2009
Annual Report

swisscom

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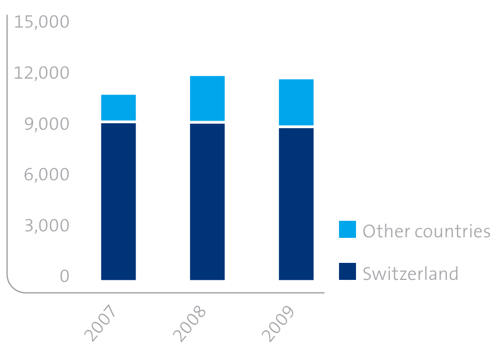
Overview

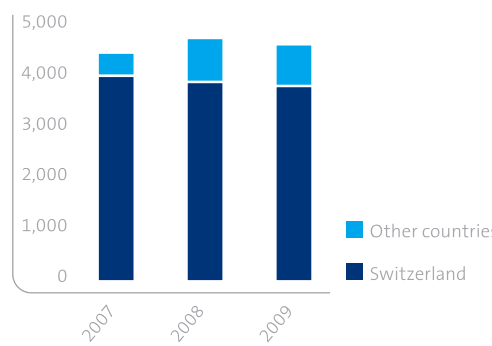
Facts & figures

- Swisscom's business activities are concentrated mainly in Switzerland. International activities are predominantly based around its subsidiary Fastweb in Italy.
- In 2009, net revenue fell by 1.6% and operating income (EBITDA) by 2.6%. Based on constant exchange rates net revenue fell only by 0.5% and EBITDA by 1.7%.
- Revenue in Switzerland fell around CHF 300 million. Continuing price erosion in Swiss business with an effect on revenue of over CHF 400 million could only be partially offset by customer growth and new products. EBITDA of the Group, excluding Fastweb, was down by CHF 156 million.
- Fastweb achieved positive growth in 2009. Revenue increased in local currency terms by 8.5%, the number of broadband subscribers increased by over 10%. Fastweb contributes 23% of Group net revenue and 18% of Group EBITDA.
- Capital expenditure amounted to around CHF 2 billion in 2009, the majority of which was allocated to investments in the fixed-line and mobile networks in Switzerland and to Fastweb.
- At the end of 2009 Swisscom has 19,479 full-time equivalent employees, of which 15,995 in Switzerland.

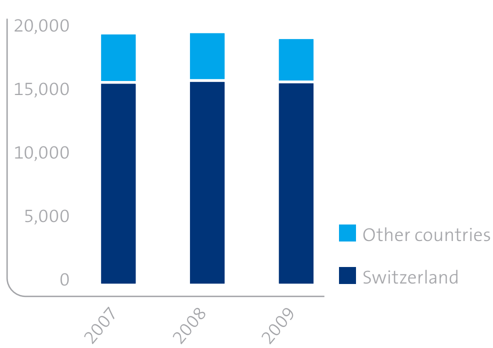
Net revenue CHF in millions



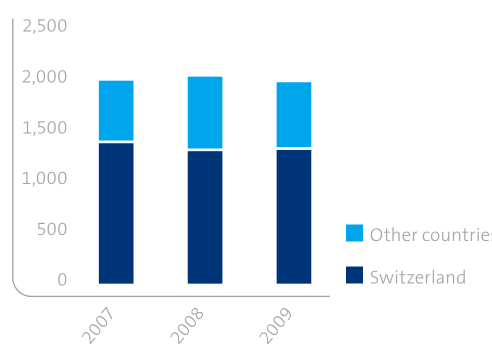
EBITDA CHF in millions



Number of full-time equivalent employees



Capital expenditure CHF in millions



in CHF millions, except where indicated		2009	2008	Change
Net revenue and results				
Net revenue		12,001	12,198	–1.6%
Operating income before depreciation and amortization (EBITDA)		4,666	4,789	–2.6%
EBITDA as % of net revenue	%	38.9	39.3	
Operating income (EBIT)		2,678	2,640	1.4%
Net income		1,925	1,751	9.9%
Share of net income attributable to equity holders of Swisscom Ltd		1,928	1,756	9.8%
Earnings per share	CHF	37.22	33.90	9.8%
Balance sheet and cash flows				
Equity at end of year		6,728	5,763	16.7%
Equity ratio at end of year	%	30.6	25.3	
Operating free cash flow		2,669	2,476	7.8%
Capital expenditure in property, plant & equipment and other intangible assets		1,987	2,050	–3.1%
Net debt at end of period		8,932	9,860	–9.4%
Employees				
Full-time equivalent employees at end of year	Number	19,479	19,943	–2.3%
Average number of full-time equivalent employees	Number	19,813	19,801	0.1%
Operational data				
Telephone access lines PSTN/ISDN in Switzerland	in thousands	3,484	3,623	–3.8%
Broadband access lines in Switzerland	in thousands	1,803	1,756	2.7%
Mobile subscribers in Switzerland	in thousands	5,610	5,370	4.5%
Swisscom TV subscribers in Switzerland	in thousands	230	118	94.9%
Unbundled fixed access lines in Switzerland	in thousands	153	31	–
Broadband subscribers in Italy	in thousands	1,644	1,483	10.9%
Swisscom share				
Par value per share at end of year	CHF	1.00	1.00	–
Number of issued shares at end of period	in millions of shares	51.802	53.441	–3.1%
Quoted price at end of year	CHF	395.60	339.50	16.5%
Market capitalization at end of year		20,491	17,587	16.5%
Dividend per share	CHF	20.00 [1]	19.00	5.3%
Ratio payout/earnings per share	%	53.73	56.05	–4.1%

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

Shareholders' letter

Carsten Schloter Dr. Anton Scherrer

Dear Shareholders

We have a challenging and exciting year behind us. The financial crisis also left its mark on Switzerland. Against this backdrop, Swisscom held its ground well and achieved further improvements in customer satisfaction.

EBITDA almost stable – Price erosion in Swiss business

Customer growth and new offerings were insufficient to offset price erosion fuelled by strong competition and regulation in Swiss business. This resulted in a fall in net revenue – not taking into account our subsidiary Fastweb – of around CHF 300 million. In local currency terms, Fastweb increased its revenue by 8.5% from EUR 1,708 million to EUR 1,853 million. Overall, consolidated net revenue of the Swisscom Group fell by 1.6% in 2009 to CHF 12,001 million, and operating income (EBITDA) by 2.6% to CHF 4,666 million. Based on constant exchange rates, net revenue fell by only 0.5% and EBITDA by 1.7%. Excluding one-off items such as the adjustment of useful lives and charges in the previous year related to the termination of long-term lease agreements, net income would be on a par with the prior-year level.

Swisscom shares performed well in 2009

Swisscom's share price rose by 16.5% over the course of the year. Payment of an ordinary dividend of CHF 20 per share (prior year CHF 19) will be proposed to the Annual General Meeting of Shareholders. This corresponds to a total dividend amount of CHF 1,036 million or 39% of operating free cash flow. This payout will allow Swisscom to further reduce net debt and give it more financial flexibility.

Fastweb continues to grow – Minor strategic acquisitions in 2009

Fastweb again succeeded in meeting its targets, increasing revenue by 8.5% and growing its customer base by over 10%. In Switzerland Swisscom IT Services acquired two leading players in the field of banking services and SAP integration: Sourcag Ltd and Resource Ltd. The purchase of the debt collection company Weco Inkasso AG strengthens Swisscom's receivables management subsidiary Alphapay.

Rapid growth in TV business – Higher revenue from mobile data services

Swisscom posted robust growth in its TV business in 2009, almost doubling the customer base within the space of a year to 230,000. The net number of mobile subscribers in Switzerland grew in 2009 by 240,000 or 4.5% to 5.6 million.
Compared with 2008, DSL broadband access lines in Switzerland increased by 47,000 to 1.8 million, while the number of unbundled fixed access lines went up from 31,000 to 153,000.

Increasing digitisation in our daily lives – Networks growing in importance

More and more everyday tasks are being carried out over the Internet – from online banking to communication via social networks such as Facebook and Twitter. Rapid advances in electronics are driving the development of increasingly powerful devices and innovative applications. At the same time, sharply falling prices are making digital technology more widely accessible, and telecommunications networks, the nerve system of the information society in Switzerland, are becoming more and more important.

Investments in mobile and cable networks

Switzerland has one of the world's best telecommunications infrastructures. 2009 was an important year for developing the infrastructure to the very highest level. The fact that demand for bandwidth in the mobile network is doubling every 7 months and in the fixed network every 18 months goes to show that infrastructure expansion meets a true customer need. Together with electricity companies that are prepared to invest, Swisscom is planning the construction of a fibre-optic network which will extend all the way to households. Swisscom's multi-fibre model is regarded by the majority of its partners and competitors as the most efficient model. Swisscom has reached agreement with various partners on the principles governing construction of the broadband network of the future; the respective cooperation agreements are still being drawn up. Swisscom has made rapid progress with fibre-optic expansion. By the end of 2009, it had extended fibre to over 120,000 households, exceeding the target of 100,000. Together with cooperation partners, our goal is to connect more than one million households by 2015 – roughly a third of the Swiss population. By the end of 2015 Swisscom will have invested some CHF 2 billion in expanding the fibre-optic network. The mobile broadband network is also becoming increasingly powerful. The upgrade to HSPA+ which began in September 2009 will enable transmission speeds of up to around 28.8 Mbps.

Need for a stable regulatory environment

Over the last years, more and more voices have been raised demanding a partial revision of the Telecommunications Act. The Act has been in force for two years and has proven effective. The unbundling of copper lines has been implemented faster in Switzerland than anywhere else in Europe. Some 153,000 fixed lines had been unbundled by the end of 2009, just two years after the project was launched. The current Telecommunications Act takes network competition into account and limits unbundling to the copper cables. The clear regulatory framework has enabled Swisscom and the electricity companies to start investing in future-oriented broadband networks by expanding the fibre-optic network. Revising the current legislation would give rise to legal uncertainty over the longer term and thereby jeopardise such investments. Swisscom therefore welcomes the demand for a full evaluation of the Swiss telecommunications market, which was made in a postulate by the Telecommunications Committee of the Council of States, before a full revision of the Telecommunications Act is considered.

Pending antitrust proceedings

In November 2009 the Competition Commission (ComCo) imposed a penalty of CHF 220 million on Swisscom for allegedly abusing the pricing of broadband services. Swisscom filed an appeal with the Federal Administrative Court against the ruling. Swisscom is awaiting a decision this year by the Federal Administrative Court on the fundamental question of whether the Competition Commission has the authority to impose a penalty in such cases.

