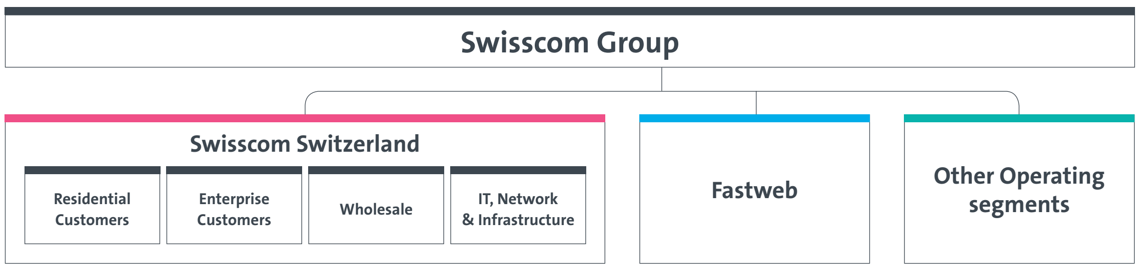
In CHF million	IFRS 15 31.12.2018	IAS 18/IAS 11 31.12.2018	Adjustment
Balance sheet			
Other operating assets	1,243	823	420
Other assets	21,343	21,343	–
Total assets	**22,586**	**22,166**	**420**
Other operating liabilities	1,127	1,054	73
Deferred tax liabilities	814	744	70
Miscellaneous liabilities	12,437	12,437	–
Total liabilities	**14,378**	**14,235**	**143**
Total equity	**8,208**	**7,931**	**277**
Total liabilities and equity	**22,586**	**22,166**	**420**

1 Operating performance

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

1.1 Segment information

General disclosures



Segment	Activity
Residential Customers	The segment Residential Customers comprises connection fees for broadband and TV services, fixed-network and mobilephone subscriptions as well as national and international telephone and data traffic for residential customers and customers from small- and medium size enterprises. Furthermore, the segment includes the sale of merchandise.
Enterprise Customers	Enterprise Customers focuses on complete communication solutions for large business customers. Its product offering in the field of business ICT infrastructure covers the whole range of services from individual products to complete business solutions.
Wholesale	This segment comprises the use of Swisscom fixed and mobile networks by other telecommunication service providers and the use of third-party networks by Swisscom. It also includes roaming with foreign operators whose customers use Swisscom's mobile networks, as well as broadband services and regulated products as a result of the unbundling of the "last mile" for other telecommunication service providers.
IT, Network & Infrastructure	The segment IT, Network & Infrastructure is responsible for the planning, operation and maintenance of Swisscom's network infrastructure and all IT systems. It is responsible for the development and production of standardised IT and network services in Switzerland. In addition, IT, Network & Infrastructure also includes the support functions Finances, Human Resources and Strategy for Swisscom Switzerland as well as the management of real estate and the vehicle fleet in Switzerland.
Fastweb	Fastweb is one of the largest providers of broadband services in Italy. Its product portfolio covers voice, data, broadband and TV services as well as video-on-demand for residential and corporate customers. In addition, Fastweb offers mobile phone services on the basis of an MVNO contract (as a virtual network operator). It also provides comprehensive network services and customised solutions.
Other Operating Segments	Other Operating Segments mainly comprises Digital Business and Participations. Digital Business mainly comprises Swisscom Directories Ltd (localsearch), which operates in the field of online directories and telephone directories. Participations mainly comprises the subsidiaries Billag Ltd, cablex Ltd and Swisscom Broadcast Ltd. Billag Ltd collected radio and television license fees on behalf of the Swiss Confederation until the end of 2018. The operations of cablex Ltd are in the building and maintenance of wired and wireless networks in Switzerland, primarily in the field of telecommunications. Swisscom Broadcast Ltd is the leading provider in Switzerland of broadcast services, of cross-platform retail media services and of security communications.

Reporting is made on the basis of the segments "Residential Customers", "Enterprise Customers", "Wholesale", and "IT, Network & Infrastructure", which are regrouped under Swisscom Switzerland, as well as "Fastweb" and "Other Operating Segments". In addition, "Group Headquarters", which includes non-allocated costs, is disclosed separately in segment reporting.
Group Headquarters does not charge any management fees to other segments for its financial management services, nor does the IT, Network & Infrastructure segment charge any network costs to other segments. The remaining services between the segments are recharged at market prices. Segment expense encompasses the direct and indirect costs which include personnel expense, other operating costs less capitalised costs of self-constructed assets and other income. Retirement-benefit expense includes ordinary employer contributions. The difference between the ordinary employer contributions and the pension cost as provided for under IAS 19 is reported in the column "Eliminations". In 2018, an expense of CHF 60 million is disclosed under "Eliminations" as a pension cost reconciliation item in accordance with IAS 19 (prior year: CHF 92 million). The results of the segments "Residential Customers", "Enterprise Customers" and "Wholesale" correspond to a

contribution margin prior to network costs. The segment result of IT, Network & Infrastructure consists of operating expenses and depreciation and amortisation less revenues from the rental and administration of buildings and vehicles as well as the capitalised costs of property, plant and equipment and other income. The segment results of Swisscom Switzerland and of the other operating segments do not include the retirement-benefit reconciliation item in accordance with IAS 19. The segment results of Fastweb correspond to the operating results. Several business areas were transferred between the various segments of Swisscom Switzerland. The prior year's comparatives were restated accordingly.

Segment information 2018

2018, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	**Total**
Residential customers	5,843	1,210	–	–	–	7,053
Corporate customers	2,328	900	558	1	–	3,787
Wholesale customers	566	308	–	–	–	874
Net revenue from external customers	**8,737**	**2,418**	**558**	**1**	**–**	**11,714**
Net revenue from other segments	80	8	349	1	(438)	–
Net revenue	**8,817**	**2,426**	**907**	**2**	**(438)**	**11,714**
Direct costs	(1,972)	(950)	(59)	–	27	(2,954)
Indirect costs [1]	(3,437)	(699)	(662)	(80)	331	(4,547)
Segment result before depreciation and amortisation	**3,408**	**777**	**186**	**(78)**	**(80)**	**4,213**
Depreciation, amortisation and impairment losses	(1,502)	(587)	(59)	–	4	(2,144)
Segment result	**1,906**	**190**	**127**	**(78)**	**(76)**	**2,069**
Financial income and financial expense, net						(158)
Result of equity-accounted investees						5
Income before income taxes						**1,916**
Income tax expense						(395)
Net income						**1,521**
Segment result before depreciation and amortisation	3,408	777	186	(78)	(80)	4,213
Capital expenditure in property, plant and equipment and intangible assets	(1,620)	(757)	(46)	–	19	(2,404)
Change in provisions	(61)	3	(1)	2	–	(57)
Change in defined benefit obligations	6	–	–	(1)	59	64
Change in operating net working capital	(97)	27	(1)	10	(9)	(70)
Other [2]	(3)	–	–	–	2	(1)
Operating free cash flow	**1,633**	**50**	**138**	**(67)**	**(9)**	**1,745**

1 Including capitalised costs of self-constructed assets and other income.

2 Proceeds from the sale of property, plant and equipment, non-cash change in net working capital from operating activities, change in deferred gain from the sale and leaseback of real estate, and dividend payments to owners of non-controlling interests.

Segment information Swisscom Switzerland 2018

2018, in CHF million	Residential Customers	Enterprise Customers	Whole-sale	IT, Network & Infrastructure	Elimi-nation	Total Swisscom Switzerland
Fixed access	2,573	580	–	–	–	3,153
Mobile subscribers	2,618	451	–	–	–	3,069
Telecom services	**5,191**	**1,031**	**–**	**–**	**–**	**6,222**
Solution business	–	1,042	–	–	–	1,042
Merchandise	494	211	–	–	–	705
Wholesale	–	–	566	–	–	566
Revenue other	158	24	–	20	–	202
Net revenue from external customers	**5,843**	**2,308**	**566**	**20**	**–**	**8,737**
Net revenue from other segments	81	102	328	139	(570)	80
Net revenue	**5,924**	**2,410**	**894**	**159**	**(570)**	**8,817**
Direct costs	(1,411)	(755)	(430)	(10)	634	(1,972)
Indirect costs [1]	(1,140)	(900)	(18)	(1,315)	(64)	(3,437)
Segment result before depreciation and amortisation	**3,373**	**755**	**446**	**(1,166)**	**–**	**3,408**
Depreciation, amortisation and impairment losses	(138)	(69)	–	(1,296)	1	(1,502)
Segment result	**3,235**	**686**	**446**	**(2,462)**	**1**	**1,906**
Capital expenditure in property, plant and equipment and intangible assets	(170)	(54)	–	(1,396)	–	(1,620)

1 Including capitalised costs of self-constructed assets and other income.

Segment information 2017

2017, in CHF million, restated	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	Total
Residential customers	5,971	1,097	–	–	–	7,068
Corporate customers	2,428	791	529	1	–	3,749
Wholesale customers	578	267	–	–	–	845
Net revenue from external customers	**8,977**	**2,155**	**529**	**1**	**–**	**11,662**
Net revenue from other segments	81	9	321	–	(411)	–
Net revenue	**9,058**	**2,164**	**850**	**1**	**(411)**	**11,662**
Direct costs	(1,943)	(771)	(31)	–	24	(2,721)
Indirect costs [1]	(3,615)	(548)	(639)	(112)	268	(4,646)
Segment result before depreciation and amortisation	**3,500**	**845**	**180**	**(111)**	**(119)**	**4,295**
Depreciation, amortisation and impairment losses	(1,485)	(589)	(96)	–	6	(2,164)
Segment result	**2,015**	**256**	**84**	**(111)**	**(113)**	**2,131**
Financial income and financial expense, net						(160)
Result of equity-accounted investees						(11)
Income before income taxes						**1,960**
Income tax expense						(392)
Net income						**1,568**
Segment result before depreciation and amortisation	3,500	845	180	(111)	(119)	4,295
Capital expenditure in property, plant and equipment and intangible assets	(1,654)	(692)	(58)	–	26	(2,378)
Change in provisions	39	(4)	9	7	–	51
Change in defined benefit obligations	(56)	(1)	–	1	92	36
Change in operating net working capital	184	38	(50)	7	(14)	165
Other [2]	(11)	–	–	–	1	(10)
Operating free cash flow	**2,002**	**186**	**81**	**(96)**	**(14)**	**2,159**

1 Including capitalised costs of self-constructed assets and other income.

2 Proceeds from the sale of property, plant and equipment, non-cash change in net working capital from operating activities, change in deferred gain from the sale and leaseback of real estate, and dividend payments to owners of non-controlling interests.

Segment information Swisscom Switzerland 2017

2017, in CHF million, restated	Residential Customers	Enterprise Customers	Whole-sale	IT, Network & Infrastructure	Elimi-nation	Total Swisscom Switzerland
Fixed access	2,662	615	–	–	–	3,277
Mobile subscribers	2,702	485	–	–	–	3,187
Telecom services	**5,364**	**1,100**	**–**	**–**	**–**	**6,464**
Solution business	–	1,084	–	–	–	1,084
Merchandise	451	197	–	–	–	648
Wholesale	–	–	578	–	–	578
Revenue other	156	21	–	26	–	203
Net revenue from external customers	**5,971**	**2,402**	**578**	**26**	**–**	**8,977**
Net revenue from other segments	82	108	366	141	(616)	81
Net revenue	**6,053**	**2,510**	**944**	**167**	**(616)**	**9,058**
Direct costs	(1,398)	(741)	(478)	(12)	686	(1,943)
Indirect costs [1]	(1,173)	(947)	(20)	(1,405)	(70)	(3,615)
Segment result before depreciation and amortisation	**3,482**	**822**	**446**	**(1,250)**	**–**	**3,500**
Depreciation, amortisation and impairment losses	(126)	(80)	–	(1,279)	–	(1,485)
Segment result	**3,356**	**742**	**446**	**(2,529)**	**–**	**2,015**
Capital expenditure in property, plant and equipment and intangible assets	(192)	(69)	–	(1,393)	–	(1,654)

1 Including capitalised costs of self-constructed assets and other income.

Disclosure by geographical regions

In CHF million	2018 Net revenue	2018 Non-current assets	2017 Net revenue	2017 Non-current assets
Switzerland	9,274	14,440	9,476	14,400
Italy	2,418	3,581	2,155	3,359
Other countries	22	69	31	34
Not allocated	–	506	–	534
Total	**11,714**	**18,596**	**11,662**	**18,327**

Disclosure by products and services

In CHF million	2018	2017
Telecom services	8,227	8,269
Solution business	1,042	1,084
Merchandise	775	699
Wholesale	873	845
Revenue other	797	765
Total net revenue	**11,714**	**11,662**

Accounting policies

In the following paragraphs are described the accounting policies which are valid as from 1 January 2018. The amendments to the previous accounting policies are described in the note "Amendments to International Financial Reporting Standards and Interpretations which are to be applied for the first time in the financial year".

Telecommunication services

Telecommunication services encompass mobile and fixed-network services in domestic and foreign locations. Mobile-phone services comprise the basic charges; in addition, they include the domestic and international cellular traffic relating to calls made by Swisscom customers within Switzerland and abroad. Swisscom offers subscriptions with a monthly flat-rate fee, the revenue for which is recognised on a straight-line basis over the minimum term of the contract. Depending on the type of subscription, revenue is recognised on the basis of the minutes used. The minimum contract term, as a rule, is 12 or 24 months. If a mobile handset is sold as part of a bundled offering with a mobile-phone contract, it is considered as a multi-element contract. Multi-element transactions are grouped into portfolios for revenue accounting. The transaction price for multi-element contracts is allocated to each identified performance obligation on the basis of relative stand-alone selling prices. In this process, the stand-alone selling prices of each component is considered in relation to the sum of the stand-alone selling price of each performance obligation under the contract. The stand-alone selling prices of mobile handsets and subscriptions correspond to Swisscom's list price and the minimum contract term. Non-refundable connection fees not representing separate performance obligations are taken into account in the transaction price and allocated on a relative stand-alone selling prices basis to the individual performance obligations under the customer contract. In the event that there is no minimum contract term, the revenue is recognised at the time of connection.
Fixed-network services comprise principally the basic charges for fixed telephony, broadband and TV connections as well as the domestic and international telephony traffic of individuals and corporate customers. In addition, Swisscom makes bundled offerings comprising broadband and TV connections with an optional fixed-line telephony connection. These subscription fees are flat-rate. The minimum contract term is twelve months. Revenues are recognised on a straight-line basis over the term of the contract. Revenue for telephone calls is recognised at the time when the calls are made.

Solutions

The service area of communications and IT solutions comprise principally advisory services and the implementation, maintenance and operation of communication infrastructures. Furthermore, the area includes applications and services, as well as the integration, operation and maintenance of data networks and outsourcing services. Revenue from customer-specific orders is recognised using a measure of progress method which is measured on the basis of the relationship of the costs incurred to total anticipated costs. Revenue arising on long-term outsourcing contracts is recognised as a function of performance to date provided to the customer. The duration of these contracts, as a rule, is between 3 and 7 years. Transition projects in connection with an outsourcing contract are not recorded as separate performance obligations. Maintenance revenues are recognised on a straight-line basis over the term of the maintenance contracts.