For Switzerland – For our future

Swisscom stands for social, ecological and economic responsibility. In these times of increasing ecological awareness, Swisscom already boasts over 12 years' experience in environmental management. For example, Swisscom is the largest purchaser of solar and wind power in Switzerland and has been therefore focusing on promoting the use of renewable energies. Its most important energy-saving project – Mistral – eliminates the need for energy-intensive cooling systems in 320 telephone exchanges, thus achieving huge improvements in energy efficiency and enabling Swisscom to reduce electricity consumption by 10 gigawatt hours. Swisscom is therefore the ideal partner for Solar Impulse, a plane powered solely by solar energy which pilots Bertrand Piccard and André Borschberg intend to fly round the world in 2012. Swisscom is involved in developing the communications infrastructure and will ensure that the people of Switzerland can also experience this adventure. Swisscom also focuses on Switzerland as an information society and has been offering free Internet access to all primary and secondary schools in Switzerland since 2001. Over 95% of schools are now connected. Swisscom provides Help Point training courses in media skills for mobiles and the Internet for people who are reluctant to use new technology.

Changes in the Board of Directors

At the Annual General Meeting on April 21, 2009, Hansueli Loosli was elected to the Board of Directors as successor to Fides P. Baldensberger. Hansueli Loosli is CEO of Coop. Chairman of the Board of Directors Anton Scherrer decided to arrange for a successor for the chairmanship in good time. The Board of Directors will propose Hansueli Loosli as the new Chairman of the Board of Directors at the next but one Annual General Meeting in April 2011.

Changes in management

Jürg Rötheli, CEO of Swisscom Participations and member of the Group Executive Board since 2001, left Swisscom at the end of August 2009, after more than ten very successful years with the company, to take on new professional challenges. The Board of Directors and the Group Executive Board would like to thank Jürg Rötheli for his outstanding commitment to Swisscom and wish him all the best for the future, both personally and professionally.

Outlook

Excluding Fastweb, Swisscom expects to close 2010 with net revenue of around CHF 9.15 billion, EBITDA of around CHF 3.75 billion and capital expenditure of around CHF 1.3 billion. For Fastweb, it anticipates revenue of around EUR 1.95 billion, EBITDA of around EUR 580 million and capital expenditure of around EUR 410 million. Operating free cash flow for the Group, including Fastweb, will be some CHF 2.6 billion.

All in all, we can look back on a successful and eventful year. We owe our achievements in 2009 to the trust of our customers, the loyalty of our shareholders and the untiring dedication and commitment of our employees. A warm thank you to you all.

Yours sincerely,

Dr Anton Scherrer
Chairman of the Board of Directors
Swisscom Ltd

Carsten Schloter
CEO Swisscom Ltd

Swisscom from the perspective of the Group Executive Board A brief overview

Christian Petit	Head of Residential Customers, Swisscom Switzerland
Heinz Herren	Head of Small and Medium-Sized Enterprises, Swisscom Switzerland
Urs Schaeppi	Head of Corporate Business, Swisscom Switzerland
Guido Garrone	Head of Networks, Swisscom Switzerland
Eros Fregonas	CEO Swisscom IT Services
Stefano Parisi	CEO Fastweb
Daniel Ritz	Head of Strategy and Business Development, Swisscom Ltd
Günter Pfeiffer	Head of Group Human Resources, Swisscom Ltd
Stefan Nünlist	Head of Group Communications, Swisscom Ltd
Ueli Dietiker	CFO Swisscom Ltd

"Swisscom, the best partner for the journey through the digital world."

"The digital world is playing an increasingly important role in the lives of many customers. From banking to shopping and communications to entertainment – more and more is taking place electronically. And more and more customers appreciate being able to use the same services from mobile devices, anytime and anywhere. It is up to us to guide customers through this digital world and to help them feel at ease. The digital world also includes our three growth areas: mobile Internet, digital advertising and digital TV. I firmly believe that the mobile Internet business will continue to grow and will undergo some revolutionary changes in the future. Maybe one day we will be able to point the camera of our smartphone at a building and find out which special offers are available in the shops inside that building. Television is also going digital. The number of Swisscom TV customers fast doubled from previous year. It is our responsibility to convince the people of Switzerland that Swisscom is the best possible partner to accompany them into the digital world."

	2009	2008
Net revenue (in CHF millions)	5,013	5,116
Mobile subscribers (in thousands)	4,423	4,293
Telephone access lines PSTN/ISDN (in thousands)	2,693	2,826
Broadband access lines (in thousands)	1,279	1,148
Swisscom TV subscribers (in thousands)	230	118
Full-time equivalent employees	4,675	4,696

"We free up our customers' resources."

"Many SMEs have reached their limits with their current telecoms and IT infrastructure. It is up to us to work with these customers to tackle and solve the resulting challenges in such a way that the companies can continue to focus on their core business, while we offer support and provide them with the right solutions. We work hard to ensure that this is as effortless as possible for our customers. Because we, like our customers, know that the best service is the one that you don't even need. If you do need it, however, we're always there for you."

	2009	2008
Net revenue (in CHF millions)	1,156	1,154
Mobile subscribers (in thousands)	445	411
Telephone access lines PSTN/ISDN (in thousands)	511	511
Broadband access lines (in thousands)	173	158
Full-time equivalent employees	765	758

“Mobile data and international business generate growth.”

“2009 was a challenging year for us and our customers. The difficult economic situation has meant that the needs of many customers have changed. As expected, mobile data services and our international business were key growth drivers in 2009. This trend is likely to continue next year. Unified communications, security and green IT are also set to become increasingly important.”

	2009	2008
Net revenue (in CHF millions)	1,825	1,906
Mobile subscribers (in thousands)	742	666
Telephone access lines PSTN/ISDN (in thousands)	280	286
Broadband access lines (in thousands)	20	19
Full-time equivalent employees	2,220	2,211

“Our priorities for 2010: fibre optics, All-IP and mobile broadband.”

“We will focus in the coming year on expansion of the fibre-optic network, All-IP and the mobile broadband network. We made significant progress in 2009, in particular in the field of fibre optics: Swisscom’s multi-fibre model has become more widely accepted. This model eliminates the need to build parallel networks, which ensures the necessary competition among providers. In addition, All-IP will allow us to offer customers top-quality triple-play offerings. The mobile broadband network will also become increasingly powerful and faster. HSPA allows speeds of up to 14.4 Mbps. A new expansion phase began in September 2009 with the launch of HSPA+, which supports extremely high mobile speeds of up to 28.8 Mbps.”

	2009	2008
Networks		
Capital expenditure (in CHF millions)	1,000	923
Full-time equivalent employees	4,114	4,264
Wholesale		
Revenue from external customers (in CHF millions)	877	975
Broadband access lines (in thousands)	331	431
Unbundled fixed access lines (in thousands)	153	31
Full-time equivalent employees	92	105

"We significantly improved our position in the operation of IT banking platforms."

"We significantly improved our position in the operation of IT banking platforms in 2009. The takeover of Sourcag Ltd has allowed us to expand our service portfolio with key know-how in the areas of payment transactions and securities handling. Our aim is to be as strong in the field of SAP as we are in the operation of banking platforms. This is why we purchased Resource Ltd, an experienced SAP integration specialist, in June 2009. Expansion of our portfolio means we can offer our customers an even fuller range of coordinated services, all from a single source. On the whole we can say that our customers' trust in Swisscom IT Services has continued to grow and our position as a reliable and professional service provider in the Swiss market has been strengthened. This is evident in our daily exchanges with customers and not least through the exceptionally high level of incoming orders."

	2009	2008
Revenue from external customers (in CHF millions)	435	435
Revenue from internal customers (in CHF millions)	406	436
Order intake (in CHF millions)	540	342
Full-time equivalent employees	2,677	2,438

"Once again we succeeded in meeting all of our objectives, despite a difficult environment."

"The economic situation in Italy was difficult in 2009. Nevertheless we managed once again, as we did last year, to meet all our growth targets. For example, net revenue increased by 8.5%, while EBITDA grew by 0.5%. Net income and cash flows were positive and in line with our expectations. These results are due in no small measure to the fact that Fastweb is the only telecoms provider in the Italian market with an extensive FTTH infrastructure. In spite of the ongoing adverse market situation, I predict that Fastweb will grow in 2010 and that the positive trend in the ratio of investment to sales will continue."

	2009	2008
Net revenue (in EUR millions)	1,853	1,708
Broadband subscribers (in thousands)	1,644	1,483
Capital expenditure (in EUR millions)	434	438
Full-time equivalent employees	3,125	3,077

"Our strategy continues to bear fruit."

"In our core business in Switzerland, we succeeded in defending our market share and even expanding it in some areas. Our Italian subsidiary, Fastweb, has fulfilled its ambitious growth targets and now contributes 17.8% to the Swisscom Group's EBITDA. Mobile data services and Swisscom TV continue to report strong growth in Switzerland. Swisscom IT Services is also performing very well, and successfully acquired a number of major new contracts in 2009. Despite the continued economic uncertainty, we have a very solid base and can look forward to 2010 with optimism."

"It is the people in a company that make the difference."

"Our employees identify very strongly with Swisscom and this is one of our greatest assets. It is, after all, the people in a company that make the difference. Our business is experiencing some rapid and far-reaching changes, which is why we are working hard to enable our employees to cope with change and help shape the future. To do this, we are seeking and developing people who are inquisitive about the future and take a proactive approach to change; people who want to share Swisscom's market success and influence the corporate culture."

“For Switzerland. For our customers.”

“*For Switzerland. For myself*. This is the slogan Swisscom uses to advertise its winter sports sponsorship activity. But the idea of *For Switzerland. For myself*. goes much further. It represents our commitment to Switzerland and society. For over ten years, Swisscom has been committed to using resources in a sustainable manner, actively working towards improving energy efficiency and reducing CO_2 emissions and is now Switzerland’s largest purchaser of solar and wind energy. Our social responsibility is also a top priority. Through our Internet for Schools initiative, the Internet and mobile phone training provided by Helppoint and our partnership with Solar Impulse, we are doing our bit for Switzerland and society. *For Switzerland. For myself*. also reflects our long-term thinking. We firmly believe that Swisscom can make an important contribution to Switzerland’s economic development. We are driving forward the expansion of our networks and infrastructure to ensure that Switzerland still has one of the best telecoms infrastructures in the world in ten years’ time. In 2009, we engaged in intensive dialogue with politicians, our customers, the media and employees on the subject of fibre-optic expansion and Swisscom’s multi-fibre model is now enjoying a broad level of acceptance. We have also successfully concluded cooperation agreements with partners from Lausanne to Pfyn in the canton of Thurgau.”

“The telecommunications market has proven to be less susceptible to the economic cycle.”

“The decline in revenue caused by price erosion in Switzerland could no longer be offset by our previous growth drivers – mobile and broadband customers, TV and mobile data services. This price erosion was attributable to competition and regulation, and not the economic crisis. The telecommunications sector has proven to be less susceptible to the economic cycle than other sectors. Although operating income (EBITDA) is slightly lower than last year, net income rose by around 10% as a result of one-off items. Swisscom has taken advantage of the improved conditions in the capital markets and markedly improved its capital structure by issuing debenture bonds to the value of CHF 2.75 billion. Swisscom’s shares have also performed well, with the share price rising by 16.5% in 2009.”

Highlights 2009

January
- With TelePresence and LiveMeeting, Swisscom offers two systems which help business customers save time and costs when conducting meetings. Companies show an increasing interest in video conferencing systems.
- Fastweb, Telecom Italia and Wind set up the IPTV Association to promote digital technology, with the aim of replacing analogue TV by the end of 2012.

February
- Following a ruling by the Federal Administrative Court, Swisscom is to offer high-speed bit-stream access to alternative telecoms providers.

April
- Swisscom outsources facility management to Johnson Controls, which results in 270 employees switching the employer.
- HomeServiceTeam: the number of customers who have made use of the on-site service for computers, Internet and multimedia reaches 10,000.
- Massive price cut for Mobile Unlimited: Swisscom launches a new data subscription for mobile working and Internet surfing from a laptop, which includes unlimited data traffic on the Swisscom network.
- Swisscom supports the World Ice Hockey Championships as official partner and telecommunications provider.
- Swisscom extends its contract as main sponsor of Swiss-Ski until 2014.
- At the Annual General Meeting of Shareholders, Swisscom increases the ordinary dividend while reducing the share capital. Hansueli Loosli is elected to the Board of Directors.

May
- Swisscom launches a fibre-optic offering and its first bundled product in Zurich, comprising VoIP telephony and high-speed Internet access.
- Verizon Business and Swisscom jointly offer managed security solutions, allowing customers to procure their security solutions from a single source.
- The Federal Communications Commission renews the GSM mobile licences of Swisscom and two other telecoms providers until the end of 2013.

June
- With Hospitality Services, Swisscom offers its internationally-renowned hotel services in Switzerland for the first time.
- Swisscom becomes the official national telecommunications partner of Solar Impulse and starts developing a special communications solution for Bertrand Piccard's fully solar-powered aircraft.
- Swisscom IT Services expands its portfolio in selected market segments with the acquisition of Sourcag Ltd and Resource Ltd.

July

- Swisscom massively cuts its roaming prices, enhances the related price information through detailed SMS notifications when customers cross borders and reduces the standard tariff for data usage abroad.
- Swisscom launches a pilot project in Lucerne for a customised SME advisory service in Swisscom Shops and further expands its SME service offering by providing on-site support from business service teams on any PC-related questions. The service is only billed if the customers are satisfied with the support that they receive.
- The Swiss Federal Institute of Technology in Lausanne (EPFL) and Swisscom enter into a close partnership in the field of research and innovation.

August

- Swisscom launches Housing Services, which offers secure data centres for business customers. The investments being made by Swisscom in this area will make a vital contribution to expanding Switzerland's IT infrastructure.
- 223 new apprentices from across Switzerland take the first step towards their professional future at Swisscom.
- Swisscom is the first Swiss mobile provider to offer flat-rate tariffs for mobile calls to all Swiss networks.
- Fastweb and Wind agree to work more closely together in the area of networks, primarily in the local exchanges and on Italy's fibre-optic infrastructure.

September

- 3,390 employees participate in the third Swisscom Games in Ticino.
- The Swisscom Board of Directors passes a resolution to propose Hansueli Loosli for appointment to the chairmanship of the Board at the Annual General Meeting in April 2011.

October

- At ITU Telecom World 2009 in Geneva, Swisscom launches HSPA+, the latest technology for mobile data traffic, and presents the prototype of a robot which can significantly reduce construction work in fibre-to-the-home (FTTH) network expansion.
- At a round-table discussion, Swiss telecoms providers agree to build the fibre-optic network using four independent fibres and based on a uniform technical standard. The network is to be available to all potential providers under the same conditions. Swisscom has already entered into a number of cooperation agreements for fibre-optic expansion in 2009: with Groupe E (based in French-speaking Switzerland), the municipality of Pfyn (canton of Thurgau), Lausanne Industrial Services, St. Gallen Public Utilities, the city of Fribourg and Energie Wasser Bern. Swisscom is also conducting negotiations with 30 other partners.

November

- Swisscom acquires the debt collection company Weco Inkasso AG from Credit Suisse.
- The Competition Commission imposes a penalty of CHF 220 million on Swisscom for allegedly abusing the pricing of broadband services. Swisscom is to contest the ruling before the Federal Administrative Court.
- Bluewin TV becomes Swisscom TV and chalks up over 200,000 customers.

Management Commentary

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Macroeconomic and regulatory environment

Macroeconomic environment

The macroeconomic environment has prompted uncertainty concerning Swisscom's future financial position, results of operations and cash flows in the wake of the financial crisis and economic downturn. Macroeconomic factors with the most significant implications for Swisscom are economic development, exchange rates, interest rates and equity and bond markets.

Economic development

Following a sharp fall in economic output, measured by gross domestic product (GDP) form previous year, the economy recovered slightly only in the course of the fourth quarter of 2009. Nevertheless, business performance remains far below the level prior to the onset of the financial crisis. While revenue generated by Swisscom in Switzerland fell by around CHF 300 million in 2009, the decline was primarily attributable to structural rather than cyclical factors. The structural drop in revenue was mainly a result of price erosion in mobile and fixed network . One of the consequences of the economic slowdown was a reduction in private and business travel, resulting in lower revenues from roaming. Corporate project business was impacted by increased price pressure and a reluctance to invest in projects. While growth and economic prospects are expected to improve in 2010, unemployment looks set to rise further. However, Swisscom does not expect the job market situation to have an adverse effect on its residential business, although uncertainty will continue to prevail. The same applies to the corporate business segment. Whether or not the global economy will recover sustainably remains to be seen. Export-oriented companies are particularly exposed to risks associated with the global economy and exchange rate movements. These factors may have a negative impact on the demand for Swisscom products and services.

Interest rates

For many years Switzerland has enjoyed exceptionally low nominal and real interest rates, mostly below the corresponding European interest rates. Interest rates over the past year have been influenced by an expansive money policy and unconventional measures of the Swiss National Bank (SNB). In March 2009 the SNB announced a reduction in the target range for its key interest rate (3-month libor). The SNB also started to purchase Swiss franc-denominated corporate bonds. At 0.25%, money market rates (3-monthly libor) were extremely low (end of 2008: 0.66%). At 1.9%, the yield on 10-year government bonds was also down slightly on the prior-year level. For companies, raising capital was facilitated by the easing of the financial markets. 2009 saw a sharp fall in risk premiums (spreads) for corporate bonds. As a consequence, the Swiss bond market attracted keen interest from the business sector seeking to raise capital. Swisscom also took advantage of the favourable market conditions and in 2009 placed bonds totalling CHF 2.75 billion with interest rates of 3.25% and 3.50%. The funds were used for the early repayment of bank debts. As a result, the maturity profile of the Group's financial obligations was optimised and refinancing risks were substantially reduced.

Exchange rates

Compared with other currencies, the value of the Swiss franc (CHF) rose sharply during the economic slowdown. In March 2009 the SNB started buying foreign currencies in order to prevent a further appreciation of the Swiss franc against the euro (EUR). The move paid off, bringing to a temporary halt any further rise in value. However, compared to the end of 2007 the Swiss franc has gone up by 10.3% against the euro and by 9.1% against the US dollar. The euro and the US dollar are Swisscom's main foreign currencies. In its Swiss business, Swisscom posted net outpayments in euros and US dollars, chiefly relating to the purchase of technical and terminal equipment and the payment of fees for the use of fixed and mobile networks abroad. Foreign currency transactions related to operations are mostly hedged by currency forwards. The balance sheet contains an unhedged currency translation risk in respect of shareholdings in foreign Group companies, in particular Fastweb in Italy.

Equity and bond markets

Swisscom has no significant amounts directly invested in equities, bonds or other financial instruments and is therefore not exposed to the associated market risks. Swisscom is indirectly active in the domestic and international equity and bond markets through the financial assets of the Group's pension fund, comPlan. At the end of 2009 the market value of these assets amounted to CHF 6.8 billion, or around 33% of Swisscom's market capitalisation. The fund's financial assets suffered substantial losses in 2008 due to the financial crisis, resulting in a fall in the funding ratio for comPlan at the end of 2008 to 94% (as measured in accordance with Swiss accounting principles). Positive developments in equity and bond markets in 2009 increased the funding ratio to 101%.

Legal and regulatory environment

Legal framework for Swisscom

Swisscom is a public limited company with a special status under Swiss law. It is organised in compliance with the Telecommunications Enterprise Act (TEA) and the company's Articles of Incorporation, and its business operations are governed primarily by the provisions of company law and telecommunications and broadcasting legislation. Swisscom is also subject to the rules governing the business sector as a whole, namely competition law. As a listed company, Swisscom is also required to comply with capital market legislation.

Telecommunications Enterprise Act (TEA)

On January 1, 1998 the former operations of Swiss Telecom PTT were legally transformed into "Die Schweizerische Post" and "Swisscom AG" (hence the term "public limited company with special status"). Under the terms of the TEA and the company's Articles of Incorporation, Swisscom is responsible for the provision of domestic and international telecommunications and broadcast services as well as related products and services. It is largely subject to stock corporation law. The TEA requires the Swiss Confederation to hold a majority of the capital and voting rights in Swisscom and, in the interests of transparency for other investors, to publish every four years the goals it would like Swisscom to achieve with its shareholding. The objectives of the Swiss Confederation are incorporated in the strategic and operating goals set by the Swisscom Board of Directors. Swisscom is also obliged to draw up a collective employment agreement in consultation with the employee associations. Should the Swiss Confederation give up its majority shareholding in Swisscom AG, the TEA would need to be amended. In 2006, the Swiss parliament rejected draft legislation proposed by the Federal Council to enable further privatisation of Swisscom, demanding in a series of initiatives that it should first receive a more detailed report, which the Federal Council has scheduled for the second half of 2010.