Sales of merchandise

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

Wholesale

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

1.2 Operating expenses

Direct costs

In CHF million	2018	2017
Customer premises equipment and merchandise	1,175	1,128
Services purchased	607	486
Costs of obtaining a contract	345	296
Costs to fulfill a contract	31	–
Traffic fees of foreign subsidiaries	428	400
International traffic fees	269	302
National traffic fees	99	109
Total direct costs	**2,954**	**2,721**

Indirect costs

In CHF million	2018	2017
Salary and social security expenses	2,751	2,856
Other personnel expense	64	146
Total personnel expense [1]	**2,815**	**3,002**
Information technology cost	284	306
Maintenance expense	334	284
Rental expense	207	206
Energy costs	118	105
Advertising and selling expenses	230	249
Consultancy expenses and freelance workforce	176	176
Administration expense	100	108
Allowances for receivables and contract assets	74	91
Miscellaneous operating expenses	670	627
Total other operating expense	**2,193**	**2,152**
Capitalised self-constructed assets	(331)	(327)
Income from litigations	–	(102)
Gain on sale of property, plant and equipment	(17)	(24)
Miscellaneous income	(113)	(55)
Total capitalised self-constructed assets and other income	**(461)**	**(508)**
Total indirect costs	**4,547**	**4,646**

1 See Note 4.1.

Capitalised costs of self-constructed assets include personnel costs for the manufacture of technical installations, the construction of network infrastructures and the development of software for internal use.

Accounting policies

In the following paragraphs are described the accounting policies which are valid as from 1 January 2018. The amendments to the previous accounting policies are described in the note “Amendments to International Financial Reporting Standards and Interpretations which are to be applied for the first time in the financial year”.

Costs to obtain a contract

Swisscom pays commissions to dealers for the acquisition and retention of mobile-phone customers. The commission payable is dependent on the type of subscription. Costs to obtain a contract are deferred and amortised over the related revenue-recognition period. In addition, the handset subsidies granted to the customer at the same time a Swisscom mobile-phone subscription is entered into, are reimbursed to the dealer. These costs are deferred and amortised on a straight-line basis over the contract term as costs to obtain a contract. The amortisation period corresponds to the related revenue-recognition period. See note 1.1.

Costs to fulfill a contract

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

2 Capital and financial risk management

Set out below are the procedures and guidelines governing the active management of equity resources and of the financial risks to which Swisscom is exposed. Swisscom strives to achieve a robust capital equity basis thus enabling it to guarantee its ability to continue as a going concern and to offer investors an appropriate return based on the risks assumed.

2.1 Capital management and equity

Net debt to EBITDA ratio

Swisscom aims to maintain a single-A credit rating. In addition, Swisscom targets a net debt of approximately 1.9 x EBITDA (operating income before depreciation, amortisation and impairment losses), excluding consideration of IFRS 16. Net debt consists of total financial liabilities less cash and cash equivalents, current financial assets as well as non-current fixed interest-bearing certificates of deposit and derivative financial instruments for financing received. The net debt to EBITDA ratio is as follows:

In CHF million	**31.12.2018**	31.12.2017
Net debt	7,393	7,447
Operating income before depreciation, amortisation and impairment losses (EBITDA)	4,213	4,295
Ratio net debt/EBITDA	**1.8**	**1.7**

Equity ratio

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

In CHF million	**31.12.2018**	31.12.2017
Equity	8,208	7,645
Total assets	22,586	22,058
Equity ratio in %	**36.3**	**34.7**

Dividend policy

Swisscom pursues a return policy with a stable dividend. Distributable reserves are not determined on the basis of the equity as reported in the consolidated financial statements but rather on the basis of equity as reported in the statutory financial statements of the parent company, Swisscom Ltd. At 31 December 2018, Swisscom Ltd's distributable reserves amounted to CHF 6,435 million. The dividend is proposed by the Board of Directors and must be approved by the Annual General Meeting of Shareholders. Treasury shares are not entitled to a dividend. Swisscom Ltd paid the following dividends in 2017 and 2018:

In CHF million, except where indicated	**2018**	2017
Number of registered shares eligible for dividend (in millions of shares)	51.801	51.801
Ordinary dividend per share (in CHF)	22.00	22.00
Dividends paid	**1,140**	**1,140**

The Board of Directors proposes to the Annual Shareholders' Meeting of Swisscom Ltd to be held on 2 April 2019 the payment of an ordinary dividend of CHF 22 per share in respect of the 2018 financial year. This equates to an aggregate dividend distribution of CHF 1,140 million. The dividend distribution is scheduled to be made on 8 April 2019.

Earnings per share

In CHF million, except where indicated	**2018**	2017
Share of net income attributable to equity holders of Swisscom Ltd	1,527	1,570
Weighted average number of shares outstanding (number)	51,801,182	51,800,771
Basic and diluted earnings per share (in CHF)	**29.48**	**30.31**

Supplementary information on equity

Development of retained earnings and other reserves as well as comprehensive income 2018

In CHF million	Retained earnings	Foreign currency translation adjustments	Fair value reserve	Hedging reserve	Equity holders of Swisscom	Non-controlling interests	**Total**
Balance at 31 December 2017	**9,155**	**(1,689)**	**4**	**(2)**	**7,468**	**(11)**	**7,457**
Change in accounting policies	300	–	(4)	–	296	–	296
Balance at 1 January 2018	**9,455**	**(1,689)**	**–**	**(2)**	**7,764**	**(11)**	**7,753**
Net income	**1,527**	**–**	**–**	**–**	**1,527**	**(6)**	**1,521**
Actuarial gains and losses from defined benefit pension plans	(78)	–	–	–	(78)	–	(78)
Change in fair value of equity instruments	10	–	–	–	10	–	10
Income tax expense	15	–	–	–	15	–	15
Items that will not be reclassified to income statement	**(53)**	**–**	**–**	**–**	**(53)**	**–**	**(53)**
Foreign currency translation adjustments of foreign subsidiaries	–	(41)	–	–	(41)	–	(41)
Fair value losses of cash flow hedges transferred to income statement	–	–	–	6	6	–	6
Equity-accounted investees	–	1	–	–	1	–	1
Income tax expense	–	1	–	–	1	–	1
Items that are or may be reclassified subsequently to income statement	**–**	**(39)**	**–**	**6**	**(33)**	**–**	**(33)**
Other comprehensive income	**(53)**	**(39)**	**–**	**6**	**(86)**	**–**	**(86)**
Comprehensive income	**1,474**	**(39)**	**–**	**6**	**1,441**	**(6)**	**1,435**
Dividends paid	(1,140)	–	–	–	(1,140)	(1)	(1,141)
Other changes	(30)	–	–	–	(30)	3	(27)
Balance at 31 December 2018	**9,759**	**(1,728)**	**–**	**4**	**8,035**	**(15)**	**8,020**

Development of retained earnings and other reserves as well as comprehensive income 2017

In CHF million	Retained earnings	Foreign currency translation adjustments	Fair value reserve	Hedging reserve	Equity holders of Swisscom	Non-controlling interests	Total
Balance at 31 December 2016	**8,148**	**(1,834)**	**9**	**3**	**6,326**	**8**	**6,334**
Net income	**1,570**	**–**	**–**	**–**	**1,570**	**(2)**	**1,568**
Actuarial gains and losses from defined benefit pension plans	850	–	–	–	850	–	850
Equity-accounted investees	–	–	–	–	–	–	–
Income tax expense	(171)	–	–	–	(171)	–	(171)
Items that will not be reclassified to income statement	**679**	**–**	**–**	**–**	**679**	**–**	**679**
Foreign currency translation adjustments of foreign subsidiaries	–	166	–	–	166	–	166
Change in fair value of cash flow hedges	–	–	(11)	–	(11)	–	(11)
Gains and losses transferred to income statement	–	(4)	5	(6)	(5)	–	(5)
Equity-accounted investees	–	2	–	–	2	–	2
Income tax expense	–	(19)	1	1	(17)	–	(17)
Items that are or may be reclassified subsequently to income statement	**–**	**145**	**(5)**	**(5)**	**135**	**–**	**135**
Other comprehensive income	**679**	**145**	**(5)**	**(5)**	**814**	**–**	**814**
Comprehensive income	**2,249**	**145**	**(5)**	**(5)**	**2,384**	**(2)**	**2,382**
Dividends paid	(1,140)	–	–	–	(1,140)	(8)	(1,148)
Other changes	(102)	–	–	–	(102)	(9)	(111)
Balance at 31 December 2017	**9,155**	**(1,689)**	**4**	**(2)**	**7,468**	**(11)**	**7,457**

2.2 Financial liabilities

In CHF million	2018	2017
Balance at 1 January	**8,286**	**8,496**
Issuance of bank loans	564	177
Issuance of debenture bonds	885	500
Issuance of other financial liabilities	2	80
Issuance of financial liabilities	**1,451**	**757**
Repayment of bank loans	(69)	(247)
Repayment of debenture bonds	(1,385)	(640)
Repayment of private placements	(72)	(250)
Repayment of finance lease liabilities	(27)	(19)
Repayment of other financial liabilities	(18)	(2)
Repayment of financial liabilities	**(1,571)**	**(1,158)**
Interest expense	138	160
Interest payments	(157)	(181)
Foreign currency translation adjustments	(117)	224
Change in finance lease liabilities	(51)	(26)
Change in fair value	(7)	(3)
Accrual of purchase price margins from business combinations	158	19
Other changes	37	(2)
Balance at 31 December	**8,167**	**8,286**
Bank loans	1,233	760
Debenture bonds	5,554	6,137
Private placements	426	493
Finance lease liabilities	384	461
Derivative financial instruments [1]	54	60
Other financial liabilities [2]	516	375
Total financial liabilities	**8,167**	**8,286**
Thereof current financial liabilities	1,361	1,834
Thereof non-current financial liabilities	6,806	6,452

1 See Note 2.5.

2 See Note 5.2.

Credit lines

Swisscom has two confirmed lines of credit from banks each amounting to CHF 1,000 million maturing in 2020 and 2022, respectively. As of 31 December 2018, none of these lines of credit had been drawn down, as in the prior year.

Bank loans

In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	Carrying amount 31.12.2018	Carrying amount 31.12.2017
Bank loans in EUR [1,3]	2018–2019	500	0.01%	–0.66%	563	–
Bank loans in EUR [1,3]	2013–2020	120	Euribor +0.386%	0.12%	135	211
Bank loans in EUR [2]	2015–2020	200	0.76%	–0.52%	229	238
Bank loans in EUR [2,3]	2017–2024	150	0.67%	0.67%	169	175
Bank loans in USD [2]	2009–2028	54	8.30%	4.62%	74	74
Bank loans in USD [2]	2009–2028	48	7.65%	4.63%	63	62
Total bank loans					**1,233**	**760**

1 Variable interest-bearing.

2 Fixed interest-bearing.

3 Designated for hedge accounting of net investments in foreign operations.

As of 31 December 2018, Swisscom had short-term bank loans on a weekly and monthly basis in the amount of EUR 500 million (CHF 563 million). In 2017, Swisscom took up a bank loan of a nominal amount of EUR 150 million maturing in 2024. The funds so received were applied to repay existing debts. The bank loans may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below one third or if another shareholder can exercise control over Swisscom.

Debenture bonds

					Carrying amount	
In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	**31.12.2018**	31.12.2017
Debenture bond in CHF (ISIN: CH0104691628)	2009–2018	1,385	3.25%	3.44%	–	1,396
Debenture bond in EUR (ISIN: XS0972165848)	2013–2020	500	2.00%	2.22%	564	585
Debenture bond in EUR (ISIN: XS1051076922) [1]	2014–2021	500	1.88%	2.06%	564	585
Debenture bond in CHF (ISIN: CH0114695379)	2010–2022	500	2.63%	2.81%	501	500
Debenture bond in CHF (ISIN: CH0268988174)	2015–2023	250	0.25%	–0.37%	255	253
Debenture bond in CHF (ISIN: CH0188335365)	2012–2024	500	1.75%	1.77%	504	504
Debenture bond in EUR (ISIN: XS1288894691) [1]	2015–2025	500	1.75%	–0.06%	584	599
Debenture bond in CHF (ISIN: CH0247776138)	2014–2026	200	1.50%	1.47%	202	202
Debenture bond in EUR (ISIN: XS1803247557)	2018–2026	500	1.13%	1.25%	560	–
Debenture bond in CHF (ISIN: CH0344583783)	2016–2027	200	0.38%	–0.39%	199	197
Debenture bond in CHF (ISIN: CH0362748359)	2017–2027	350	0.38%	0.38%	351	351
Debenture bond in CHF (ISIN: CH0317921663)	2016–2028	200	0.38%	0.30%	202	202
Debenture bond in CHF (ISIN: CH0437180935)	2018–2028	150	0.75%	0.72%	151	–
Debenture bond in CHF (ISIN: CH0254147504)	2014–2029	160	1.50%	1.47%	161	161
Debenture bond in CHF (ISIN: CH0336352775)	2016–2032	300	0.13%	0.14%	299	299
Debenture bond in CHF (ISIN: CH0373476164)	2017–2033	150	0.75%	0.71%	151	151
Debenture bond in CHF (ISIN: CH0268988182)	2015/ 2018–2035	300	1.00%	0.25%	306	152
Total debenture bonds					**5,554**	**6,137**

1 Designated for hedge accounting of net investments in foreign operations.

In the first quarter of 2018, Swisscom took up a debenture bond of a nominal amount of CHF 150 million with a coupon rate of 1.0% and maturing in 2035. Furthermore, a debenture bond of a nominal amount of EUR 500 million (CHF 585 million) with a coupon rate of 1.125% and maturing in 2026 was issued in April 2018. On 12 October 2018, Swisscom took up a debenture bond of a nominal amount of CHF 150 million with a coupon rate of 0.75% and maturing in 2028. The funds so received were applied to repay existing debts. In the third quarter of 2018, Swisscom repaid a debenture bond of a nominal amount of CHF 1.4 billion upon maturity. In 2017, Swisscom issued two debenture bonds of an aggregate nominal amount of CHF 500 million. The financing so received was applied to repay existing loans. In the third quarter of 2017, Swisscom repaid a debenture bond of a nominal amount of CHF 600 million upon maturity.

Private placements

In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	Carrying amount 31.12.2018	Carrying amount 31.12.2017
Private placements in CHF	2007–2018	72	Variable	1.31%	–	71
Private placements in CHF	2007–2019	278	Variable	1.25%	276	272
Private placements in CHF	2016–2031	150	0.56%	0.56%	150	150
Total private placements					**426**	**493**

In the fourth quarter of 2018, Swisscom repaid a private placement of CHF 72 million upon maturity. The Swiss-franc-denominated private placements with a nominal value of CHF 278 million maturing in 2019 may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below 35% or if another shareholder can exercise control over Swisscom. The investors in the remaining private placements are entitled to resell their investments to Swisscom should the Swiss Confederation permanently give up its majority shareholding in Swisscom.

Finance lease liabilities

Swisscom concluded two agreements in 2001 for the sale of real estate. At the same time, it entered into long-term agreements to lease back part of the real estate sold which, in part, qualify as finance leases. The gain realised on real estate classified as finance leases was deferred. As of 31 December 2018, the carrying amount of the deferred gains was CHF 134 million (prior year: CHF 146 million). The deferred gains are released to other income over the term of the individual leases. The effective interest rate of the finance lease liabilities was 6.05%. The minimum lease payments, financial liabilities and the future payment thereof, expressed in terms of their net present value, relating to these leaseback agreements are set out in the following table:

	Minimum lease payments		Carrying amount	
In CHF million	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Within 1 year	45	48	21	23
Between 1 and 5 years	137	144	46	48
After 5 years	593	793	317	390
Total minimum lease payments/carrying amount	**775**	**985**	**384**	**461**
Thereof current finance lease liabilities			21	23
Thereof non-current finance lease liabilities			363	438
Net carrying amount of buildings acquired under finance lease			252	328

Accounting policies

Financial liabilities

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

Finance leases

A lease is recorded as a finance lease whenever substantially all of the risks and rewards incidental to ownership of an asset are passed on. The asset is initially recognised at the lower of its fair value and the present value of the minimum lease payments and is amortised over the asset's estimated useful life or the lower contract term. The interest component of the lease payments is recognised as interest expense over the lease term computed on the basis of the effective interest method. Lease contracts for land and buildings are recorded separately if the lease payments can be reliably allocated. Gains on sale-and-leaseback transactions are deferred and released over the lease term to other income on a straight-line basis. Losses on sale-and-leaseback transactions are expensed immediately.

2.3 Operating leases

Operating leases relate primarily to the rental of real estate held for business purposes. In 2018, payments for operating leases amounted to CHF 207 million (prior year: CHF 201 million). Future minimum lease payments in respect of non-cancellable operating lease contracts are as follows:

In CHF million	31.12.2018	31.12.2017
Within 1 year	182	178
Between 1 and 2 years	170	157
Between 2 and 3 years	149	138
Between 3 and 4 years	122	112
Between 4 and 5 years	102	85
After 5 years	573	317
Total minimum lease payments from operating lease	**1,298**	**987**

Accounting policies

Lease arrangements which do not transfer all the significant risks and rewards of ownership are classified as operating leases. Payments are recorded as other operating expense using the straight-line method over the lease term. Gains and losses on sale-and-leaseback transactions are recorded directly in the income statement.

2.4 Financial result

In CHF million	2018	2017
Interest income on financial assets	10	11
Foreign exchange gains	–	10
Change in fair value of interest rate swaps [1]	6	8
Capitalised borrowing costs	4	5
Other financial income	8	10
Total financial income	**28**	**44**
Interest expense on financial liabilities	(138)	(160)
Interest expense on defined benefit obligations [2]	(6)	(11)
Foreign exchange losses	(6)	–
Present-value adjustments on provisions [3]	(8)	(6)
Other financial expense	(28)	(27)
Total financial expense	**(186)**	**(204)**
Financial income and financial expense, net	**(158)**	**(160)**
Net interest expense	(128)	(149)

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

2.5 Financial risk management

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

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

Foreign exchange risks

As regards financial instruments, the following currency risks and hedging contracts for foreign currencies as of 31 December 2017 and 2018 existed:

	31.12.2018		31.12.2017	
In CHF million	**EUR**	**USD**	EUR	USD
Cash and cash equivalents	44	9	89	3
Trade receivables	4	7	7	3
Other financial assets	69	227	103	230
Financial liabilities	(3,443)	(144)	(2,377)	(144)
Trade payables	(34)	(47)	(71)	(80)
Net exposure at carrying amounts	**(3,360)**	**52**	**(2,249)**	**12**
Net exposure to forecasted cash flows in the next 12 months	(64)	(423)	1	(405)
Net exposure before hedges	**(3,424)**	**(371)**	**(2,248)**	**(393)**
Forward currency contracts	–	430	–	–
Foreign currency swaps	635	(62)	83	189
Currency swaps	789	–	819	–
Hedges	**1,424**	**368**	**902**	**189**
Net exposure	**(2,000)**	**(3)**	**(1,346)**	**(204)**

In addition, Swisscom has financial liabilities outstanding as of 31 December 2018 with an aggregate nominal value of EUR 1,770 million (CHF 1,995 million) (prior year: EUR 1,330 million; CHF 1,555 million) which were designated as net investments in foreign shareholdings for hedge accounting purposes. In 2018, an income of CHF 85 million (prior year: expense of CHF 114 million) arising from the revaluation of financial liabilities was recognised in other comprehensive income in the position foreign currency translation of foreign Group companies. As of 31 December 2018, the cumulative positive amount of foreign currency translation differences in equity totals CHF 162 million.

Foreign currency sensitivity analysis

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

In CHF million	Income impact on balance sheet items	Hedges for balance sheet items	Planned cash flows	Hedges for planned cash flows
31.12.2018				
EUR volatility 6.28%	211	(89)	4	–
USD volatility of 7.68%	(4)	5	32	(33)
31.12.2017				
EUR volatility 6.25%	140	(56)	–	–
USD volatility of 7.78%	(1)	5	32	(20)

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

Interest rate risks

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

In CHF million	**31.12.2018**	31.12.2017
Fixed interest-bearing financial liabilities	6,562	7,220
Variable interest-bearing financial liabilities	1,053	655
Total interest-bearing financial liabilities	**7,615**	**7,875**
Fixed interest-bearing financial assets	(139)	(127)
Variable interest-bearing financial assets	(556)	(603)
Total interest-bearing financial assets	**(695)**	**(730)**
Total interest-bearing financial assets and liabilities, net	**6,920**	**7,145**
Variable interest-bearing	497	52
Variable through interest rate swaps	1,364	1,244
Variable interest-bearing, net	**1,861**	**1,296**
Fixed interest-bearing	6,423	7,093
Variable through interest rate swaps	(1,364)	(1,244)
Fixed interest-bearing, net	**5,059**	**5,849**
Total interest-bearing financial assets and liabilities, net	**6,920**	**7,145**

Interest rate sensitivity analysis

A shift in interest rates by 100 basis points has no material impact on the income statement and equity as of 31 December 2017 and 2018.

Credit risks

Credit risks from financial transactions

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

In CHF million	**31.12.2018**	31.12.2017
Cash and cash equivalents	474	525
Financial assets at amortised cost	259	–
Loans and receivables	–	201
Derivative financial instruments	82	100
Other assets valued at fair value	2	61
Total carrying amount of financial assets	**817**	**887**

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

In CHF million	31.12.2018	31.12.2017
AAA	35	34
AA– to AA+	453	433
A– to A+	212	342
BBB– to BBB+	56	22
Without rating	61	56
Total	**817**	**887**

Financial risks from operating activities

Credit risks on trade receivables, contract assets and other receivables arise from the Group's operating activities. Credit risks from other receivables are insignificant. As an initial step, Swisscom splits up the credit risks from operating activities over Swisscom Switzerland and Fastweb. Default risks are principally impacted the individual attributes of the customers. The default risk is further influenced by the default risk of customer groups and industry sectors. Swisscom possesses a receivables-management system as an aid to minimise default losses. New customers are reviewed for their credit-worthiness and maximum payment targets are set for customer groups. As regards their credit-worthiness, customers are divided into groups for the purposes of monitoring default risk. In this process, a differentiation between individual and corporate customers, inter alia, is made. In addition, the ageing structure of the receivables as well as the industry segment in which a customer is active are taken into account. The split of trade receivables and contract assets by operating segment may be analysed as follows:

In CHF million	31.12.2018	31.12.2017
Notional amount		
Residential Customers	1,140	956
Enterprise Customers	481	531
Wholesale	149	102
IT, Network & Infrastructure	25	43
Swisscom Switzerland	**1,795**	**1,632**
Fastweb	696	814
Other Operating Segments	176	136
Total notional amount	**2,667**	**2,582**
Allowances for doubtful debts		
Residential Customers	(51)	(47)
Enterprise Customers	(3)	(3)
Wholesale	(1)	–
IT, Network & Infrastructure	(2)	(2)
Swisscom Switzerland	**(57)**	**(52)**
Fastweb	(87)	(131)
Other Operating Segments	(13)	(10)
Total allowances for doubtful debts	**(157)**	**(193)**
Notional amount less allowances for doubtful debts		
Total notional amount less allowances for doubtful debts	**2,510**	**2,389**

As of 31 December 2018, the due dates of trade receivables and contract assets as well as any applicable related valuation allowances are to be analysed as follows:

			31.12.2018
In CHF million	Rate	Par value	Allowance
Not due	0.51%	1,972	(10)
Past due up to 3 months	6.15%	439	(27)
Past due 4 to 6 months	24.36%	78	(19)
Past due 7 to 12 months	35.48%	93	(33)
Past due over 1 year	81.93%	83	(68)
Total	5.89%	**2,665**	**(157)**

As of 31 December 2017, the due dates of trade receivables as well as any applicable related valuation allowances are to be analysed as follows :

		31.12.2017
In CHF million	Par value	Allowance
Not overdue	1,824	(4)
Past due up to 3 months	377	(18)
Past due 4 to 6 months	124	(17)
Past due 7 to 12 months	90	(24)
Past due over 1 year	167	(130)
Total	**2,582**	**(193)**

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

In CHF million	2018	2017
Balance at 1 January	**193**	**183**
Change in accounting policies	32	–
Additions to allowances	81	93
Write-off of irrecoverable receivables subject to allowance	(138)	(90)
Release of unused allowances	(7)	(3)
Foreign currency translation adjustments	(4)	10
Balance at 31 December	**157**	**193**

Liquidity risk
Contractual maturities including estimated interest payable

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
31.12.2018						
Bank loans	1,233	1,295	641	302	22	330
Debenture bonds	5,554	5,960	75	638	1,470	3,777
Private placements	426	438	278	1	2	157
Finance lease liabilities	384	775	45	39	98	593
Other financial liabilities	516	516	394	90	32	–
Trade payables	1,658	1,658	1,610	21	27	–
Derivative financial instruments	54	58	9	3	12	34
Total	**9,825**	**10,700**	**3,052**	**1,094**	**1,663**	**4,891**

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
31.12.2017						
Bank loans	760	830	80	80	328	342
Debenture bonds	6,137	6,575	1,497	67	1,836	3,175
Private placements	493	514	74	280	2	158
Finance lease liabilities	461	985	48	42	102	793
Other financial liabilities	375	375	235	109	28	3
Trade payables	1,753	1,753	1,718	23	12	–
Derivative financial instruments	60	108	7	4	11	86
Total	**10,039**	**11,140**	**3,659**	**605**	**2,319**	**4,557**

Derivative financial instruments

	Contract value		Positive fair value		Negative fair value	
In CHF million	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Interest rate swaps in CHF	575	425	11	2	(1)	(3)
Currency swaps in EUR	789	819	70	97	–	–
Total fair value hedges	**1,364**	**1,244**	**81**	**99**	**(1)**	**(3)**
Forward currency contracts in USD	202	149	–	–	(2)	(2)
Total cash flow hedges	**202**	**149**	**–**	**–**	**(2)**	**(2)**
Interest rate swaps in CHF	200	200	–	–	(48)	(54)
Currency swaps in USD	62	210	1	1	–	(1)
Currency swaps in EUR	635	101	–	–	(1)	–
Forward currency contracts in USD	221	–	–	–	(2)	–
Total other derivative financial instruments	**1,118**	**511**	**1**	**1**	**(51)**	**(55)**
Total derivative financial instruments	**2,684**	**1,904**	**82**	**100**	**(54)**	**(60)**
Thereof current derivative financial instruments			1	1	(5)	(4)
Thereof non-current derivative financial instruments			81	99	(49)	(56)

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

Cross-border lease agreements

Between 1996 until 2002, Swisscom entered into various cross-border lease agreements, under the terms of which parts of its fixed-line and mobile-phone networks were sold or leased on a long-term basis and leased back. Swisscom defeased a significant part of the lease obligations through the acquisition of investment-grade financial investments. The financial assets were irrevocably deposited with a trust. In accordance with Interpretation SIC 27 "Evaluating the Substance of Transactions involving the Legal Form of a Lease", these financial assets and liabilities in the same amount are netted and not recorded in the balance sheet. As of 31 December 2018, the financial liabilities and assets, including accrued interest, arising from cross-border lease agreements amounted to USD 79 million or CHF 78 million, respectively, which, in compliance with SIC 27, were not recognised in the balance sheet (prior year: USD 75 million or CHF 73 million).

Accounting policies

Derivative financial instruments

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

Valuation category and fair value of financial instruments

Estimation of fair values

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

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

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

Valuation categories and fair value of financial instruments

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

In CHF million	Carrying amount	Fair Value	Level
			31.12.2018
Other financial assets			
Term deposits	7	7	2
Certificates of deposit	145	157	2
Listed debt instruments	63	63	1
Loans	44	44	2
At amortised cost	**259**	**271**	
Equity instruments valued at fair value	6	6	1
Equity instruments valued at fair value	72	72	3
Fair value through other comprehensive income	**78**	**78**	
Loans	2	2	2
Derivative financial instruments	82	82	2
Fair value through profit or loss	**84**	**84**	
Total other financial assets	**421**	**433**	
Financial liabilities			
Bank loans	1,233	1,250	2
Debenture bonds	5,554	5,719	1
Private placements	426	426	2
Finance lease liabilities	384	665	2
Derivative financial instruments	54	54	2
Other financial liabilities	516	516	2
Total financial liabilities	**8,167**	**8,630**	

In CHF million	Carrying amount	Fair Value	Level
			31.12.2017
Other financial assets			
Term deposits	7	7	2
Certificates of deposit	145	162	2
Loans	49	49	2
Loans and receivables	**201**	**218**	
Equity instruments valued at fair value	10	10	1
Equity instruments valued at fair value	2	2	3
Equity instruments valued at cost	41	41	–
Available-for-sale	**53**	**53**	
Debt instruments held for trading	61	61	1
Derivative financial instruments	100	100	2
Fair value through profit or loss	**161**	**161**	
Total other financial assets	**415**	**432**	
Financial liabilities			
Bank loans	760	788	2
Debenture bonds	6,137	6,439	1
Private placements	493	504	2
Finance lease liabilities	461	879	2
Derivative financial instruments	60	60	2
Other financial liabilities	375	375	2
Total financial liabilities	**8,286**	**9,045**	

Financial assets amounting to CHF 208 million (prior year: CHF 145 million) are not freely available, as they serve as security for liabilities.

3 Operating assets and liabilities

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

3.1 Operating net current assets

Movements in operating assets and liabilities

In CHF million	31.12.2017	Application IFRS 9 & 15	Operational changes	Other changes [1]	**31.12.2018**
Financial year 2018					
Trade receivables	2,389	(30)	(139)	(31)	2,189
Other operating assets	729	433	84	(3)	1,243
Trade payables	(1,753)	–	50	45	(1,658)
Other operating liabilities	(1,165)	(45)	75	8	(1,127)
Total operating assets and liabilities, net	**200**	**358**	**70**	**19**	**647**

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

In CHF million	31.12.2016	Operational changes	Other changes [1]	31.12.2017
Financial year 2017				
Trade receivables	2,425	(98)	62	2,389
Other operating assets	680	29	20	729
Trade payables	(1,597)	(85)	(71)	(1,753)
Other operating liabilities	(1,123)	(11)	(31)	(1,165)
Total operating assets and liabilities, net	**385**	**(165)**	**(20)**	**200**

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

As of 31 December 2018, the share of other operating assets which will be consumed twelve months after the balance-sheet date amounts to CHF 281 million (prior year: CHF 85 million) and that of other operating liabilities CHF 121 million (prior year: CHF 145 million).