Telecommunications Act

The aim of the Telecommunications Act is to ensure that the Swiss population and economy have access to a wide range of affordable, high-quality telecommunications services that are nationally and internationally competitive. In particular, it lays down the framework for the reliable and affordable provision of basic telecommunications services to all sections of the population in all regions of the country, ensures fault-free telecommunications traffic that respects personal and intellectual property rights, enables effective competition in the provision of telecommunications services, and protects users of telecommunications services against unfair mass advertising and misuse of value-added services.
One of the goals of the telecommunications legislation remains reliable universal service provision at affordable prices to all sections of the population in all regions of the country. The exact scope of the services and associated quality and pricing requirements are determined periodically by the Federal

Council. The Federal Communications Commission (ComCom) awarded the current universal service provision licence to Swisscom in June 2007. The licence runs from 2008 to 2017. The service mandate primarily covers the provision to every household of analogue or digital access to the public telephone network, as well as the provision of an adequate number of public payphones and services for disabled persons. Since 2008 the universal service provision mandate has also included broadband Internet access with a guaranteed transmission speed of 600/100 Kbps. In 2009 Swisscom once more fulfilled its responsibilities in a reliable manner and delivered the services in the required quality.
The Telecommunications Act stipulates the type of access that market-dominant providers are required to grant to competitors. These are: full unbundled access to subscriber lines, fast bit-stream access, billing of fixed-line subscriber lines, interconnection, leased lines and access to cable ducts (the latter providing they have sufficient capacity). Fast bit-stream access is restricted to four years, beginning from the time when a nationwide offering is effectively available. Network access must be offered at cost-based prices and in a manner that is transparent and non-discriminatory. With regard to types of access, market-dominant providers also enable co-location i.e. the shared use of locations related to network access. The primacy of negotiation applies (ex-post regulation). If providers are unable to agree the terms and conditions governing the access within three months, ComCom rules on them at the request of a party, with due consideration to the conditions that foster effective competition as well as the impact of its decision on competing facilities. Cost-based pricing is determined using the LRIC (long-run incremental costs) method.
On June 2, 2009 ComCom renewed the GSM licences of Swisscom and other network operators until the end of 2013. In addition to GSM, the new licence covers UMTS (in the 900 MHz and 1800 MHz frequencies) as well as other technologies, albeit subject to confirmation from European standards bodies that the technologies will not affect GSM and UMTS transmission. The UMTS licence expires at the end of 2016 and entitles Swisscom to use UMTS technology in the 2-GHz band. In 2010 ComCom is expected to hold an auction to award a series of radio licences for mobile services aimed, among other things, at enabling the rollout of new technologies, such as the Long-Term Evolution (LTE) mobile standard. The auction will be open to all interested companies. Swisscom also holds licences for wireless point-to-point connectivity.

Competition law / Federal Cartel Act

The aim of the Federal Cartel Act is to protect against the harmful economic or social impact of cartels and other constraints on competition and, by so doing, foster competition within the framework of a free market economy. The Competition Commission (ComCo) investigates anti-competitive agreements and the behaviour of market-dominant companies. It also has the authority to prohibit business combinations or to allow them subject to legal requirements or conditions. Anti-competitive agreements are not permitted if they severely inhibit competition and cannot be justified on the grounds of economic efficiency, or if they result in the elimination of competition. Market-dominant companies are also prohibited from engaging in anti-competitive practices, such as offering discounts or bundled products, favouring certain business partners or offering excessively high or excessively low prices. Certain types of anti-competitive agreements or abuse by companies of their market-dominant position face the risk of direct sanctions.

Capital market law

Shares in Swisscom Ltd were listed on the Zurich and New York stock exchanges in 1998 as part of an initial public offering (IPO). The former sole shareholder, the Swiss Confederation, retained 65.5% of the share capital. On December 31, 2009 the Swiss Confederation's stake stood at 56.9%. Following delisting and deregistration in the US in 2007 and relocation of SIX Swiss Exchange's trading operations from London to Zurich on May 4, 2009, Swisscom is only required at present to comply with Swiss stock market legislation and regulations. The company is also subject, among other things, to regulations governing accounting and financial reporting as well as rules governing ad-hoc publicity or the disclosure of transactions in Swisscom securities by members of the Board of Directors and the Group Executive Board.

Regulatory developments in Switzerland in 2009

Ongoing proceedings relating to telecommunications and competition legislation

On February 19, 2009, the Federal Administrative Court ruled that Swisscom was obliged to offer fast bitstream access at regulated conditions. Swisscom accepted this decision and from the end of 2009 offers fast bitstream access for alternative telecoms providers.
In its decision on November 5, 2009, the Competition Commission imposed a fine of CHF 220 million on Swisscom for allegedly misusing its market-dominant position in the area of ADSL services. Swisscom rejected the allegation that it was engaging in anti-competitive behaviour by means of a price squeeze, and has contested the ruling before the Federal Administrative Court. After assessing the legal situation, Swisscom takes the view that, as things stand at present, it is unlikely that a fine will be ultimately imposed and has therefore not recognised any provisions for this eventuality. The ongoing proceedings in connection with the Telecommunications Act and Cartel Act are described in Notes 28 and 29 to the consolidated financial statements.

Implementation of the revised Telecommunications Act

Efforts in 2009 focused on implementing the revised Telecommunications Act, including unbundling the last mile. By the end of 2009 535 central and 1,041 co-location premises had been unbundled, corresponding to around 79% of all lines available for use by third-party providers. The number of unbundled lines by December 31, 2009 totalled 153,000. Over 120,000 customers have opted to pay for their access line via their chosen service provider, and now receive only a single bill covering the line and services. In addition, more than 392 projects for the joint use of cable ducts were completed, and on 2 December 2009 ComCom defined the prices for use of the cable ducts. The monthly charge for fully unbundled subscriber line access ("last mile") was reduced by around 50% for 2007 and 2008.

The Telecommunications Act defines the framework for investments in fibre-optic networks

Unbundling of the last mile was deliberately restricted to legacy infrastructures (copper cables and cable ducts) so as to avoid fibre-optic networks yet to be built from coming under regulation. Parliament took this step in the knowledge that any pre-emptive regulation would dampen willingness to invest. The Telecommunications Act guarantees protection of ownership (a key criterion for investment activities) and provides legal assurance. As a result, several market players including Swisscom have started to invest billions of Swiss francs in fibre-optic network construction. Swisscom has opted to pursue a multi-fibre model in collaboration with partners. One advantage of this approach is that it makes it faster and simpler for end customers to switch their provider. At the same time, investors can share the costs of network expansion and avoid the costly economic consequences of network duplication.

Regulatory differences between Switzerland and the European Union

In the European Union (EU) the regulatory authorities have extensive powers to analyse markets and impose on market-dominant companies obligations relating to non-discrimination, transparency and forms of access (so-called ex-ante regulation). The Swiss legislator was against such a regime and opted instead for the primacy of negotiation (ex-post regulation). Market conditions in Switzerland differ from those in the larger EU member states. The Swiss market is characterised by virtually nationwide competition between Swisscom and cable network operators. Another important trend in Switzerland is the growing number of municipal and regional electrical utilities who are entering this market. This market situation calls for a different set of regulations from those in countries like Germany, France or Italy, where no platform competition could evolve due to the *de facto* existence of a single network provider. In the Swiss regulatory framework, the legislator has defined the access services to be offered by market-dominant players, and in so doing has provided for increased legal certainty. By restricting regulation to existing infrastructures (copper cables and cable ducts), the legislator aimed to establish legal certainty and investment security, thereby creating incentives for fibre-optic network expansion. This core issue dominated the parliamentary debate on the revision of the Telecommunications Act.

Legal and regulatory environment in Italy

Legal framework for Swisscom

The Italian regulatory system mirrors the regulatory regime set by the EU for the electronics communications sector. The Italian regulatory authority AGCOM has the task – based on an analysis of the markets defined by the EU Commission – of imposing regulatory obligations on companies. The legislative framework of the EU requires a national regulatory authority, seeking to initiate measures to present a draft of these measures to the EU Commission and the other member states. The national regulators have the right to comment on or veto the draft. The business operations of Swisscom's Italian subsidiary Fastweb will therefore be strongly influenced by European and Italian telecommunications legislation and its application. One of the decisions taken by the Italian regulator may have a major impact on Fastweb.

Development of regulatory framework in Italy in 2009

In February 2009 the European Commission ruled against regulation of access and call set-up in the public mobile network due to the existence of sufficient competition. For Fastweb this means that its agreement with 3 Italia will continue to be based on negotiation rather than on regulated terms and conditions.

In March 2009 the Italian regulator approved in part an application by Telecom Italia to increase prices for unbundled subscriber lines in 2009. This resulted in particular in an 11% increase in monthly rental costs for unbundled subscriber lines from EUR 7.64 to EUR 8.49 per month per subscriber. AGCOM upheld the price increases and the statutory accounts presented by Telecom Italy on the basis of full acquisition costs on the grounds that they were justified. A number of operators, including Fastweb, have filed an appeal against the ruling.

Relationship with the Swiss Confederation

The Swiss Confederation is legally obliged to hold a majority of the capital and voting rights in Swisscom. This shareholding allows the Confederation to exert influence over business decisions. At the same time, it bears financial and business risks which it can control by formulating certain expectations of Swisscom in its strategic goals (for example, requirements concerning maximum indebtedness, payouts to shareholders and shareholdings outside Switzerland).

Corporate strategy

While Swisscom commands a leading position in the mobile, fixed and broadband submarkets in Switzerland, fierce competition continues to erode prices and volumes. The resultant declines in revenue and income need to be offset. With this in mind, Swisscom is pursuing a three-pillar corporate strategy: “Maximise”, “Extend” and “Expand”.