Trade receivables

In CHF million	**31.12.2018**	31.12.2017
Billed revenue	2,231	2,389
Accrued revenue	113	193
Allowances	(155)	(193)
Total trade receivables [1]	**2,189**	**2,389**

1 Credit risks. See Note 2.5.

Other operating assets and liabilities

In CHF million	31.12.2018	01.01.2018 [1]
Other operating assets		
Contract assets	321	282
Contract costs	274	279
Other receivables	52	37
Inventories	154	168
Prepaid expenses	316	282
Advance payments made	35	74
Value-added taxes receivable	46	20
Other non-financial assets	45	20
Total other operating assets	**1,243**	**1,162**
Other operating liabilities		
Contract liabilities	620	694
Accruals for variable performance-related bonus	163	157
Value-added taxes payable	85	91
Accruals for annual holiday, overtime	61	66
Liabilities from collection activities	14	16
Advance payments received	11	12
Miscellaneous liabilities	173	174
Total other operating liabilities	**1,127**	**1,210**

1 Including cumulative effect of initially applying IFRS 15.

Contract assets and liabilities

In CHF million	31.12.2018	01.01.2018
Contract assets		
Swisscom Switzerland	258	234
Fastweb	9	19
Other	54	29
Total contract assets	**321**	**282**
Contract liabilities		
Swisscom Switzerland	427	437
Fastweb	113	179
Other	80	78
Total contract liabilities	**620**	**694**

Contract assets of Swisscom Switzerland include primarily deferrals arising in connection with the sale of bundled offerings in the mobile-phone area. In part, mobile handsets are sold, together with a mobile-phone contract, on a subsidised basis in the bundled offering. As a result of the allocation of revenue over the pre-delivered components (mobile handset), revenues are recognised earlier than the invoicing thereof. This results in contract assets deriving from this business being recognised. Contract liabilities comprise primarily deferrals arising on the payment of prepaid cards and prepaid subscription fees of Swisscom Switzerland. In 2018, an amount of CHF 307 million was recorded as revenue which had been recognised as a contract liability as of 1 January 2018. Swisscom avails itself of the rules of IFRS 15.121 regarding the disclosure of the transaction price allocated to the performance obligation that are unsatisfied. The exemption is not applied in the case of mobile-phone contracts with the sale of a subsidised mobile handset and a minimum contract term. Revenues of CHF 961 million will be recognised from such contracts (2019: CHF 715 million.; 2020: CHF 246 million).

Contract costs

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

In CHF million	31.12.2018	01.01.2018
Costs to obtain a contract		
Commissions to dealers for customer acquisition and retention	38	40
Commissions to dealers for handset subsidies	63	67
Swisscom Switzerland	**101**	**107**
Fastweb	24	9
Other	48	48
Total costs to obtain a contract	**173**	**164**
Costs to fulfill a contract		
Router and TV boxes	33	47
Initial costs from outsourcing contracts	68	68
Total costs to fulfill a contract	**101**	**115**
Total contract costs	**274**	**279**

Accounting policies

Operating assets and liabilities

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

Trade receivables

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

3.2 Property, plant and equipment

In CHF million	Technical installations	Land, buildings and leasehold improvements [1]	Other assets	Advances made and assets under construction	Total
At cost					
Balance at 31 December 2016	**27,023**	**2,743**	**4,019**	**354**	**34,139**
Additions	1,298	4	270	234	1,806
Disposals	(663)	(63)	(137)	–	(863)
Adjustment to dismantlement and restoration costs	36	–	13	–	49
Reclassifications	95	4	107	(226)	(20)
Foreign currency translation adjustments	386	8	1	2	397
Balance at 31 December 2017	**28,175**	**2,696**	**4,273**	**364**	**35,508**
Additions	1,366	2	242	196	1,806
Disposals	(1,586)	(99)	(167)	–	(1,852)
Adjustment to dismantlement and restoration costs	(1)	–	4	–	3
Reclassifications	99	(3)	160	(202)	54
Business combinations	17	–	–	–	17
Foreign currency translation adjustments	(192)	(4)	–	(1)	(197)
Balance at 31 December 2018	**27,878**	**2,592**	**4,512**	**357**	**35,339**
Accumulated depreciation and impairment losses					
Balance at 31 December 2016	**(19,247)**	**(2,019)**	**(2,696)**	**–**	**(23,962)**
Depreciation	(1,114)	(35)	(315)	–	(1,464)
Disposals	668	17	132	–	817
Reclassifications	21	–	(12)	–	9
Foreign currency translation adjustments	(208)	(3)	–	–	(211)
Balance at 31 December 2017	**(19,880)**	**(2,040)**	**(2,891)**	**–**	**(24,811)**
Depreciation	(1,165)	(35)	(319)	–	(1,519)
Disposals	1,584	31	163	–	1,778
Reclassifications	56	9	(66)	–	(1)
Foreign currency translation adjustments	107	1	–	–	108
Balance at 31 December 2018	**(19,298)**	**(2,034)**	**(3,113)**	**–**	**(24,445)**
Net carrying amount					
Net carrying amount at 31 December 2018	**8,580**	**558**	**1,399**	**357**	**10,894**
Net carrying amount at 31 December 2017	**8,295**	**656**	**1,382**	**364**	**10,697**
Net carrying amount at 31 December 2016	**7,776**	**724**	**1,323**	**354**	**10,177**

1 Buildings acquired under finance lease. See Note 2.2.

Commitments for future capital expenditures

Firm contractual commitments for future capital investments in property, plant and equipment as of 31 December 2018 aggregated CHF 914 million (prior year: CHF 857 million).

Non-cash investing and financing transactions

Additions to property, plant and equipment include additions from finance leases amounting to CHF 14 million (prior year: CHF 20 million). As a result of changes in the assumptions made in estimating the provisions for dismantlement and restoration costs, an increase therein of CHF 3 million (prior year: increase of CHF 49 million) was recognised in property, plant and equipment with no impact on the income statement. See Note 3.5.

Significant judgements or estimates

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

Accounting policies

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

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

1 Technical installations.

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

3.3 Goodwill

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

In CHF million	Residential Customers Swisscom Switzerland	Small and medium-sized enterprises Swisscom Switzerland	Enterprise Customers Swisscom Switzerland	Fastweb	Other cash-generating units [1]	**Total**
At cost						
Balance at 31 December 2016	**2,620**	**656**	**907**	**1,899**	**444**	**6,526**
Additions	–	–	–	2	–	2
Reclassifications	656	(656)	25	–	(25)	–
Foreign currency translation adjustments	1	–	–	169	3	173
Balance at 31 December 2017	**3,277**	**–**	**932**	**2,070**	**422**	**6,701**
Sales of subsidiaries	–	–	–	–	(23)	(23)
Foreign currency translation adjustments	–	–	–	(76)	–	(76)
Balance at 31 December 2018	**3,277**	**–**	**932**	**1,994**	**399**	**6,602**
Accumulated impairment losses						
Balance at 31 December 2016	**–**	**–**	**–**	**(1,370)**	**–**	**(1,370)**
Impairment losses	–	–	–	–	(23)	(23)
Foreign currency translation adjustments	–	–	–	(122)	–	(122)
Balance at 31 December 2017	**–**	**–**	**–**	**(1,492)**	**(23)**	**(1,515)**
Sales of subsidiaries	–	–	–	–	23	23
Foreign currency translation adjustments	–	–	–	54	–	54
Balance at 31 December 2018	**–**	**–**	**–**	**(1,438)**	**–**	**(1,438)**
Net carrying amount						
Net carrying amount at 31 December 2018	**3,277**	**–**	**932**	**556**	**399**	**5,164**
Net carrying amount at 31 December 2017	**3,277**	**–**	**932**	**578**	**399**	**5,186**
Net carrying amount at 31 December 2016	**2,620**	**656**	**907**	**529**	**444**	**5,156**

1 Comprises the cash-generating units Wholesale Swisscom Switzerland, Swisscom Directories, and Improve Digital. Improve Digital was sold in early 2018.

Impairment testing

In the fourth quarter of 2018 and after completion of business planning, individual goodwill amounts were subjected to an impairment test. The recoverable amount of a cash-generating unit is determined based on its value in use, applying the discounted cash flow (DCF) method. The projected free cash flows are estimated on the basis of the business plans approved by management. As a rule, the business plans cover a three-year period. A planning horizon of five years is used for the impairment test of Fastweb. For the free cash flows extending beyond the detailed planning period, a terminal value was computed by capitalising the normalised cash flows using a steady long-term growth rate. The growth rate applied is that customarily assumed for the country or market. The discount rate is derived from the Capital Asset Pricing Model (CAPM). This latter comprises the weighted value of own equity and external borrowing costs. For the risk-free interest rate which forms the basis of the discount rate, the yield from Swiss government bonds (abroad: Germany) with a duration of ten years and a zero-interest rate is taken, subject to a minimum interest rate of 1.5% (Switzerland) and 2.0% (abroad). For cash-generating units abroad, a risk premium for the country risk is then added.

Discount rates and long-term growth rates

	2018			2017		
Cash-generating unit	**WACC pre-tax**	**WACC post-tax**	**Long-term growth rate**	WACC pre-tax	WACC post-tax	Long-term growth rate
Residential Customers Swisscom Switzerland	5.54%	4.42%	0%	5.92%	4.64%	0%
Enterprise Customers Swisscom Switzerland	5.52%	4.42%	0%	5.88%	4.64%	0%
Fastweb	8.34%	6.42%	1.0%	9.10%	7.02%	1.0%
Other cash-generating units	5.55–11.67%	4.42–9.16%	0%	5.88–14.38%	4.64–9.72%	0–1.5%

The discount rates used take into consideration the specific risks relating to the cash-generating unit in question. The projected cash flows and management assumptions are corroborated by external sources of information.

Results and sensitivity of impairment tests

Residential Customers and Enterprise Customers Swisscom Switzerland

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

Fastweb

As of the date of the impairment test, no impairment of goodwill resulted. The recoverable amount exceeded the carrying amount by EUR 1,178 million (CHF 1,343 million). In the prior year, the difference amounted to EUR 332 million (CHF 386 million). The following changes in material assumptions lead to a situation where the value in use equates to the carrying amount:

	2018		2017	
	Assumptions	Sensitivity	Assumptions	Sensitivity
Average annual growth rate till 2023 with the same EBITDA margin as in the business plan	6.2%	4.0%	5.2%	2.8%
Normalised EBITDA margin	33%	29%	33%	31%
Normalised capital expenditure rate	21%	25%	21%	23%
Post-tax discount rate	6.42%	8.43%	7.02%	7.71%
Long-term growth rate	1.0%	–1.6%	1.0%	0.1%

Significant judgements or estimates

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

Accounting policies

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

3.4 Intangible assets

In CHF million	Purchased software	Internally generated software	Licenses	Brands and customer relations	Other intangible assets	Total
At cost						
Balance at 31 December 2016	**2,166**	**1,477**	**451**	**1,332**	**714**	**6,140**
Additions	215	152	5	–	225	597
Disposals	(105)	(443)	(52)	(852)	(61)	(1,513)
Reclassifications	39	228	9	–	(256)	20
Business combinations	2	1	–	53	–	56
Sales of subsidiaries	(4)	–	–	–	–	(4)
Foreign currency translation adjustments	115	12	–	27	14	168
Balance at 31 December 2017	**2,428**	**1,427**	**413**	**560**	**636**	**5,464**
Additions	220	174	97	–	125	616
Disposals	(577)	(351)	(6)	(70)	(142)	(1,146)
Reclassifications	46	98	–	–	(208)	(64)
Business combinations	–	–	206	–	3	209
Sales of subsidiaries	(22)	(5)	–	–	–	(27)
Foreign currency translation adjustments	(56)	(6)	(2)	(11)	(3)	(78)
Balance at 31 December 2018	**2,039**	**1,337**	**708**	**479**	**411**	**4,974**
Accumulated amortisation and impairment losses						
Balance at 31 December 2016	**(1,738)**	**(1,013)**	**(169)**	**(1,192)**	**(272)**	**(4,384)**
Amortisation	(234)	(277)	(26)	(55)	(78)	(670)
Impairment losses	(2)	(5)	–	–	–	(7)
Disposals	105	442	52	852	46	1,497
Sales of subsidiaries	4	–	–	–	–	4
Reclassifications	9	(33)	(7)	–	22	(9)
Foreign currency translation adjustments	(93)	(9)	–	(26)	(9)	(137)
Balance at 31 December 2017	**(1,949)**	**(895)**	**(150)**	**(421)**	**(291)**	**(3,706)**
Amortisation	(244)	(289)	(31)	(35)	(22)	(621)
Impairment losses	(3)	(1)	–	–	–	(4)
Disposals	576	349	6	70	125	1,126
Sales of subsidiaries	13	3	–	–	–	16
Reclassifications	–	3	–	–	7	10
Foreign currency translation adjustments	46	5	–	10	2	63
Balance at 31 December 2018	**(1,561)**	**(825)**	**(175)**	**(376)**	**(179)**	**(3,116)**
Net carrying amount						
Net carrying amount at 31 December 2018	**478**	**512**	**533**	**103**	**232**	**1,858**
Net carrying amount at 31 December 2017	**479**	**532**	**263**	**139**	**345**	**1,758**
Net carrying amount at 31 December 2016	**428**	**464**	**282**	**140**	**442**	**1,756**

As of 31 December 2018, other intangible assets include advance payments made and uncompleted development projects of CHF 125 million (prior year: CHF 171 million).

Commitments for future capital expenditures

As of 31 December 2018, firm contractual commitments for future capital investments in intangible assets aggregated CHF 91 million (prior year: CHF 84 million).

Significant judgements or estimates

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

Accounting policies

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

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

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

3.5 Provisions, contingent liabilities and contingent assets

Provisions

In CHF million	Dismantlement and restoration costs	Regulatory and competition law proceedings	Termination benefits [1]	Other	Total
Balance at 31 December 2017	**600**	**156**	**112**	**209**	**1,077**
Additions to provisions	4	10	22	55	91
Present-value adjustments	10	–	–	1	11
Release of unused provisions	(6)	–	(24)	(31)	(61)
Use of provisions	(3)	–	(41)	(41)	(85)
Foreign currency translation adjustments	–	–	–	(1)	(1)
Balance at 31 December 2018	**605**	**166**	**69**	**192**	**1,032**
Thereof current provisions	–	–	59	72	131
Thereof non-current provisions	605	166	10	120	901

1 See Note 4.1.

Provisions for dismantling and restoration costs

The provisions are computed by reference to estimates of future anticipated dismantling costs and are discounted using an average interest rate of 1.16% (prior year: 1.19%). The effect of using different interest rates amounted to CHF 3 million (prior year: CHF 1 million). The cost index used for computing the dismantling costs was amended in the prior year resulting in an impact of CHF 55 million. In 2018, as a result of reassessments, adjustments totalling CHF 3 million (prior year: CHF 53 million) were recorded under property, plant and equipment, with no impact on the income statement, and an expense of CHF 1 million (prior year: income of CHF 1 million) which was recognised in the income statement. The non-current portion of the provisions is expected to be settled after 2020. An increase of estimated costs by 10% would result in an increase of CHF 58 million in the amount of the provision. A delay in the timing of dismantling by a further ten years would lead to a reduction in the provision by CHF 39 million.

Provisions for regulatory and competition law proceedings

In accordance with the revised Telecommunications Act, Swisscom provides access services (incl. interconnection) to other telecommunication service providers in Switzerland. In previous years, several telecommunication service providers demanded from the Federal Communications Commission (ComCom) a reduction in the prices charged to them by Swisscom. The determination of the prices for access services during 2013 to 2017 is still pending. In 2009, the Competition Commission (Weko) levied a penalty of CHF 220 million on Swisscom for abuse of a market-dominant position in the case of ADSL services during the period through to the end of 2007. Swisscom appealed against the ruling to the Federal Administrative Court. In September 2015, the Federal Administrative Court in principle upheld the Weko decision and reduced the penalty imposed on Swisscom by Weko from CHF 220 million to CHF 186 million. As a result of the decision, Swisscom recognised a provision of CHF 186 million in the third quarter of 2015. Swisscom holds the penalty to be unjustified and has lodged an appeal to the Federal Court. At the beginning of 2016, it paid the penalty of CHF 186 million as no suspensive effect was granted. In the event that a legally enforceable finding as to market abuse is reached, civil-law claims might be asserted against Swisscom. On the basis of legal opinions, Swisscom has established provisions for regulatory and competition law proceedings. Any payments to be made will depend upon the date on which legally-binding decrees and decisions are issued and could probably occur within five years.

Other provisions

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

Contingent liabilities arising from competition law proceedings

The Competition Commission (Weko) is conducting several proceedings against Swisscom. In the event that a legally enforceable finding of market abuse is reached, Weko can sanction Swisscom. In addition, claims under civil law might be asserted against Swisscom. In April 2013, Weko initiated an investigation against Swisscom pursuant to the Anti-Trust Law in the area of broadcasting live-sport events on pay TV. In May 2016, Weko decreed a penalty of CHF 72 million on Swisscom in these proceedings. In November 2015, in its investigation as to the invitation to tender for the corporate network of the Swiss Post in 2008, Weko reached the conclusion that Swisscom has a market-dominant position on the market for broadband access for business clients. Because of this conduct judged to be unlawful under Competition Law, Weko ruled a penalty of CHF 8 million. Swisscom has challenged the rulings of Weko concerning live sports broadcasts on pay TV as well as of the invitation to tender for the corporate network of the Swiss Post in the Federal Administrative Court as it considers that it has conducted itself in a lawful manner. From a current perspective, Swisscom considers the levying of sanctions in the court of last appeal as improbable for which reason no provisions have been recognised in the consolidated financial statements as of and for the year ended 31 December 2018, as in prior years. In view of the previous proceedings conducted by Weko, further proceedings against Swisscom might be initiated.

Significant judgements or estimates

The provisions for dismantling and restoration costs relate to the dismantling of telecommunication installations and transmitter stations as well as the restoration to its original state of land held by third party owners. The level of the provisions is determined to a significant degree by the estimation of future dismantling and restoration costs as well as the timing of dismantlement. Provisions for pending litigation are measured on the basis of information available and an estimate of probable expected cash outflows. Depending on the outcome of these proceedings, claims may be made against the Group which are possibly not or not fully covered by provisions or existing insurance. The provisions so established constitute the best possible estimate of the liability. Possible liabilities whose occurrence as of the balance-sheet date cannot be assessed, or liabilities, the level of which cannot be reliably estimated, are disclosed as contingent liabilities.

Accounting policies

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

Provisions for dismantling and restoration costs

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

Provisions for termination benefits

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

4 Employees

Swisscom has some 19,800 employees, of which approx. 17,100 are in Switzerland. In this section is to be found information on the employee headcount and personnel expense, the compensation paid to individuals in key positions, as well as retirement-benefit obligations.

4.1 Employee headcount and personnel expense

Employee headcount

In full-time equivalent	31.12.2018	31.12.2017	Change
Residential Customers	5,334	5,657	–5.7%
Enterprise Customers	4,466	4,603	–3.0%
Wholesale	83	88	–5.7%
IT, Network & Infrastructure	4,595	4,809	–4.4%
Swisscom Switzerland	**14,478**	**15,157**	**–4.5%**
Fastweb	2,484	2,504	–0.8%
Other Operating Segments	2,649	2,580	2.7%
Group Headquarters	234	265	–11.7%
Total headcount	**19,845**	**20,506**	**–3.2%**
Thereof Switzerland	17,147	17,688	–3.1%
Thereof foreign countries	2,698	2,818	–4.3%
Average number of employees	20,083	20,836	–3.6%

Personnel expense

In CHF million	2018	2017
Salary and wage costs	2,145	2,214
Social security expenses	250	257
Expense of defined benefit plans [1]	346	375
Expense of defined contribution plans	10	10
Expense for share-based payments	1	2
Termination benefits	(2)	61
Other personnel expense	65	83
Total personnel expense	**2,815**	**3,002**
Thereof Switzerland	2,591	2,759
Thereof foreign countries	224	243

1 See Note 4.3.

Termination benefits

Swisscom supports employees affected by restructuring through a social plan. Depending on the relevant social plan as well as age and length of service, certain employees affected by restructuring may transfer to the employment company Worklink AG. The employment company Worklink AG hires out participating employees to third parties on temporary assignments.

Net termination benefits amount to CHF –2 million. The charge comprises new provisions constituted amounting to CHF 22 million, less the release of provisions no longer required of CHF 24 million. Swisscom has set itself the goal of reducing its annual cost basis in Switzerland in 2019 and 2020, as in 2018, by an annual amount of some CHF 100 million. The savings will continue to be achieved principally through a simplification of work processes, the deployment of more cost-effective systems and a reduction of positions offered in declining business sectors. The consequence of the planned measures will be the cutback in Switzerland of positions and employees taking advantage of the social plan.

4.2 Key management compensation

In CHF million	2018	2017
Current compensation	1.4	1.4
Share-based payments	0.7	0.7
Social security contributions	0.1	0.1
Total compensation to members of the Board of Directors	**2.2**	**2.2**
Current compensation	5.8	5.8
Share-based payments	0.9	0.9
Benefits paid following retirement from Group Executive Board	0.6	0.6
Pension contributions	0.9	0.9
Social security contributions	0.6	0.6
Total compensation to members of the Group Executive Board	**8.8**	**8.8**
Total compensation to members of the Board of Directors and of the Group Executive Board	**11.0**	**11.0**

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

4.3 Post-employment benefits

Defined benefit plans

comPlan

The majority of employees in Switzerland is insured for the risks of old age, death and disability by the Swisscom retirement-benefit scheme. The retirement-benefit scheme is implemented through the medium of the comPlan pension plan which has the legal form of a foundation. The supreme governing body of the pension plan is the Foundation Council which is made up of an equal number of representatives of the employees and the employer. The pension-fund rules, together with the legal provisions concerning occupational pension plans, constitute the formal regulatory framework of the pension plan. Individual retirement-savings accounts are maintained for each beneficiary, to which are credited savings contributions varying with age as well as interest accruing. The rate of interest to be applied to the retirement-savings accounts is set each year by the Foundation Council, having regard to the financial situation of the pension fund. The amounts credited to the individual savings accounts are funded by savings contributions of the employer and employees. In addition, the employer pays risk contributions to fund death and disability benefits. The standard retirement age is 65. Employees are entitled to early retirement with a reduced old-age pension. The amount of the old-age pension is the result of multiplying the individual retirement-savings account by a conversion rate set out in the pension-fund rules. The retirement benefits can also be paid out, in full or in part, in the form of a capital payment. In case of early retirement, the employer finances additionally an OASI bridging pension until the standard retirement age. The amount of disability pensions is determined as a percentage of the insured salary and is independent of the number of service years.

The formal regulatory framework contains various provisions concerning risk sharing between the beneficiaries and the employer. In the event of a funding shortfall, computed in accordance with Swiss financial statement accounting principles (Swiss GAAP ARR), the Foundation Council lays down measures which shall lead to an elimination of the funding deficit and a restoration of a financial equilibrium within a timeframe of five to seven years. The measures may consist of the levying of restructuring contributions, a lower level of interest or zero interest accruing on the accumulated employee savings, the lowering of benefits or in a combination of such measures. Should a structural funding shortfall exist as a result of insufficient current interest-induced funding, the top priority is to remedy this situation by adapting future benefits. The employer's restructuring

contributions must, at a minimum, be equal to the sum of employee restructuring contributions. Under the formal regulatory framework, the employer has no legal obligation to pay additional contributions to eliminate more than 50% of a funding shortfall. In the case of Swisscom, a de-facto obligation over and above the legal minimum obligation to pay additional or restructuring contributions in the case of funding shortfalls and structural funding deficits exists which derives from customary company-specific practice in the past. The upper limit of the employer's share of future benefit costs within the meaning of IAS 19.87(c) is assumed to be at the level of the de-facto obligation.
In accordance with the Swiss accounting standards (Swiss GAAP ARR) relevant for the pension fund, the funding surplus at 31 December 2018 amounts to CHF 0.3 billion with a coverage ratio of around 103% (prior year: 108%). The main reasons for the difference compared with IFRS are the use of a higher discount rate as well as a differing actuarial measurement method with the deferred recognition of the costs of future retirement-benefit benefits.

Other pension plans

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

Pension cost

In CHF million	comPlan	Other plans	2018	comPlan	Other plans	2017
Current service cost	339	2	341	368	2	370
Administration expense	4	1	5	4	1	5
Total recognised in personnel expense	**343**	**3**	**346**	**372**	**3**	**375**
Interest expense on net defined benefit obligations	6	–	6	11	–	11
Total recognised in financial expense	**6**	**–**	**6**	**11**	**–**	**11**
Total expense of defined benefit plans recognised in income statement	**349**	**3**	**352**	**383**	**3**	**386**

In CHF million	comPlan	Other plans	2018	comPlan	Other plans	2017
Actuarial gains and losses from						
Change of the demographical assumptions	(82)	–	(82)	(131)	–	(131)
Change of the financial assumptions	(233)	–	(233)	(72)	–	(72)
Experience adjustments to defined benefit obligations	29	(1)	28	(17)	–	(17)
Change in share of employee contribution (risk sharing)	(13)	–	(13)	246 [1]	–	246
Return on plan assets excluding the part recognised in financial result	379	(1)	378	(879)	3	(876)
Expense (income) of defined benefit plans recognised in other comprehensive income	**80**	**(2)**	**78**	**(853)**	**3**	**(850)**

1 The reason behind the decrease in the share of employee contribution of CHF 246 million is the reduction in the structural funding shortfall, which is mainly attributable to the positive result on plan assets.

Status of pension plans

In CHF million	comPlan	Other plans	2018	comPlan	Other plans	2017
Defined benefit obligations						
Balance at 1 January	**11,894**	**35**	**11,929**	**11,635**	**105**	**11,740**
Current service cost	339	2	341	368	2	370
Interest cost on defined benefit obligations	84	–	84	78	–	78
Employee contributions	189	–	189	186	–	186
Benefits paid	(575)	–	(575)	(471)	(1)	(472)
Actuarial losses (gains)	(299)	(1)	(300)	26	–	26
Business combinations	–	1	1	–	1	1
Foreign currency translation adjustments	–	(1)	(1)	–	–	–
Transfer of pension plans to comPlan	1	(1)	–	72	(72)	–
Balance at 31 December	**11,633**	**35**	**11,668**	**11,894**	**35**	**11,929**
Plan assets						
Balance at 1 January	**10,864**	**17**	**10,881**	**9,826**	**64**	**9,890**
Interest income on plan assets	78	–	78	67	–	67
Employer contributions	278	4	282	335	3	338
Employee contributions	189	–	189	186	–	186
Benefits paid	(575)	–	(575)	(471)	–	(471)
Return (expense) on plan assets excluding the part recognised in financial result	(379)	1	(378)	879	(3)	876
Administration expense	(4)	(1)	(5)	(4)	(1)	(5)
Transfer of pension plans to comPlan	6	(6)	–	46	(46)	–
Balance at 31 December	**10,457**	**15**	**10,472**	**10,864**	**17**	**10,881**
Net defined benefit obligations						
Net defined benefit obligations recognised at 31 December	**1,176**	**20**	**1,196**	**1,030**	**18**	**1,048**

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

In CHF million	comPlan	Other plans	2018	comPlan	Other plans	2017
Balance at 1 January	**1,030**	**18**	**1,048**	**1,809**	**41**	**1,850**
Pension cost, net	349	3	352	383	3	386
Employer contributions and benefits paid	(278)	(4)	(282)	(335)	(4)	(339)
Business combinations	–	1	1	–	1	1
Expense (income) of defined benefit plans recognised in other comprehensive income	80	(2)	78	(853)	3	(850)
Foreign currency translation adjustments	–	(1)	(1)	–	–	–
Transfer of pension plans to comPlan	(5)	5	–	26	(26)	–
Balance at 31 December	**1,176**	**20**	**1,196**	**1,030**	**18**	**1,048**

The weighted average duration of the net present value of the recorded defined benefit obligations is 16 years (prior year: 17 years).

Breakdown of pension plan assets
comPlan

Category	Investment strategy	31.12.2018 Quoted	31.12.2018 Not quoted	31.12.2018 Total	31.12.2017 Quoted	31.12.2017 Not quoted	31.12.2017 Total
Government bonds Switzerland	5.0%	1.7%	3.6%	5.3%	1.8%	3.5%	5.3%
Corporate bonds Switzerland	6.0%	6.1%	0.0%	6.1%	5.7%	0.0%	5.7%
Government bonds developed markets, World	7.0%	7.2%	0.0%	7.2%	7.4%	0.0%	7.4%
Corporate bonds developed markets, World	10.0%	10.3%	0.0%	10.3%	10.0%	0.0%	10.0%
Government bonds emerging markets, World	8.0%	8.1%	0.0%	8.1%	7.4%	0.0%	7.4%
Private debt	6.0%	0.0%	6.3%	6.3%	0.0%	6.2%	6.2%
Third-party debt instruments	**42.0%**	**33.4%**	**9.9%**	**43.3%**	**32.3%**	**9.7%**	**42.0%**
Equity shares Switzerland	6.0%	5.4%	0.0%	5.4%	5.5%	0.0%	5.5%
Equity shares developed markets, World	12.0%	11.2%	0.0%	11.2%	13.2%	0.0%	13.2%
Equity shares emerging markets, World	7.0%	7.0%	0.0%	7.0%	8.4%	0.0%	8.4%
Equity instruments	**25.0%**	**23.6%**	**0.0%**	**23.6%**	**27.1%**	**0.0%**	**27.1%**
Real estate Switzerland	13.0%	7.0%	6.0%	13.0%	7.1%	4.7%	11.8%
Real estate World	7.0%	1.4%	4.8%	6.2%	3.6%	2.5%	6.1%
Real estate	**20.0%**	**8.4%**	**10.8%**	**19.2%**	**10.7%**	**7.2%**	**17.9%**
Commodities	4.0%	1.9%	2.0%	3.9%	2.1%	2.0%	4.1%
Private markets	8.0%	0.0%	9.6%	9.6%	0.0%	8.3%	8.3%
Cash and cash equivalents and other investments	1.0%	0.0%	0.4%	0.4%	0.0%	0.6%	0.6%
Cash and cash equivalents and alternative investments	**13.0%**	**1.9%**	**12.0%**	**13.9%**	**2.1%**	**10.9%**	**13.0%**
Total plan assets	**100.0%**	**67.3%**	**32.7%**	**100.0%**	**72.2%**	**27.8%**	**100.0%**

The Foundation Council determines the investment strategy and tactical bandwidths within the framework of the legal provisions. Within its terms of reference, the Investment Commission undertakes the asset allocation and is the central steering, coordination and monitoring body for the management of the pension-plan assets. The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance and thus of generating income on a long-term basis to meet all financial obligations. This is achieved through a broad diversification of risks over various investment categories, markets, currencies and industry segments in both developed and emerging markets. The interest rate duration of interest-bearing assets is 5.98 years (prior year: 6.56 years) and the average rating of these assets is A–. Within the overall portfolio, all foreign currency positions are hedged against the Swiss franc following a currency strategy to the extent necessary to meet a pre-determined ratio of 85% (CHF or CHF-hedged). The unquoted and therefore lesser liquid investments make up 32.7% of total plan assets. Following this investment strategy, comPlan anticipates a target value for the value fluctuation reserve of 17.5% (basis: 2019 financial year).

Additional information on plan assets

As of 31 December 2018, plan assets include Swisscom Ltd shares and bonds with a fair value of CHF 6 million (prior year: CHF 6 million). The effective return on plan assets in 2018 amounted to CHF –299 million (prior year: CHF +943 million). In 2019, Swisscom expects to make payments to the pension funds for statutory employee contributions totalling CHF 283 million.