Maximise	Extend	Expand
> Maximise existing core business	> Grow in existing core business	> Grow in related business areas – in Switzerland and internationally

In 2009 the focus was on implementing the three-pillar strategy defined in 2007 and safeguarding profitability in times of crisis. The three-pillar strategy will continue to determine Swisscom’s strategic direction in the years to come. The main challenges arise from increased competition, both in the network access business due to the unbundling of subscriber lines, cable operators and fibre-optic initiatives, as well as in the field of services, which are becoming more and more network-independent. Swisscom is pursing a three-pillar strategy which is summarised below:

1 Maximise

Swisscom Switzerland is committed to boosting its already high level of customer loyalty by further developing its customer-focused service culture. Targeted investments particularly in fibre-optic expansion will ensure continued improvement in network infrastructure quality and, combined with outstanding services and a strong brand, will guarantee high market shares. The aim is to set Swisscom clearly apart from the competition with first-class customer service and top-quality services which offer significant customer benefits and justify its price premium vis-à-vis its competitors. Systematic cost management to increase cost efficiency and safeguard investment is becoming increasingly important from a strategic point of view. Both short- and medium-term measures are being implemented in this area. As an internal service provider, Swisscom IT Services supports Swisscom Switzerland in this context by helping to reduce IT costs and by delivering more flexible services. In terms of customer interaction, the strategy increasingly relies on electronic channels, simplified order processes and advanced options for remote access. The switch to an All IP-based infrastructure will be important in the medium to long term, both from a customer and cost perspective.

2. Extend

In line with its commitment to providing customers with a broad range of information and communication services, Swisscom is continually developing its business activities in telecoms, informatics, media and entertainment along the entire value chain. The move from analogue to digital television is already under way, and is set to continue over the next few years. Our aim is to use this time to step up our efforts to stimulate demand for Swisscom TV. The growing price sensitivity of residential customers is being addressed by offerings from third-party brands. In the corporate business segment, Swisscom is focusing on solutions business, hosting, security services and network integration. Thanks to the acquisition of Sourcag AG and Resource AG, Swisscom IT Services has expanded its portfolio in targeted market segments. In order to achieve the associated business goals, the integration process must be successfully implemented. Ongoing improvement and harmonisation of operational processes and customer focus will further increase profitability.

3. Expand

Swisscom seeks to identify and capitalise on growth opportunities outside its core business in Switzerland, based on clear industrial and strategic criteria. The acquisition of Fastweb in 2007 marked Swisscom's entry into the Italian broadband market. Fastweb's successful further development and consolidation is accorded top priority within the "Expand" strategy. The focus is on further increasing market share, particularly in the business customer segment, as well as improving operational excellence. Larger investments in holdings are strategically restricted to the two core markets of Switzerland and Italy. Smaller strategic investments are conceivable within the framework of existing initiatives, such as Hospitality Services. Hospitality Services could therefore further expand its geographic reach and service portfolio in order to further grow revenue and cash flow. In the healthcare sector, the subsidiary Evita was set up in 2009 to launch and operate an electronic healthcare data system in Switzerland. In addition, Swisscom invests on a smaller scale in venture capital funds as well as directly in start-up companies so as to gain early access to new technologies and business ideas.

Sustainability

Swisscom further developed its sustainability strategy in 2009. Besides long-term business success, Swisscom wants to generate enthusiasm among its customers for eco-friendly behaviour by assuming a pioneering role in the area of environmental issues. Swisscom's commitment to the environment covers various areas: from reducing direct CO_2 emissions to increasing energy efficiency and promoting climate-friendly products and sustainable services. Swisscom also wants to step up its commitment as a socially responsible company in the field of media skills and youth media protection, and to drive forward barrier-free access to the Internet for people with disabilities.

Group organisation

Management structure

The Group organisation is based on the following management structure:

Board of Directors

CEO Swisscom

Group Finance & Controlling

Group Strategy & Business Development

Group Communications

Group Human Resources

Swisscom Switzerland

- Residential Customers
- Small and Medium-Sized Enterprises
- Corporate Business
- Wholesale
- Networks

Swisscom IT Services

Swisscom Participations

Fastweb

Others

- Hospitality Services

Reporting structure

Swisscom's reporting is organised by the following segments: Residential Customers, Small and Medium-Sized Enterprises, Corporate Business, Wholesale and Networks (which are integrated in Swisscom Switzerland), Fastweb, Other operating segments and Group Headquarters.

Swisscom Switzerland

Residential Customers

The Residential Customers segment is the contact partner for fixed-line and mobile customers, provides Switzerland with DSL broadband Internet access and also serves a growing number of Swisscom TV subscribers. It also operates Switzerland's most-visited Internet portal, www.bluewin.ch. Swisscom offers telephone, Internet and television services, all from a single source. Its aim is to make telecommunications easier to use for customers.

Small and Medium-Sized Enterprises

The Small and Medium-Sized Enterprises segment serves the whole of Switzerland, providing the full range of products and services, from fixed-line and mobile communications to Internet and data services to maintenance and operation of IT infrastructures. Small and medium-sized enterprises receive integrated solutions tailored to their requirements: the right connections, secure access, professional services and intelligent networks.

Corporate Business

Voice or data, mobile or fixed network, individual products or integrated solutions: as the leading business communications provider, the Corporate Business segment supports its customers with the planning, implementation and operation of their IT and communications infrastructure, offering cost-effective solutions and reliable services.

Wholesale

The Wholesale segment offers Swiss telecoms providers an array of wholesale services that allow them to implement their own telecoms services. These include regulated interconnection services, access to the access network infrastructure (unbundled subscriber lines, cable ducts, collocations) as well as broadband and data services. Roaming with foreign providers whose customers use the Swisscom mobile network, is also included.

Networks

The Networks segment builds and maintains Swisscom's nationwide fixed-line and mobile communications infrastructure. The division is also responsible for the respective IT platforms and is in charge of migrating the networks to an integrated IT and IP-based platform (All-IP). The support functions of Swisscom Switzerland – finance, human resources, innovation and strategy – are included in the Networks segment for reporting purposes.

Fastweb

Fastweb is the second-largest broadband telecoms company in Italy and operates its own All-IP-based network on which it offers products and services for voice, data, Internet and TV. It also offers a full range of VPN services, customer-specific solutions and mobile services based on a mobile virtual network operator (MVNO) agreement. Fastweb offers its services in all larger towns and agglomerations in Italy and across all market segments, from corporate business to residential customers. It is also the most important supplier to Italy's government agencies. Services are offered directly via the company's own fibre-optic network or via unbundled access lines.

Other operating segments

Swisscom IT Services

Swisscom IT Services is one of Switzerland's leading IT service providers. Its core business encompasses the realisation of large IT projects, including consultancy and implementation of new systems, management of complex IT infrastructures and the provision of end-user services and service desk services. Together with its subsidiaries Comit and Sourcag, Swisscom IT Services is the leading provider of consultancy services, implementation and operation of integrated banking solutions, including peripheral systems, as well as Business Process Outsourcing (BPO) for the Swiss financial sector. Through the SAP specialist company Resource, Swisscom IT Services offers customers a full range of services from SAP consultancy to SAP industry solutions and SAP operations.

Swisscom Participations

Swisscom Participations manages a portfolio of small and medium-sized enterprises that deliver services which are closely related to or support Swisscom's core business. The aim of Swisscom Participations is to identify and exploit growth potential in related business areas. The main Group companies managed by Swisscom Participations are: Alphapay (payment collection services); Billag (licence fee collection); Cablex (construction and maintenance of networks); Curabill (receivables management for third parties); Sicap (mobile technologies); Swisscom Broadcast (delivery of radio and TV signals); and Swisscom Immobilien (real estate management).

Hospitality Services

Hospitality Services specialises in catering to the communications needs of the hotel industry and offers convergent solutions for hotel and conference rooms, hotel guest facilities and back offices. Development, operation and support of the digital network can be adapted to specific hotel requirements. Hospitality Services operates in 19 countries and provides services to over 2,000 hotels.

Group Headquarters

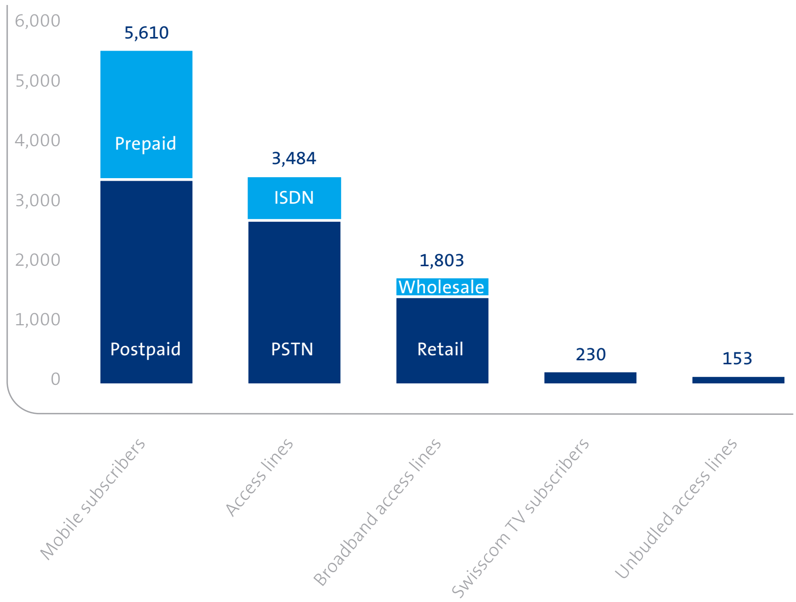
Group Headquarters chiefly comprises the four divisions Group Finance & Controlling, Group Strategy & Business Development, Group Communications and Group Human Resources, as well as the employment agency Worklink AG.

Markets and customers

Swiss telecoms market

The Swiss telecoms market is highly developed by international standards and characterised by a wide range of voice and data communications services and ongoing innovation.

Swisscom Switzerland access lines resp. subscribers in thousands



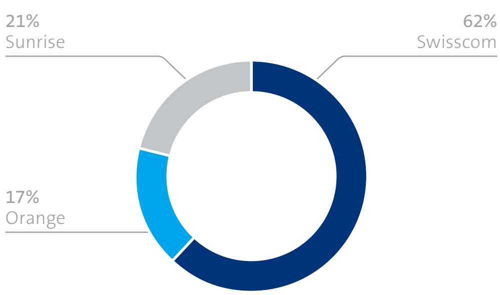
Fixed-line market

Traditional fixed-line telephony is primarily based on the analogue and digital access lines of the telephone network and the access lines of cable network operators. The largely saturated market has experienced a steady decline in the number of fixed lines since many years, chiefly due to substitution by mobile communication. Apart from Swisscom, only cable network operators have their own fixed-line infrastructure. Since 2007, however, unbundled Swisscom access lines have been made available to other providers. Swisscom's two main competitors in the fixed-line market are the cable network operator Cablecom and Sunrise. At the end of 2009 Swisscom had 3.5 million fixed subscriber lines, around 20% of which were activated for voice traffic, using carrier pre-selection (CPS). 153,000 subscriber lines are now unbundled. The cable network operators have around 360,000 customers.
The total number of Swisscom fixed access lines fell by around 140,000 in 2009. The decline was attributable to the unbundling of subscriber lines by alternative providers and largely concerned CPS customers. The number of unbundled subscriber lines grew year-on-year by 122,000 to 153,000. In 2009 cable network operators posted a net gain of only around 7,500 in new customers. At the end of 2009 Swisscom's share of the market for fixed access lines was around 87%, versus around 9% for cable network operators. The continuing decline in fixed-line traffic minutes reflects the ongoing shift to mobile communications.