Assumptions underlying actuarial computations

	2018		2017	
Assumptions	**comPlan**	**Other plans**	comPlan	Other plans
Discount rate at 31 December	0.86%	1.57%	0.69%	1.30%
Expected rate of salary increases	1.08%	–	1.08%	–
Expected rate of pension increases	–	–	–	–
Interest on old age savings accounts	0.86%	–	0.69%	–
Share of employee contribution to funding shortfall	40%	–	40%	–
Life expectancy at age of 65 – men (number of years)	22.20	22.20	22.10	22.10
Life expectancy at age of 65 – women (number of years)	24.00	24.00	23.90	23.90

The discount rate is based upon CHF-denominated corporate bonds with an AA rating of domestic and foreign issuers and listed on the Swiss Exchange SIX. The development of salaries corresponds to the historical average of recent years. No future growth in pensions is anticipated as comPlan has insufficient fluctuation reserves available. The interest rate used to compute interest accruing on the individual retirement savings is assumed to be the discount rate. Life-expectancy assumptions are arrived at through a projection of future mortality improvements in accordance with the Continuous Mortality Investigation Model (CMI), based on the mortality improvements actually observed in Switzerland in the past. The computations are made with a future long-term mortality improvement rate of 1.75%. A reduction of net defined benefit pension obligations by CHF 100 million resulted from the initial application of the CMI model which was recognised as a change in accounting estimate in 2017 in other comprehensive income.
The risk-sharing attributes contained in the formal regulatory framework relating to the handling of funding shortfalls were taken into account in the financial assumptions in two steps. As a first step, it is assumed that the Foundation Council will decide on a gradual lowering of future pensions by 4.31% (prior year: 5.4%) over a period of ten years in order to close the interest-induced structural funding gap. This is based upon a projection of the future conversion rate using a mixed rate for the mandatory and extra-mandatory portions. The conversion rate in the mandatory portion applies the current legal conversion rate. In the extra-mandatory portion, the conversion rate is computed with a discount rate of 0.86%. As a second step, the present value of the remaining funding gap between the regulatory contributions and the benefits adjusted in the first step is shared between the employer and the employees. The legal and de-facto obligation of the employer to pay additional contributions is unchanged and assumed to be limited to 60% of the funding gap. This is based on the legal and regulatory provisions concerning the elimination of funding shortfalls as well as the measures actually decided upon by the Foundation Council and the employer in the past. Assuming the limitation of the employer's share of the funding shortfall, this results in a reduction in defined benefit obligations of CHF 482 million (prior year: CHF 465 million), which corresponds to the assumed employee contribution. The change of the employee share is recognised in other comprehensive income.

Sensitivity analysis comPlan

Sensitivity analysis 2018

	Defined benefit obligations		Current service cost [1]	
In CHF million	Increase assumption	Decrease assumption	Increase assumption	Decrease assumption
Discount rate (change +/–0.5%)	(516)	601	(33)	40
Expected rate of salary increases (change +/–0.5%)	38	(36)	6	(5)
Expected rate of pension increases (change +0.5%; –0.0%)	501	–	25	–
Interest on old age savings accounts (change +/–0.5%)	20	(17)	7	(6)
Share of employee contribution to funding shortfall (change +/–10%)	(120)	120	–	–
Life expectancy at age of 65 (change +/–0.5 year)	119	(120)	4	(4)

1 The sensitivity refers to the current service cost recorded in personnel expense.

Sensitivity analysis 2017

In CHF million	Defined benefit obligations Increase assumption	 Decrase assumption	Current service cost [1] Increase assumption	 Decrase assumption
Discount rate (change +/–0.5%)	(556)	650	(39)	47
Expected rate of salary increases (change +/–0.5%)	44	(41)	7	(7)
Expected rate of pension increases (change +0.5%; –0.0%)	536	–	29	–
Interest on old age savings accounts (change +/–0.5%)	21	(19)	8	(7)
Share of employee contribution to funding shortfall (change +/–10%)	(116)	116	–	–
Life expectancy at age of 65 (change +/–0.5 year)	126	(127)	5	(5)

1 The sensitivity refers to the current service cost recorded in personnel expense.

The sensitivity analysis takes into consideration the movement in defined benefit obligations as well as current-service costs in adjusting the actuarial assumptions by half a percentage point and half a year, respectively. In the process, only one of the assumptions is adjusted each time, the other parameters remaining unchanged. In the sensitivity analysis, in view of a negative movement in pension increases, no change was made as the reduction in pension benefits is not possible.

Significant judgements or estimates

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

Accounting policies

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

5 Scope of consolidation

The following section sets out details of the Group structure of Swisscom as well as disclosures concerning subsidiaries, joint ventures and associates. In addition, material changes in Group structure are discussed, together with their impact on the consolidated financial statements.

5.1 Group structure

Swisscom Ltd is the parent company of the Group and holds principally direct majority shareholdings in Swisscom (Switzerland) Ltd, Swisscom Broadcast Ltd and Swisscom Directories Ltd. Fastweb S.p.A. (Fastweb) is held indirectly via Swisscom (Switzerland) Ltd as well as an intermediate company in Italy. Swisscom Re Ltd in Liechtenstein is the Group's in-house reinsurance company.

5.2 Significant changes in scope of consolidation

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

In CHF million	2018	2017
Expenses for business combinations net of cash and cash equivalents acquired	(60)	(44)
Expenses for deferred consideration arising on business combinations	(18)	(19)
Expenses for shareholdings accounted for using the equity method	(35)	(20)
Proceeds from sale of equity-accounted investees	–	76
Acquisition of non-controlling interests	–	(99)
Total cash flow from the purchase and sale of shareholdings, net	**(113)**	**(106)**

Exercise of call option to acquire remaining shares in Swisscom Directories AG

Until now, Swisscom has held a 69% share in the share capital of Swisscom Directories AG, the remaining shares being held by Tamedia. Swisscom had granted Tamedia a put option, and Tamedia had granted Swisscom a call option for Tamedia's 31% shareholding. The put and call options could be exercised as from mid-2018, respectively. In December 2018, Swisscom exercised its call option to acquire the outstanding 31% share in Swisscom Directories AG for a purchase price of CHF 240 million. Settlement thereof was made in January 2019. As a result of exercising the call option, the other financial liabilities previously recorded by Swisscom in the consolidated financial statements as of 31 December 2018 were increased by CHF 14 million with no income effect. See Note 2.2.

Acquisition of fixed-wireless division as well as mobile frequencies from Tiscali

At the end of July 2018, the Italian subsidiary Fastweb signed an agreement to purchase the fixed-wireless division and a 3.5 GHz frequency spectrum from Tiscali in order to enhance its mobile communication and convergence business on a long-term and sustainable basis. The value of the transaction amounts to EUR 185 million (CHF 208 million). The transaction was consummated on 16 November 2018. The transaction qualifies as a business combination in accordance with IFRS 3. The business combination was recognised on a provisional basis in the consolidated financial statements as of and for the year ended 31 December 2018, as at the date of preparation of the consolidated financial statements, not all necessary information for the purchase price allocation was available. The provisional allocation of the acquisition cost over the net assets can be summarised as follows:

In CHF million	2018
Property, plant and equipment	17
Intangible assets	206
Other current liabilities	(15)
Identified assets and liabilities/acquisition costs	**208**
Deferred payment of purchase price	(152)
Total cash outflow	**56**

It is anticipated that no goodwill will be recognised from the business combination. No transaction costs arose in connection with the acquisition. The deferred residual acquisition price will be settled through a cash payment in 2019 of EUR 80 million (CHF 90 million) and the rendering of services for an amount of EUR 55 million (CHF 62 million). The impact of the business combination on net revenue and net income 2018 of Swisscom is not material.

Accounting policies

Consolidation

Subsidiaries are all companies over which Swisscom Ltd has the effective ability to control their financial and business policies. Control is generally assumed where Swisscom Ltd directly or indirectly holds the majority of the voting rights or potential voting rights of the company. Companies acquired and sold are included in consolidation from the date on which they are acquired and deconsolidated from the date they are disposed of, respectively. Intergroup balances and transactions, income and expenses, shareholdings and dividends as well as unrealised gains and losses are fully eliminated. Non-controlling interests in subsidiary companies are reported in the consolidated balance sheet within equity separately, however, from that attributable to the shareholders of Swisscom Ltd. The non-controlling interests in net income or loss are shown in the consolidated income statement as a component of the consolidated net income or loss. Changes in shareholdings of subsidiary companies are reported as transactions within equity insofar as control existed previously and continues to exist. Put options granted to owners of non-controlling interests are disclosed as financial liabilities. The balance-sheet date for all consolidated subsidiaries is 31 December. There are no material restrictions on the transfer of funds from the subsidiaries to the parent company.
Shareholdings over which Swisscom exercises significant influence but does not have control, are accounted for using the equity method. A significant influence is generally assumed to exist whenever between 20% and 50% of the voting rights are held.

Business combinations

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

5.3 Equity-accounted investees

In CHF million	2018	2017
Balance at 1 January	**152**	**193**
Additions	35	26
Disposals	(4)	(76)
Dividends	(18)	(20)
Share of net results	11	17
Share of other comprehensive income	1	2
Foreign currency translation adjustments	(3)	10
Balance at 31 December	**174**	**152**

In 2018, an aggregate amount of CHF 5 million (prior year: CHF –11 million) was recognised as the attributable share of net results in equity-accounted investees. Included therein are impairment losses of CHF 6 million (prior year: CHF 28 million) on loans which are considered as net investments in equity-accounted investees.

Selected key performance indicators for equity-accounted investees

In CHF million	2018	2017
Income statement		
Net revenue	1,814	2,120
Operating expense	(1,756)	(2,065)
Operating income	57	55
Net income	**30**	**17**
Balance sheet at 31 December		
Current assets	1,089	942
Non-current assets	1,084	860
Current liabilities	(1,021)	(926)
Non-current liabilities	(549)	(485)
Equity	**603**	**391**

5.4 Group companies

Group companies in Switzerland

Registered name	Registered office	Share of capital and voting right in %	Currency	Share capital in million	Segment [4]
Switzerland					
Admeira Ltd [1,3]	Berne	50	CHF	0.3	OTH
Ad Unit Ltd. [2]	Zurich	100	CHF	0.1	OTH
autoSense Ltd [2,3]	Zurich	50	CHF	0.2	OTH
Billag Ltd [1]	Fribourg	100	CHF	0.1	OTH
cablex Ltd [2]	Berne	100	CHF	5.0	OTH
Credit Exchange Ltd [2,3]	Zurich	25	CHF	0.1	OTH
CT Cinetrade AG [1]	Zurich	100	CHF	0.5	SCS
Custodigit Ltd [2]	Zurich	75	CHF	1.0	OTH
Datasport Ltd [2]	Gerlafingen	100	CHF	0.2	SCS
daura Ltd [2,3]	Zurich	50	CHF	0.1	OTH
finnova ltd bankware [2,3]	Lenzburg	9	CHF	0.5	SCS
Global IP Action Ltd [2]	Pfäffikon	79	CHF	0.2	OTH
itnetX (Switzerland) AG [2]	Rümlang	100	CHF	0.1	SCS
kitag kino-theater Ltd [2]	Zurich	100	CHF	1.0	SCS
Medgate Ltd [2,3]	Basel	40	CHF	0.7	SCS
Medgate Technologies Ltd [2,3]	Basel	40	CHF	0.1	SCS
Mila AG [2]	Zurich	100	CHF	0.4	SCS
Mona Lisa Capital AG [2]	Ittigen	100	CHF	5.0	OTH
MyStrom Ltd [2]	Ittigen	52	CHF	0.1	OTH
PlazaVista Entertainment AG [2]	Zurich	100	CHF	0.1	SCS
SEC consult (Switzerland) Ltd [2,3]	Zurich	47	CHF	0.1	OTH
SmartLife Care Ltd [2]	Wangen	48	CHF	0.2	OTH
Swisscom Blockchain Ltd [2]	Zurich	70	CHF	0.1	SCS
Swisscom Broadcast Ltd [1]	Berne	100	CHF	25.0	OTH
Swisscom Digital Technology SA [1]	Geneva	75	CHF	0.1	SCS
Swisscom Directories Ltd [1]	Zurich	100	CHF	2.2	OTH
Swisscom eHealth Invest GmbH [2]	Ittigen	100	CHF	1.4	GHQ
Swisscom Event & Media Solutions Ltd [2]	Ittigen	100	CHF	0.1	OTH
Swisscom Health AG [2]	Ittigen	100	CHF	0.1	SCS
Swisscom Real Estate Ltd [1]	Ittigen	100	CHF	100.0	SCS
Swisscom IT Services Finance Custom Solutions Ltd [2]	Olten	100	CHF	0.1	SCS
Swisscom (Switzerland) Ltd [1]	Ittigen	100	CHF	1,000.0	SCS
Swisscom Services Ltd [2]	Ittigen	100	CHF	0.1	SCS
Swisscom Ventures Ltd [2]	Ittigen	100	CHF	2.0	GHQ
SwissSign Group Ltd [2,3]	Opfikon	10	CHF	12.5	OTH
Teleclub AG [2]	Zurich	100	CHF	1.2	SCS
Teleclub Programm AG [2,3]	Zurich	33	CHF	0.6	SCS
tiko Energy Solutions SA [2]	Ittigen	52	CHF	13.3	OTH
Worklink AG [1]	Berne	100	CHF	0.5	GHQ

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

Group companies in other countries

Registered name	Registered office	Share of capital and voting right in %	Currency	Share capital in million	Segment [4]
Belgium					
Belgacom International Carrier Services Ltd [2,3]	Brussels	22	EUR	1.5	SCS
Germany					
Abavent GmbH [2]	Kempten	100	EUR	0.3	SCS
Mila Europe GmbH [2]	Berlin	100	EUR	–	SCS
Swisscom Telco GmbH [2]	Leipzig	100	EUR	–	GHQ
France					
local.fr SA [2]	Bourg-en-Bresse	83	EUR	1.0	OTH
SoftAtHome SA [2,3]	Colombes	10	EUR	6.5	SCS
Italy					
Fastweb S.p.A. [2]	Milan	100	EUR	41.3	FWB
Fastweb Air S.r.l. [2]	Milan	100	EUR	10.0	FWB
Flash Fiber S.r.l. [2,3]	Milan	20	EUR	–	FWB
Swisscom Italia S.r.l. [2]	Milan	100	EUR	505.8	GHQ
Liechtenstein					
Swisscom Re Ltd [1]	Vaduz	100	CHF	5.0	GHQ
Luxembourg					
DTF GP S.A.R.L [2]	Luxembourg	100	EUR	–	OTH
Digital Transformation Fund Initial Limited Partner SCSp [2]	Luxembourg	100	EUR	–	OTH
Netherlands					
NGT International B.V. [2]	Capelle a/d IJssel	100	EUR	–	OTH
Austria					
Swisscom IT Servics Finance SE [2]	Vienna	100	EUR	3.3	SCS
Singapore					
Swisscom IT Services Finance Pte Ltd [2]	Singapore	100	SGD	0.1	SCS
USA					
Swisscom Cloud Lab Ltd [2]	Delaware	100	USD	–	SCS

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4 SCS = Swisscom Switzerland, FWB = Fastweb, OTH = Other, GHQ = Group Headquarters (unallocated costs).

6 Other disclosures

This section details information which is not already disclosed in the other parts of the report. It includes, for instance, disclosures regarding income taxes and related corporate entities and individuals.