Mobile communications market

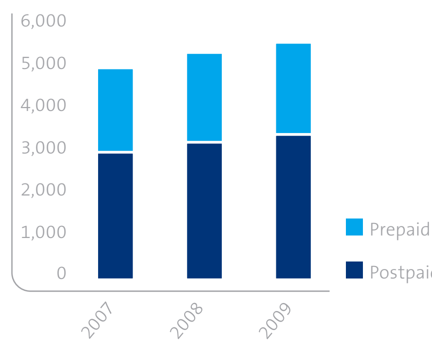
There are three providers in the Swiss mobile communications market with their own mobile networks: Swisscom, Orange Switzerland and Sunrise. Orange Switzerland is a subsidiary of France Telecom, while Sunrise is a subsidiary of TDC (Denmark). On November 25, 2009 a merger was announced between Orange Switzerland and Sunrise. The deal is expected to be closed in the second half of February 2010, pending approval by the Competition Commission.
Compared with earlier years, 2009 saw much slower growth by 4.5% in the number of mobile subscribers (SIM-cards). In aggregate, the three network operators counted around 9 million subscribers at the end of 2009. With many customers having additional SIM cards for mobile computers, smartphones and other devices, mobile connections now outnumber the population as a whole. At 119%, mobile penetration in Switzerland is on par with the European average.

Market shares mobile subscribers



Estimate Swisscom

Development of mobile subscribers in thousands



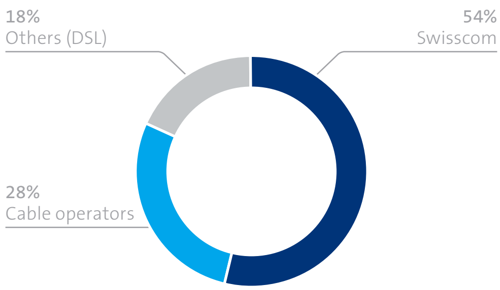
In 2009 Swisscom defended its market share of around 62%, slightly outperforming the market in terms of growth in mobile subscribers. Orange commands around 17% of the market, Sunrise around 21%. Switzerland has a much higher percentage of postpaid subscribers (61%) compared with the European average of 42%.
Mobile prices were squeezed again by competition in 2009, resulting in a steady decline in average revenue per mobile user. Mobile data traffic, on the other hand, posted high growth.

Broadband market

The fixed-line broadband market is dominated by two technologies: DSL (digital subscriber line) via copper telephone cables and television cables of cable network operators. Fibre-optic lines still make up less than 1%.
Swisscom is obliged under its universal service mandate to provide broadband Internet access with a guaranteed transmission speed of 600/100 Kbps. If this is not feasible for technical or economic reasons and no alternative comparable offering is available, the scope of the service can be reduced in exceptional cases.

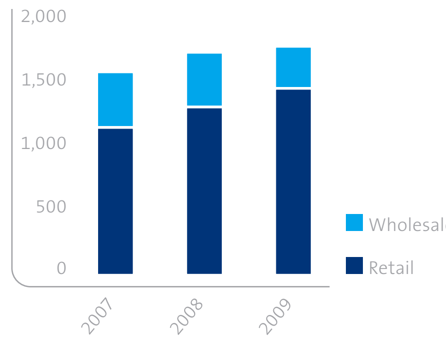
Sustained growth in the broadband market of around 7%, driven primarily by bundled telephony and Internet products, failed to keep pace with the 10% growth of the previous year. Broadband access lines in Swtzerland at the end of 2009 totalled around 2.7 million, which corresponds to around 34% of the whole population. Market penetration in Switzerland is significantly higher than the European average. In Europe, this is exceeded only by Denmark, the Netherlands, Iceland and Norway.

Market shares broadband access lines



Estimate Swisscom

Development of DSL broadband access lines in thousands

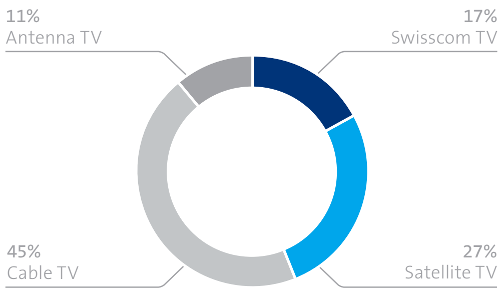


In recent years, growth in DSL broadband access lines has far outpaced broadband connections provided by cable network operators, and this trend continued in 2009. DSL broadband access lines accounted for approximately 91% of new connections and at the end of 2009 represented around 72% of all broadband access lines. The proportion of broadband access lines provided by cable network operators fell further to around 28%. Of the DSL broadband access lines at the end of 2009, Swisscom accounted for 54% and other providers 18%. These in turn are divided into commercial products for resale (12%) and fully unbundled access lines (6%).
Swisscom and other Internet service providers (ISP) have been offering DSL broadband access lines for resale on a commercial basis for a number of years. Furthermore, under the terms of the Telecommunications Act Swisscom is required to grant other providers fast bit-stream access as a regulated service in a non-discriminatory manner and at cost-based prices. Fast bit-stream access is restricted to four years, beginning from the time a nationwide offering is effectively available.

Digital TV market

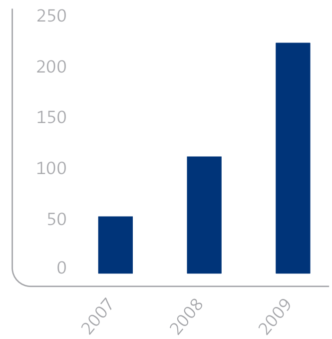
Digital television signals today are primarily transmitted using four technologies: cable networks, satellite, telephone cables and terrestrial. Satellite receivers and cable network operators continue to account for the highest share of digital television connections.

Market shares digital TV



Estimate Swisscom

Development of Swisscom TV subscribers in thousands

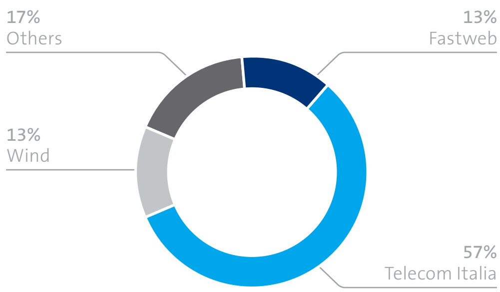


Swisscom TV (via telephone cable) is rapidly gaining ground, with the number of Swisscom TV customers growing by 94.9% in 2009, from 118,000 to 230,000.

Italian broadband market

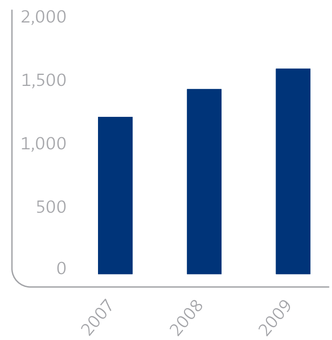
In Italy, unlike in Switzerland, there is no full-scale infrastructure competition in the broadband market between DSL providers and cable network operators. At 47%, market penetration is therefore relatively low by European standards.
After several years of strong growth, the market is showing signs of slowing down. The number of broadband access lines increased in 2009 by 9.7% to 12 million.

Market shares broadband access lines in Italy



Estimate Swisscom

Development of broadband access lines of Fastweb in thousands

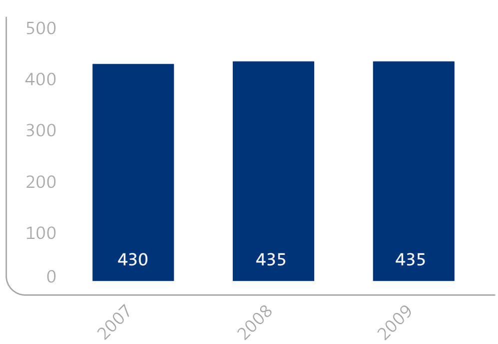


Telecom Italia is the market leader with a share of 57%. With a market share of 13%, Fastweb is the number two provider. However, Vodafone/Tele2 and Wind recorded the strongest growth in 2009.

IT services market in Switzerland

The IT services market consists of the project business as well as outsourcing services. In Switzerland this market generated a revenue volume of around CHF 6.3 billion in 2009.

Development of revenue with external customers CHF in millions



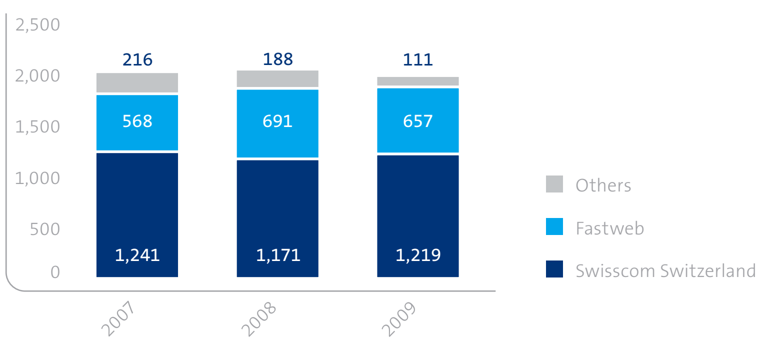
Including the services it delivers to Swisscom Group companies, Swisscom IT Services is the provider on the Swiss market with the largest share of around 10%, followed by IBM and HP/EDS. It comprises the subsidiaries Comit, Resource and the majority interest in Sourcag. Comit is the clear market leader in the segment for integrated systems for banks. Resource ranks third in the SAP segment. Only around 25% of IT services are outsourced in Switzerland, an extremely low percentage by European standards. Swisscom expects the market to grow by around 5% per year over the next few years.