6.1 Income taxes

Income tax expense

In CHF million	2018	2017
Current income tax expense	337	349
Adjustments recognised for current tax of prior periods	1	20
Deferred tax expense	57	23
Total income tax expense recognised in income statement	**395**	**392**
Thereof Switzerland	335	338
Thereof foreign countries	60	54

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

In CHF million	2018	2017
Foreign currency translation adjustments of foreign subsidiaries	(1)	19
Actuarial gains and losses from defined benefit pension plans	(16)	171
Change to the fair value of equity instruments	1	(1)
Gains and losses from cash flow hedges transferred to income statement	–	(1)
Total income tax expense recognised in other comprehensive income	**(16)**	**188**

Analysis of income taxes

The applicable income tax rate which serves to prepare the following analysis of income tax expense is the weighted average income tax rate calculated on the basis of the Group's operating subsidiaries in Switzerland. The applicable income-tax rate remained unchanged from the prior year at 20.4%.

In CHF million	2018	2017
Income before income taxes in Switzerland	1,732	1,724
Income before income taxes foreign countries	184	236
Income before income taxes	**1,916**	**1,960**
Applicable income tax rate	20.4%	20.4%
Income tax expense at the applicable income tax rate	**391**	**400**
Reconciliation to reported income tax expense		
Effect from result of shareholdings accounted for using the equity method	(1)	2
Effect of tax rate changes on deferred taxes	3	(12)
Effect of use of different income tax rates in Switzerland	(11)	2
Effect of use of different income tax rates in foreign countries	22	20
Effect of non-recognition of tax loss carry-forwards	9	11
Effect of recognition and offset of tax loss carry-forwards not recognised in prior years	(3)	(14)
Effect of exclusively tax-deductible expenses and income	(16)	(37)
Effect of income tax of prior periods	1	20
Total income tax expense	**395**	**392**
Effective income tax rate	20.6%	20.0%

Current income tax assets and liabilities

In CHF million	2018	2017
Current income tax liabilities at 1 January, net	**203**	**107**
Recognised in income statement	338	369
Recognised in other comprehensive income	1	16
Income taxes paid in Switzerland	(277)	(279)
Income taxes paid in foreign countries	(17)	(10)
Current income tax liabilities at 31 December, net	**248**	**203**
Thereof current income tax assets	(2)	(10)
Thereof current income tax liabilities	250	213
Thereof Switzerland	240	198
Thereof foreign countries	8	5

Deferred income tax assets and liabilities

			31.12.2018			31.12.2017
In CHF million	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Property, plant and equipment	37	(669)	(632)	34	(623)	(589)
Intangible assets	–	(303)	(303)	–	(309)	(309)
Provisions	103	(69)	34	102	(51)	51
Defined benefit obligations	216	–	216	186	–	186
Tax loss carry-forwards	51	–	51	90	–	90
Other	135	(148)	(13)	153	(110)	43
Total tax assets (tax liabilities)	**542**	**(1,189)**	**(647)**	**565**	**(1,093)**	**(528)**
Thereof deferred tax assets			167			197
Thereof deferred tax liabilities			(814)			(725)
Thereof Switzerland			(673)			(588)
Thereof foreign countries			26			60

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

In CHF million	31.12.2018	31.12.2017
Expiring within 1 year	1	–
Expiring within 2 to 7 years	136	125
No expiration	16	39
Total unrecognised tax loss carry-forwards	**153**	**164**
Thereof Switzerland	137	114
Thereof foreign countries	16	50

No deferred tax liabilities were recognised on the undistributed earnings of subsidiaries as of 31 December 2018 (prior year: CHF 6 million). Temporary differences of subsidiaries and equity-accounted investees, on which no deferred income taxes are recognised as of 31 December 2018, amounted to CHF 1,829 million (prior year: CHF 1,117 million).

Accounting policies

Income taxes encompass all current and deferred taxes which are based on income. Taxes which are not based on income, such as taxes on real estate and on capital are recorded as other operating expenses. Deferred taxes are computed using the balance-sheet liability method whereby deferred taxes are recognised in principle on all temporary differences. Temporary differences arise from differences between the carrying amount of a balance-sheet position in the consolidated financial statements and its value as reported for tax purposes and which will reverse in future periods. Deferred tax assets are only recognised as assets to the extent that it is probable that they can be offset against future taxable income. Income tax liabilities on undistributed profits of Group companies are only recognised if the distribution of profits is to be made in the foreseeable future. Current and deferred tax assets and liabilities are netted whenever they relate to the same taxing authority and taxable entity.

6.2 Related parties

Majority shareholder and equity-accounted investees

Majority shareholder

Pursuant to the Swiss Federal Telecommunication Enterprises Act (TEA), the Swiss Confederation ("the Confederation") is obligated to hold a majority of the share capital and voting rights of Swisscom. On 31 December 2018, the Confederation, as majority shareholder, continued to hold 51.0% of the issued shares of Swisscom Ltd. Any reduction of the Confederation's holding below a majority shareholding would require a change in law which would need to be voted upon by the Swiss Parliament and would also be subject to a facultative referendum by Swiss voters. As the majority shareholder, the Confederation has the power to control the decisions of the annual general meetings of shareholders which are taken by the absolute majority of validly cast votes. This relates primarily to resolutions concerning dividend distributions and the election of the members of the Board of Directors. Swisscom supplies telecommunication services to and in addition, procures services from the Confederation. The Confederation comprises the various ministries and administrative bodies of the Confederation and the other companies controlled by the Confederation (primarily the Swiss Post, Swiss Federal Railways, RUAG as well as Skyguide). All transactions are conducted on the basis of normal customer/supplier relationships and on conditions applicable to unrelated third parties. In addition, financing transactions are entered into with the Swiss Post on market conditions.

Equity-accounted investees

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

Transactions and balances

In CHF million	Income	Expense	Receivables	Liabilities
Financial year 2018				
Confederation	241	114	281	166
Equity-accounted investees	133	90	43	7
Total 2018/Balance at 31 December 2018	**374**	**204**	**324**	**173**

In CHF million	Income	Expense	Receivables	Liabilities
Financial year 2017				
Confederation	247	127	269	163
Equity-accounted investees	77	88	20	3
Total 2017/Balance at 31 December 2017	**324**	**215**	**289**	**166**

Occupational pension schemes and compensation payable to individuals in key positions

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

6.3 Other accounting policies

Foreign currency translation

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

Significant foreign currency translation rates

	Closing rate			Average rate	
Currency	**31.12.2018**	31.12.2017	31.12.2016	**2018**	2017
1 EUR	1.127	1.170	1.074	1.153	1.113
1 USD	0.984	0.976	1.019	0.977	0.985

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

The following Standards and Interpretations published up to the end of 2018 are mandatory for annual periods beginning on or after 1 January 2019:

Standard	Name	Effective from
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendements to IAS 1 and IAS 8	Definition of material	1 January 2020
Amendements to IAS 19	Plan amendments, curtailments and settlements	1 January 2019
Amendements to IAS 28	Long-term shareholdings in associated companies and joint ventures	1 January 2019
Amendements to IFRS 3	Definition of a business	1 January 2020
Amendements to IFRS 9	Early repayment arrangements with negative compensation payment	1 January 2019
IFRS 16	Leases	1 January 2019
Various	Amendements to IFRS 2015–2017	1 January 2019
–	Amendments to references to the Framework Concept in the IFRS Standards	1 January 2020
Amendements to IFRS 10 and IAS 28	Sale or deposit of assets between an investor and an associated company or joint venture	still open

Swisscom will review its financial reporting for the impact of those new and amended standards which take effect on or after 1 January 2019 and for which Swisscom did not make voluntary early adoption. At present, Swisscom anticipates no material impact on consolidated financial reporting except for the amendment described below.

IFRS 16 Leases

IFRS 16 (in force as from 1 January 2019) replaces IAS 17, IFRIC 4 and SIC 27 and lays down the principles governing the recognition, measurement and disclosure of lease arrangements. For the lessee, IFRS 16 provides for a single model for accounting for lease arrangements in financial statements. The differentiation between finance and operating lease arrangements required until now under IAS 17 is thus dropped in future for the lessee. The lessee shall recognise leasing liabilities in its balance sheet for all future lease payments to be made as well as recognising a right-of-use for the underlying asset. In future, depreciation and amortisation and interest will be recognised in the income statement instead of rental expense. This will lead to a material increase in operating income before depreciation, amortisation and impairment losses. In the statement of cash flows, the share of the lease payments representing amortisation under the lease arrangements to be accounted for under the new rules will reduce cash flows from financing activities and no longer cash flows from operating activities, as previously. Interest payments will continue to be reported as cash flows from operating activities. As regards lessors, they will continue to differentiate between finance and operating lease

arrangements for financial reporting purposes. In this regard, the accounting model foreseen under IFRS 16 does not materially differ from the previous provisions under IAS 17.
Swisscom has elected to apply the modified retrospective approach for the initial adoption of IFRS 16. For reasons of simplicity, a reassessment as to whether a contract as of 1 January 2019 constitutes or includes a leasing arrangement will be dispensed with. The payment obligations arising under the operating-lease arrangements disclosed in note 2.3 for the most part comprise leasing payments from the rental of operation and office buildings as well as of antenna sites. The net present value of the payment obligations arising from previous operating-lease arrangements will be accounted for as leasing liabilities. The corresponding right-of-use assets will be recognised in the amount of the leasing liabilities. As of 1 January 2019, right-of-use assets and leasing liabilities aggregating some CHF 1.3 billion will be recognised from the initial adoption of IFRS 16. The comparative prior-year's figures will not be restated. The adoption of IFRS 16 has no impact on equity as of 1 January 2019. With regard to the 2018 financial year, the application of IFRS 16 would have led to an increase in operating income before depreciation, amortisation and impairment losses (EBITDA) of some CHF 0.2 billion and to higher depreciation and amortisation as well as interest expense of a combined aggregate amount of some CHF 0.2 billion. In addition, as a result of the discontinuation of SIC 27, other financial assets and financial liabilities totalling USD 79 million (CHF 78 million) which were previously not recorded will be recognised. The Italian subsidiary, Fastweb, procures various access services from other fixed-network operators for the use of connection cables to the end customer. A part of these access services is now classified as leases in accordance with IFRS 16. The value of the individual connection cable fulfils the criteria as an asset of low value. Swisscom will apply the low value exemption of IFRS 16 for these lease arrangements. Accordingly, no right-of-use assets and lease liabilities will be recognised for these access services, the costs of which will continue to be reported as operating expense.

Statutory Auditor's Report

To the General Meeting of Swisscom Ltd., Ittigen (Berne)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Swisscom Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 104 to 159) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Revenue recognition

Capitalization of technical facilities and software

Fastweb goodwill

Provisions and contingent liabilities for regulatory and competition-law proceedings

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

Revenue recognition

Key Audit Matter

Swisscom’s telecommunication business is characterized by a high volume of IT-based transactions. The contracts underlying these transactions often contain various elements that are recorded separately. The correct recognition of the identified contractual elements in the appropriate period and the accuracy of invoicing are highly dependent on IT systems.

Additionally, Swisscom implemented the newly applicable revenue recognition standard IFRS 15 and recognized the impact in equity as at 1 January 2018 for contracts which had not yet been executed as at this date. The effect of the first time application of IFRS 15 is driven mainly by bundle contracts in the Swiss wireless business.

Our response

We analyzed the process from the conclusion of a contract to the receipt of payment and assessed whether transactions are completely and accurately recorded in the general ledger. We identified key controls relating to revenue recognition and tested, on a sample basis, their operating effectiveness. We tested the operating effectiveness of IT controls of accounting-relevant systems, with the assistance of our IT specialists, to reflect the high degree of integration of service performance and recording by various IT systems.

In addition, we performed analytical procedures. Based on internal reports, we analyzed trends related to the most important key performance indicators per revenue segment and product category, and we critically assessed deviations from our expectations.

With respect to significant newly introduced products, we assessed whether the Group appropriately determined the point in time and amount of revenue to be recognized for the individual components.

We evaluated Swisscom’s process of analysing the impact of IFRS 15 and assessed whether the resulting changes of accounting policies and the financial impact – in particular on the equity as at 1 January 2018 - are complete and accurate.

We took a sample of significant revenue-driving transactions from inception to the recognition in the accounting system and assessed whether they were accurately recorded in accordance with IFRS 15. Furthermore we assessed the changes in the relevant revenue processes whether they are suitable to analyze and classify new contracts adequately to ensure the correct revenue recognition.

In addition, we tested the appropriateness and functionality of Swisscom's newly implemented IT systems for the correct revenue recognition.

For further information on revenue recognition refer to the following:

— Notes to the consolidated financial statements, No. 1.1 – Segment information

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Capitalization of technical facilities and software

Key Audit Matter

Given the technological change in the telecommunication sector, investment in new technical facilities and software plays a strategic role in the development of Swisscom's business. In this regard, it is important that the costs capitalized in relation to acquired and self-developed technical facilities and software fulfil the IFRS criteria.

Our response

We tested whether Swisscom's capitalization guidelines comply with IFRS and whether the key controls over the compliance with these guidelines operated effectively.

Among others, using a statistical sampling procedure we assessed whether the capitalization of costs relating to a sample of technical facilities and software met the criteria and took place at the appropriate point in time.

Furthermore, in relation to the development of material new projects, we analyzed the amount and proper identification of hours of work rendered by Swisscom employees. We recalculated, on a sample basis, the hourly rates used by Swisscom based on actual personnel expenses and analyzed any variances. On the basis of monthly budgets we also compared for significant projects the expected costs to be capitalized and those to be expensed with the actual amounts and critically assessed any deviations.

For further information on capitalization of technical facilities and software refer to the following:

- Notes to the consolidated financial statements, No. 3.2 – Property, plant and equipment
- Notes to the consolidated financial statements, No. 3.4 – Intangible assets

Fastweb goodwill

Key Audit Matter

At 31 December 2018 the goodwill related to the operating segment Fastweb amounted to CHF 556 million (2017: CHF 578 million).

The annual impairment test on the Fastweb goodwill is significantly affected by management's judgements regarding the expected future cash flows, the discount rate (WACC) used and the expected growth.

Our response

In the course of our audit, we assessed whether an appropriate valuation method was used for the Fastweb goodwill impairment test, the calculation was coherent and management's assumptions were appropriate.

In particular, we challenged the input data and assumptions related to the underlying cash flows and the expected growth rates, as based on written statements from local as well as Group management. In addition, we retrospectively assessed the accuracy of past business plans by a multi-year comparison of forecasted and actual amounts.

We analyzed the individual parameters underlying the discount rate, with assistance from our valuation specialists, and compared them with the peer group.

We evaluated the model used for the impairment test with respect to mathematical accuracy and methodological adequacy.

We also considered the appropriateness of disclosures in relation to the impairment test and assessed whether the disclosed sensitivity analyses adequately reflect the risks embedded in the impairment test.

For further information on the Fastweb goodwill refer to the following:

— Notes to the consolidated financial statements, No. 3.3 –Goodwill

Provisions and contingent liabilities for regulatory and competition-law proceedings

Key Audit Matter

Swisscom provides regulated access services to other telecommunication service providers. The pricing of such services is the outcome of regulatory proceedings.

In addition, the Federal Competition Commission (WEKO) is conducting various proceedings against Swisscom.

In case of a final verdict establishing market abuse, civil law claims may also be brought against Swisscom.

The recognition of provisions or disclosure of contingent liabilities related to such proceedings requires management to apply significant judgment.

Our response

We tested the operating effectiveness of the controls implemented to identify, assess and recognize legal proceedings related to the regulatory and competition-law environment.

Specifically, we participated in the quarterly meetings where legal proceedings were addressed with the relevant departments, and we discussed and challenged the summaries of the legal proceedings prepared by Swisscom Group.

With the assistance of our legal specialists, we assessed the probability of cash outflows resulting from legal proceedings, the point in time for recognizing related provisions and the corresponding amount of such provisions or the disclosure of contingent liabilities. We additionally obtained and critically assessed written statements of Swisscom's external legal counsel for significant proceedings.

We furthermore tested the amount of the provisions and contingent liabilities by assessing whether the internal and external data was correctly fed into the calculations and whether the underlying assumptions were adequate.

We assessed whether the disclosures on contingent liabilities in the notes to the consolidated financial statements appropriately reflect the risks involved.

For further information on provisions and contingent liabilities for regulatory and competition-law proceedings refer to the following:

— Notes to the consolidated financial statements, No. 3.5 – Provisions, contingent liabilities and contingent assets

Other Information in the Annual Report

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

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

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

Responsibility of the Board of Directors for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Hanspeter Stocker Licensed Audit Expert Auditor in Charge	Toni Wattenhofer Licensed Audit Expert

Gümligen-Berne, 6 February 2019

KPMG AG, Hofgut, PO Box 112, CH-3073 Gümligen-Berne

Financial statements of Swisscom Ltd Income statement

In CHF million	**2018**	2017
Net revenue from the sale of goods and services	218	231
Other income	33	29
Total operating income	**251**	**260**
Personnel expense	(71)	(79)
Other operating expense	(82)	(92)
Total operating expenses	**(153)**	**(171)**
Operating income	**98**	**89**
Financial expense	(112)	(129)
Financial income	121	140
Income from participations	2,230	105
Income before taxes	**2,337**	**205**
Income tax expense	(13)	(8)
Net income	**2,324**	**197**

Balance sheet

In CHF million	Note	31.12.2018	31.12.2017
Assets			
Cash and cash equivalents		306	290
Derivative financial instruments		3	4
Trade receivables	3.1	132	7
Other current receivables	3.1	2	2
Accrued dividends receivable from subsidiaries		2,100	–
Accrued income and deferred expense		89	110
Total current assets		**2,632**	**413**
Financial assets	3.1	5,026	6,045
Derivative financial instruments		40	73
Participations	2.2	8,214	7,973
Total non-current assets		**13,280**	**14,091**
Total assets		**15,912**	**14,504**
Liabilities and equity			
Current interest-bearing liabilities	3.2	1,763	2,211
Derivative financial instruments		6	5
Trade payables	3.2	11	8
Other current liabilities	3.2	301	39
Accrued expense and deferred income		52	70
Provisions		9	11
Total current liabilities		**2,142**	**2,344**
Non-current interest-bearing liabilities	3.2	7,215	6,782
Derivative financial instruments		46	52
Other non-current liabilities	3.2	2	2
Provisions		10	11
Total non-current liabilities		**7,273**	**6,847**
Total liabilities		**9,415**	**9,191**
Share capital		52	52
Legal capital reserves/capital surplus reserves		21	21
Voluntary retained earnings		6,424	5,240
Total equity		**6,497**	**5,313**
Total liabilities and equity		**15,912**	**14,504**

Notes to the financial statements

1 General information

1.1 Name, legal form and registered office

- Swisscom Ltd, Ittigen (canton of Berne)
- Parent company of the Swisscom Group
- Swisscom Ltd is a limited-liability company established under a special statute pursuant to the Telecommunication Enterprises Act (TEA) of 30 April 1997.
- Company identification number (UID) CHF-102.753.938

1.2 Share capital

As of 31 December 2018, the share capital comprised 51,801,943 registered shares of a par value of CHF 1 per share, unchanged from the previous year.

1.3 Significant shareholders

As at 31 December 2018, the Swiss Confederation (Confederation), as majority shareholder, continued to hold 51% of the issued shares of Swisscom Ltd as in the prior year. The Telecommunications Enterprises Act (TEA) provides that the Confederation shall hold the majority of the share capital and voting rights of Swisscom Ltd.

1.4 Number of full-time employees

The average number of employees of Swisscom Ltd during the financial year, expressed as full-time equivalents, exceeded 250, as in the prior year.

1.5 Approval and release of Annual Financial Statements

The Board of Directors of Swisscom Ltd approved the present Annual Financial Statements on 6 February 2019 for release. No material post-balance-sheet events occurred up to this date. The Annual Financial Statements are subject to approval by the shareholders of Swisscom Ltd in its Annual General Meeting to be held on 2 April 2019.

2 Summary of significant accounting policies

2.1 General

Significant financial statement reporting policies which are not prescribed by law are described below. The possibility to create and release hidden reserves for the purpose of ensuring the sustainable development of the company should be taken into account in this respect.

2.2 Participations and recording of dividend distributions by subsidiary companies

Participations are accounted for at acquisition cost less valuation allowances, as required. Dividend distributions from subsidiary companies are accrued in the financial statements of Swisscom Ltd provided that the annual general meetings of the subsidiary companies approve the payment of the dividend prior to the approval of the Annual Financial Statements of Swisscom Ltd by its Board of Directors.

A list of participations held directly or indirectly by Swisscom Ltd is included in Note 5.4 to the Consolidated Financial Statements.

2.3 Derivative financial instruments and hedging transactions (hedge accounting)

Derivative financial instruments which are deployed to hedge foreign currencies and interest rates, are measured at market price. Movements in market values are recorded in the income statement. Derivatives which meet the conditions for recognition as a hedging transaction, are measured using the same valuation principles as those which apply to the underlying transaction. Gains and losses arising from the underlying and hedging transactions are dealt with on a joint basis (collective valuation approach with regard to valuation units).

2.4 Treasury shares

At the time of acquisition, treasury shares are recorded at purchase cost as a deduction from shareholders' equity.

3 Disclosures on balance sheet and income statement positions

3.1 Receivables and financial assets

In CHF million	31.12.2018	Thereof from participations	31.12.2017	Thereof from participations
Trade receivables	132	131	7	7
Other current receivables	2	1	2	1
Financial assets	5,026	4,911	6,045	5,934

3.2 Liabilities

Trade payables and other liabilities

In CHF million	31.12.2018	Thereof to participations	31.12.2017	Thereof to participations
Trade payables	11	5	8	4
Other current liabilities	301	26	39	11
Other non-current liabilities	2	–	2	–

Other current liabilities as at 31 December 2018 include liabilities to pension funds of CHF 1 million (prior year: none).

Interest-bearing liabilities

In CHF million	31.12.2018	31.12.2017
Bank loans	1,212	736
Debenture bonds	5,520	6,106
Private placements	428	500
Interest-bearing liabilities to participations	1,741	1,556
Other interest-bearing liabilities to third parties	77	95
Total interest-bearing liabilities	**8,978**	**8,993**
Thereof current interest-bearing liabilities	1,763	2,211
Thereof non-current interest-bearing liabilities	7,215	6,782

Debenture bonds

In CHF million or EUR million	31.12.2018 Par value in currency	31.12.2018 Nominal interest rate	31.12.2017 Par value in currency	31.12.2017 Nominal interest rate
Debenture bond in CHF 2009–2018	–	–	1,385	3.25
Debenture bond in EUR 2013–2020	500	2.00	500	2.00
Debenture bond in EUR 2014–2021	500	1.88	500	1.88
Debenture bond in CHF 2010–2022	500	2.63	500	2.63
Debenture bond in CHF 2015–2023	250	0.25	250	0.25
Debenture bond in CHF 2012–2024	500	1.75	500	1.75
Debenture bond in EUR 2015–2025	500	1.75	500	1.75
Debenture bond in CHF 2014–2026	200	1.50	200	1.50
Debenture bond in EUR 2018–2026	500	1.13	–	–
Debenture bond in CHF 2016–2027	200	0.38	200	0.38
Debenture bond in CHF 2017–2027	350	0.38	350	0.38
Debenture bond in CHF 2016–2028	200	0.38	200	0.38
Debenture bond in CHF 2018–2028	150	0.75	–	–
Debenture bond in CHF 2014–2029	160	1.50	160	1.50
Debenture bond in CHF 2016–2032	300	0.13	300	0.13
Debenture bond in CHF 2017–2033	150	0.75	150	0.75
Debenture bond in CHF 2015–2035	150	1.00	150	1.00
Debenture bond in CHF 2018–2035	150	1.00	–	–

4 Further information

4.1 Treasury shares

	Number	Average price in CHF	In CHF million
Balance at 31 December 2016	**1,514**	**520**	**1**
Purchases on the market	7,200	468	3
Allocated for share-based compensation	(8,090)	468	(4)
Balance at 31 December 2017	**624**	**468**	**–**
Purchases on the market	8,300	468	4
Allocated for share-based compensation	(8,581)	468	(4)
Balance at 31 December 2018	**343**	**468**	**–**

4.2 Collateral given to secure third-party liabilities

As of 31 December 2018, guarantee obligations exist for Group companies in favour of third parties totalling CHF 253 million (prior year: CHF 290 million).

4.3 Assets used to secure own commitments as well as assets subject to retention of title

As of 31 December 2018, financial assets totalling CHF 108 million (prior year: CHF 105 million) were not freely available. These assets serve to secure commitments arising from bank loans.

4.4 Participation rights of the members of the Board of Directors and Group Executive Board

The following table discloses the number of unrestricted and restricted shares held by the members of the Board of Directors and Group Executive Board as well as parties related to them, as of 31 December 2017 and 2018:

Number	31.12.2018	31.12.2017
Hansueli Loosli	3,113	2,733
Roland Abt	379	205
Valérie Berset Bircher	329	213
Alain Carrupt	329	213
Frank Esser	642	478
Barbara Frei	919	784
Anna Mossberg [1]	112	–
Catherine Mühlemann	1,559	1,443
Theophil Schlatter [2]	–	1,419
Renzo Simoni	324	160
Total shares held by the members of the Board of Directors	**7,706**	**7,648**

1 Elected to the Board of Directors as of 4 April 2018.

2 Resigned from the Board of Directors as of 4 April 2018.

Number	31.12.2018	31.12.2017
Urs Schaeppi (CEO)	4,380	3,964
Mario Rossi	1,483	1,236
Hans C. Werner	1,259	1,068
Marc Werner	1,158	750
Urs Lehner	290	115
Heinz Herren	1,856	1,586
Dirk Wierzbitzki	604	234
Total shares held by the members of the Group Executive Board	**11,030**	**8,953**

In 2018, 1,486 shares (CHF 0.7 million) were issued to the members of the Board of Directors and 1,974 shares (CHF 0.9 million) to the members of the Group Executive Board. None of the individuals required to make notification holds voting shares exceeding 0.1% of the share capital.

Proposed appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 2 April 2019 that the available retained earnings of CHF 6,424 million for the financial year ending on 31 December 2018, be appropriated as follows:

In CHF million	31.12.2018
Appropriation of retained earnings	
Retained earnings from previous year	**5,240**
Ordinary dividend [1]	(1,140)
Balance carried forward from prior year	**4,100**
Net income for the year	2,324
Retained earnings available to the Annual General Meeting	**6,424**
Ordinary dividend of CHF 22.00 per share on 51,801,600 shares [1]	(1,140)
Balance to be carried forward	**5,284**

1 Excluding treasury shares.

In the event that the proposal is approved, a dividend per share will be paid to shareholders on 8 April 2019 as follows:

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

KPMG

Statutory Auditor's Report

To the General Meeting of Swisscom Ltd, Ittigen (Berne)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Swisscom Ltd, which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 167 to 172) for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for Opinions

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Hanspeter Stocker Licensed Audit Expert Auditor in Charge	Toni Wattenhofer Licensed Audit Expert

Gümligen-Berne, 6 February 2019

KPMG AG, Hofgut, PO Box 112, CH-3073 Gümligen-Berne

Glossary

Technical terms

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

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

5G: 5G is the next generation in mobile network technology. The frequencies for 5G will be auctioned off in Switzerland this spring and it is to be expected that the 5G technology will be commercially available in Switzerland before the end of 2019. 5G will bring with it even more capacity, very short response times and higher bandwidths, thereby supporting the digitisation of Swiss business and industry.

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

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

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

Bitstream Access: Bitstream access refers to a wholesale product for third-party providers in the telecoms sector. Through bitstream access, a telecoms provider makes a data stream to a certain end customer available to a third-party provider. This enables the third-party provider to offer its services to a given customer to whom it is not physically connected through its own network.

BPO (Business Process Outsourcing): BPO is a special form of outsourcing and refers to the outsourcing of entire business processes.

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

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

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

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

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

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

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

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

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

GSM (Global System for Mobile communications) network: GSM is a global digital mobile communication standard of the second mobile generation. In addition to voice and data transmission, it enables services such as SMS messages and phone calls to other countries and from abroad (international roaming). Swisscom plans to decommission second-generation mobile communications at the end of 2020 and use the frequencies for new, more efficient technologies.

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

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

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

Inbound/Outbound (see Roaming)

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

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

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

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

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

LTE M: A connection technology for the Internet of Things that foregoes some features of LTE in order to reduce complexity and costs while still enabling all conventional IoT applications. In contrast to NB IoT, it also enables voice transmission, e.g. in lift telephones. NB IoT is a technology often used for mission-critical IoT applications.

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

NB IoT (Narrowband IoT): NB IoT is a connection technology for the Internet of Things. Its focus is on maximum coverage and minimum power consumption, and it therefore forgoes some features of LTE that are not needed for low-end applications, like meter networking or simple objects. NB IoT is a technology often used for massive IoT applications.

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

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

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

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

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

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

Roaming: Roaming enables mobile network subscribers to use their mobile phones when travelling abroad. The mobile telephone of a subscriber outside Switzerland automatically selects the best-quality partner network. Information indicating the country and region where the mobile phone is located at any given time is immediately sent to the exchange in Switzerland where the mobile phone is registered. On receipt of the calling signal, the exchange in Switzerland transmits it within a fraction of a second to the right region in the respective country, where the signal is forwarded to the base station in the vicinity of which the mobile phone is located. The base station then forwards the signal to the mobile phone and the call can be taken. Roaming works only if all countries involved operate on the same frequency bands. In Europe all GSM networks use the same frequency bands. Other countries such as the USA or countries in South America use a different frequency range. Most mobile telephones today are triband or quadband and support 900 MHz and 1,800 MHz networks (which are most commonly used in Europe) as well as 850 MHz and 1,900 MHz networks.

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

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

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

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

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

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

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

UMTS (Universal Mobile Telecommunications System): UMTS is an international third-generation mobile communications standard that combines mobile multimedia and telematic services. UMTS is a further development of GSM and is supplied as a complement to GSM and public wireless LAN in Switzerland. Today the UMTS network covers around 99% of the Swiss population.

Unified Communications: An endeavour to integrate the wide variety of modern communication technologies. Under unified communications, different telecommunication services such as e-mail, unified messaging, telephony, mobile phone, PDAs, instant messaging and presence functions are coordinated to enhance the reachability of dispersed communication partners, thereby speeding up business processes.

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

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

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

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

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

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

Other terms

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

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

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

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

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

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

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

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

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

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

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

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

Forward-looking statements

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

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

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

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

Publishing details

Key dates

- **7 February 2019**
  Publication of 2018 Annual Results and Annual Report
- **2 April 2019**
  Annual General Meeting in Basel
- **4 April 2019**
  Ex dividend date
- **8 April 2019**
  Dividend payment
- **2 May 2019**
  2019 First-Quarter Results
- **15 August 2019**
  2019 Second-Quarter Results
- **31 October 2019**
  2019 Third-Quarter Results
- **February 2020**
  Publication of 2019 Annual Results and Annual Report

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