Capital expenditure, networks and buildings

Capital expenditure

Swisscom boasts one of the best telecoms infrastructures in the world and invests early on in new technologies. Ongoing network expansion necessitates high annual capital expenditure. In 2009 Swisscom invested CHF 1,987 million in property, plant and equipment and other intangible assets, of which Swisscom Switzerland accounted for CHF 1,219 million and Fastweb CHF 657 million. The ratio of capital expenditure to net revenue was 16.6%. Swisscom Switzerland invested 40% in existing infrastructure, 28% in customer-focused projects and 32% in the next-generation network. Fastweb's ratio of capital expenditure to net revenue was significantly higher compared with Swisscom Switzerland. The ratio fell year-over-year from 26% to 23% and is expected to fall further over the next few years, with a ratio of 21% expected for 2010. More than half of Fastweb's capital expenditure is customer-related and in proportion to the company's growing customer base.

Development of capital expenditure CHF in millions



Networks in Switzerland

Fixed network

Swisscom operates a nationwide PSTN/ISDN network infrastructure, various data networks and a broadband and IP network. The infrastructure comprises the access and transport network as well as various service platforms for telephony and data services.

Access network

The access network largely consists of twisted copper wire pairs and extends to practically every household in Switzerland. It also deploys add-on technologies such as microwave radio and fibre optics. In 2000 Swisscom rolled out ADSL broadband technology which today delivers reliable, top-quality, high-speed multimedia services to over 98% of households in Switzerland. High availability is assured thanks to local and geographical redundancy in the network elements and data centres. Swisscom also guarantees nationwide broadband Internet access as part of its universal service provision mandate. To facilitate the provisioning of new bandwidth-intensive services such as IPTV and video telephony while also meeting the growing demand for faster Internet connections, Swisscom started supplementing its broadband offerings in 2006 with VDSL technology. VDSL allows the transmission of multiple TV streams in standard quality or up to two streams in high-definition quality (HDTV) at the same time as using a high-speed Internet connection. Today, a large number of Swiss households can already receive live TV, video-on-demand, pay-per-view and radio in excellent quality. Three geographically dispersed data centres serve to ensure high availability. Measures are also implemented in order to provide even better service quality. Customer satisfaction improved even further in 2009.

Transport network

The transport network is a dedicated digital network that supports the transmission of voice, video and data services between access networks. All transmission points are equipped with optical fibre and enable the provision of Ethernet services for business customers as well as VDSL connectivity.

PSTN/ISDN network

The PSTN/ISDN network connects virtually all private households and a large proportion of business customers in Switzerland. Four-fold redundancy in the core network and two-fold redundancy in the switching layer ensure excellent voice quality and optimum security and availability.

Data networks

Swisscom has several leased-line networks, supplemented by an SDH platform and an Ethernet platform which support bandwidths of 2 Mbps to 10 Gbps and are ideal for business customers requiring permanent point-to-point broadband connectivity free from the risk of overload. Redundancies are adapted to customers' individual availability and security needs.

Next-generation network

To enable new services like VoIP and convergent solutions to be offered more cost-effectively in the future, Swisscom is investing in an All-IP network infrastructure that will allow services to be provided irrespective of the type of access technology selected, be it copper, wireless or fibre. Having migrated the data transport network to IP, commissioned an IP-based telephony and multimedia platform, and launched its first IP-based services such as Swisscom TV and VoIP, Swisscom has already gained experience in the area of All-IP. The first All-IP products were rolled out in 2009 and continue to be expanded on an ongoing basis.

Fibre-optic expansion

The volume of data transmitted over the fixed network has risen sharply. At present it is doubling every 18 months, and the trend is set to continue in the years ahead. Modern communication and media services, video portals and streaming services as well as new business applications such as Voice-over-IP (VoIP), unified communications and video conferencing are generating substantial growth in demand from users for bandwidth and higher traffic volumes. To keep pace with this trend, Swisscom has been directing its efforts for some years at expanding the fibre-optic network, first by interconnecting the local exchanges, then extending the fibre-optic network to neighbourhood distribution cabinets. For several years now a large number of big companies and office complexes have been enjoying fibre-optic connectivity. In 2008 Swisscom started extending access to residential customers and small and medium-sized enterprises, and by the end of 2009 some 120,000 households in the cities of Zurich, St. Gallen, Basel, Berne, Fribourg, Geneva and Lausanne, as well as in smaller communities such as Ebikon or Pfyn in the canton of Thurgau, had been connected. Over a million households, or a third of the Swiss population, are expected to be connected by the end of 2015. Since March 2008 Swisscom has also been laying fibre-optic cables to all new or renovated residential and commercial properties in the larger Swiss cities, in order to avoid having to dig up the ground a second time if and when a complete switchover to fibre takes place. Swisscom's fibre-optic expansion is based on a multi-fibre cooperation approach. As well as promoting infrastructure competition with other platforms (cable networks), such an approach fosters competition between fibre-optic network providers and enables maximum innovation in network architecture and services. Fibre-optic expansion is accompanied by the systematic installation of new distribution cabinets and extension of the DSL standard to enable coverage and bandwidths to be increased over the short to medium term.

Mobile network

Swisscom operates a nationwide mobile network in Switzerland. The mobile services are based on GSM and UMTS, the two dominant digital standards across Europe and much of the world. Swisscom's GSM network operates in the 900 MHz and 1,800 MHz frequency bands and covers 99% of the population, while the UMTS network uses the 2,100 MHz frequency band. The Federal Communications Commission (ComCom) extended Swisscom's GSM mobile licence, which expired in 2008, to the end of 2013. The provisional extension followed a complaint concerning the licence renewal procedure. Swisscom has implemented various technologies that allow transmission between handsets and base stations. In 2005, it enhanced all active GSM antennas with EDGE technology, a further development of GPRS. EDGE enables bandwidths of between 150 Kbps and 200 Kbps and currently covers 99% of the population. Swisscom began rolling out UMTS technology back in 2004, and since 2006 has been continuously upgrading it using HSPA technology – an extension of UMTS – which today supports download speeds of up to 7.2 Mbps and as much as 14.4 Mbps in some regions. By the end of 2009

UMTS/HSPA was available to around 92% of the Swiss population. Consequently, Swisscom now has the most efficient mobile network in Switzerland and intends to further expand this technological lead. With this in mind it is planning to launch new standards such as HSPA+ (which will support bandwidths of up to 28.8 Mbps) as well as to increase individual cell capacities and the number of antenna sites in order to keep pace with ever-growing volumes of data traffic. Wherever feasible, site expansion is coordinated with other mobile providers, for efficiency and space-planning reasons. Today Swisscom already shares around 23% of its 6,000 or so antenna sites with other providers, primarily in tunnels, where joint usage is just under 59%. With a total of 1,026 hotspots, Swisscom is also the leading provider of public wireless LAN (PWLAN) in Switzerland. Abroad, access to further hotspots is provided by way of roaming agreements concluded primarily with Swisscom's subsidiary, Hospitality Services.

Networks in Italy

Fastweb is owner/operator of Italy's second largest network, and is a leader in the development of multimedia and broadband communication services. The network consists of the company's own backbone network with high-speed connections and fibre-optic or copper-based broadband access infrastructures for residential and business customers. From the outset, Fastweb was the leader in the integration of voice, video and data services on a single broadband IP network.

Fixed network coverage

Since Fastweb's foundation in 1999, network coverage has been consistently expanded and now covers 90% of Italy. The network links up the former monopolist's 1,025 exchanges and serves 10 million households thanks to an infrastructure that covers more than 31,500 kilometres.

Broadband infrastructure

Using the infrastructure as a point of departure, Fastweb's service development strategy provides for a consistent approach to convergence, supported by the IP-based broadband network which enables simple integration on the shared backbone of new technologies for fixed and wireless access and facilitates the seamless delivery of multimedia services with guaranteed quality of service.

Network access technologies

Services for business and residential customers are primarily supported by two access technologies. Firstly, Fastweb's fibre-optic FTTH access infrastructure in selected regions enables the provision of high-quality symmetrical communication services for residential and small business customers (up to 100 Mbps) and large corporate customers (up to 10 Gbps). Secondly, access to unbundled subscriber lines in the former monopolist's exchanges enables multimedia communication services to be provided using DSL technologies, thanks to a good-quality copper access network and the use of high-end DSL equipment.

Service platforms and MVNO infrastructure

In addition to broadband access and backbone networks with high-speed connections, Fastweb's deployment strategy for multimedia communication services is supplemented with IP-enabled open-architecture service platforms. This approach paves the way for extending convergent multimedia services from the fixed network to the mobile area. In 2008 Fastweb entered an MVNO agreement with 3 Italia with a view to launching a service for mobile. Implementation of these services was significantly simplified thanks to the ease with which the service platforms already installed for fixed network services could be upgraded. The service platforms were re-used and enhanced so as to support mobile services in addition to fixed network services. Following this decision, Fastweb's network infrastructure was further expanded with several service enablers which are specially equipped to enable comprehensive management of customer services via the MVNO access services of 3 Italia.

IPTV platform

Fastweb has adopted a comprehensive approach to IPTV which utilises the advantages of its high-performance IP network, thanks to which 80% of the company's broadband customers are able to receive high-quality video. The IPTV platform is an in-house development on which Fastweb has been working since 2000.

Initially, the solution offered only a video-on-demand service. New retail and business-to-business services were subsequently added to keep pace with current business requirements. Retail offerings comprise around 200 IP broadband channels and the full range of DTT-on-air services, more than

15,000 on-demand content offerings, an electronic programme guide, a network video recorder and a catch-up TV service, video-on-demand und pay-per-view, interactive gaming, Internet mail, HDTV, a home media centre and a recommendation service. In terms of business-to-business, the platform provides a wholesale service to Sky (since 2007) and Mediaset (since 2009).

Buildings

Swisscom owns properties in Switzerland and abroad which are used for telecommunications installations, research and development activities, customer support and sales as well as office space. In 2001 Swisscom signed two agreements to sell 196 properties that account for a significantly valuable share of its real estate portfolio. At the same time it concluded long-term leaseback agreements for some of the properties sold; some of these were classified as finance leases. Over the past few years Swisscom has been implementing a strategy to reduce real-estate costs. In addition, restructuring has given rise to ongoing space optimisation measures.

The Swisscom brand

The Swisscom brand, created in 1997 in connection with the transformation of the former PTT into a postal and telecommunications company and in particular in anticipation of the forthcoming flotation in 1998, has continued to evolve. In spring 2008 Swisscom aligned its brand architecture to the new corporate strategy and mission statement. The umbrella brand Swisscom was strengthened, the sub-brands Fixnet, Solutions, Mobile and IT Services disappeared, and Bluewin became the product name for Internet and TV offerings. As a logical consequence of the new brand strategy, Bluewin TV was renamed Swisscom TV at the end of 2009 to reflect Swisscom's competencies in telecommunications and IT as well as media and entertainment. The new brand concept affords Swisscom sufficient flexibility over the coming years to work closely with its customers and deliver new products and services that are up-to-date and media-appropriate. Swisscom's brand portfolio includes brands such as Fastweb, Comit or Cablex, which represent other competencies. According to Interbrand, Swisscom's new brand strategy could further enhance the already high brand value. Today the brand is valued at around CHF 4.8 billion, putting it in seventh place behind the leading Swiss brands. Moreover, with brand awareness now at 97.8%, Swisscom has become a household name throughout Switzerland.

Swisscom pursues a research and development (R&D) strategy that is focused on sustainable innovation and business relevance. Exploring key trends in the TIME market is creating opportunities for developing innovative offerings over the medium to long term. Swisscom's R&D portfolio also includes innovative short-to medium-term projects which can be implemented in conjunction with the operating units.

The R&D portfolio supports Swisscom's three strategic success factors: differentiation, cost reduction and growth. Its main focusses are on creating new customer experiences by combining different access technologies, communications channels and devices in a flexible and user-friendly manner; improving customer interaction while reducing costs; and using Swisscom's broadband networks to deliver innovative new offerings with growth potential.

Concrete development projects
- focus on addressing the untapped needs of residential and business customers identified on the basis of systematic observation studies and ethnological research methods;
- exploit trends and technical developments with a view to creating potential new business models or services, and
- are generally implemented in partnership with leading Swiss universities, equipment manufacturers, software developers and start-up companies.

Swisscom's R&D projects are focused on the following areas:
- Future TV and entertainment services: the goal here is to create an integrated user experience in which conventional TV channels, Internet videos and proprietary content (videos, pictures) are available and easy to access via a single device. New opportunities arise are emerging here thanks to automatic relevance analysis of texts and automated individual recommendations.
- From video communication to virtual presence: Swisscom intends to bring high-resolution video communication with high-quality stereo sound to the living rooms on flat TV screens; this combined with virtual presence add-ons will create a much more attractive user experience.
- Customer interaction: intelligent home routers aimed at enabling customers to solve connectivity or home network problems simply and on their own.
- Telco Internet mashups: the focus here is on developing new services and growth opportunities by enabling third-party partners to connect to the Swisscom network via a special interface.
- Social networks: projects in this area are based on the utilisation of leading social networks on the Internet as a starting point for using Swisscom communication services (calls, secure archiving, shared usage) while maintaining a high level of security and privacy.
- Future collaboration services: services aimed at facilitating new forms of remote collaboration between individuals and groups. Concrete examples: "Collaboration wall" – an electronic bulletin board which can be activated using gestures and which also allows remote access (via PC, smartphone, etc.) or the creation of a virtual environment using avatars to enable remote meetings and remote collaboration.
- Cloud computing: a concept in which the IT landscape is operated by several providers via the Internet. Cloud computing has the potential to fundamentally change information technology, from architecture to operations to support. Swisscom is aspiring in this area to bundle services (e.g. storage) of leading global cloud players while upholding quality and security and maintaining its relationships with its customers.
- Security: future threats (viruses and attacks on computers and mobile devices, SPAM in emerging IP telephony applications) need to be anticipated and contained using managed security services. Swisscom is also developing special techniques for analysing data traffic.
- Future broadband networks: development of new methods aimed at lowering the cost of building fibre-optic networks and reducing damage to the environment caused by digging. Swisscom is also examining purely optical switching techniques in a bid to reduce transmission network costs. Solutions are also being sought in mobile networks to cope with the rapid increase in mobile data traf-

fic and to tap the potential offered by the next generation in mobile communication (long-term evolution).

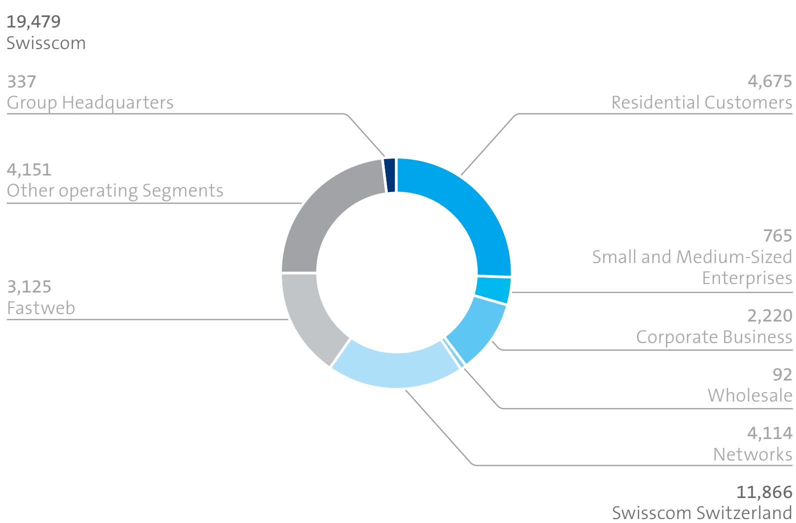
- Home networks: using high-performance home gateways to enable customers to access a wide range of services from home, including wireless coverage of up to 100 Mbps.
- Environmental compatibility: focus on promoting operational deployment of Swisscom's prize-winning fresh-air cooling technology in the company's data centres (MISTRAL) and reducing the amount of energy consumed by customer terminals.

Human resources

Headcount

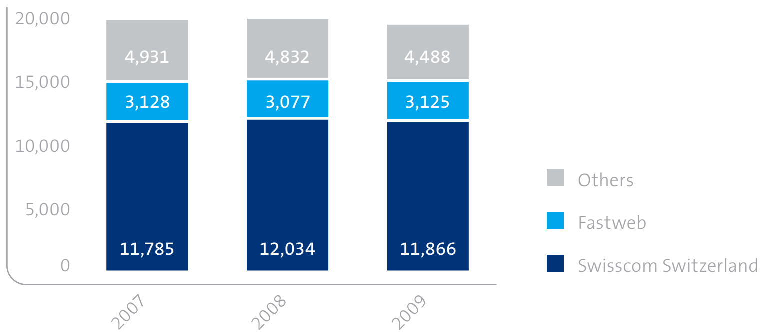
At the end of 2009 Swisscom had 19,479 full-time equivalent employees (FTEs), including 15,995 FTEs in Switzerland. A breakdown of employees by operating segment is presented below:

Number of full-time equivalent employees



In 2009 the number of FTEs fell by 464 or 2.3% to 19,479, of which 0.7% in Switzerland are on fixed-term contracts. Part-time employees accounted for 17.5% of the workforce, with 41 fewer employees compared with 2008. Termination of employment by employees in Switzerland amounted to 5.6% of the workforce in 2009. In mid-2009 Swisscom IT Services acquired Resource Ltd and Sourcag Ltd with a total workforce of 300. Swisscom also acquired Weco Inkasso AG and took over the company's entire staff of 30. The number of FTEs in the Residential Customers unit of the Swisscom Switzerland segment dropped by 21, and in Corporate Business by 9. The number of FTEs in the Networks segment decreased by 150, and at Fastweb the number of FTEs increased by 48. A total of 518 positions at other operating segments were eliminated following the outsourcing of facility management from Swisscom Real Estate and Swisscom's withdrawal from broadband business in Eastern Europe.

Development of number of full-time equivalent employees



Human resources management

Keeping pace with today's fast-moving marketplace is a challenge for Swisscom and its employees alike. It is essential that Swisscom is able to respond rapidly to changing demands while continuing to deliver first-class customer service as well as manage costs in a targeted manner. Swisscom can only succeed in consistently focussing on its customers' needs if employees buy wholeheartedly into the strategy and convey their commitment to the world at large. The key focus of Swisscom's personnel policy is therefore on developing people and promoting a customer-centric corporate culture. The demographic trend is also expected to lead to a continuous increase in the average age of the workforce and a potential shortage of talented young managers. Swisscom must therefore appeal to a highly qualified younger segment on the one hand while considering the needs of an aging workforce on the other. Following statements refer to Switzerland.

Staff development

Swisscom makes targeted investments in management and staff development in order to increase the marketability of their skills. Employees are supported in their development by a wide range of on-the-job and off-the-job opportunities, job rotation, etc. The main focus is on on-the-job learning, which Swisscom views as more sustainable and relevant. No quantitative record is therefore kept of off-the-job opportunities.

Swisscom introduced a new group-wide "performance dialogue" process. Guided by the principle of "agreeing objectives, recognising achievements and following a development plan", employees and line managers engage in dialogues in which they discuss future tasks, expectations and personal development. This new process has enabled the company to begin managing high and low performance effectively. In 2009 the functions of Swisscom project managers were largely harmonised and project management training reorganised. Swisscom launched three management development programmes as well as a 180° feedback process for executives. As part of succession planning, the management review process was developed further and the "leadership forum" was established as a management development platform. In 2009 managerial staff accounted for 13.3% of the workforce, of which 56.2% were executive staff and 43.8% specialist management staff.

In 2009 a conscious move was made to encourage female employees. Initiatives such as mentoring programmes, women's networks and talent development programmes underscore the economic and social importance that Swisscom attaches to women in management. Women make up 31.4% of the workforce. At middle management level women account for around 10%, at senior management level 9%.

Diversity as a factor in future success: Swisscom values and promotes human diversity within the company, and this diversity reflects the varied nature of its customers and allows it to cater more closely to their needs.

Staff and management remuneration

Competitive compensation packages help to attract and retain highly skilled and motivated specialist and managerial staff. Swisscom's salary system contains a variable component which applies to all employees and is primarily dependent on the achievement of overarching objectives such as customer loyalty. Salaries are contingent among other things on individual performance. The management remuneration system and the terms and conditions of employment comply with the recommendations of economiesuisse on the "Swiss Code of Best Practice in Corporate Governance". Equal pay for equal work and equality of opportunity for men and women are a matter of course for Swisscom. The 2010 salary agreement for Swisscom employees covered by the CEA provides for a salary increase of 1.3%. The general increase amounts to 0.5%, the individual increase 0.8%. This does not apply to salaries that are above the market rate. In these cases an uninsured one-off payment of CHF 800 will be made.

Employee satisfaction

In January 2009 a short survey entitled "Employee Pulse" was launched in order to gauge the mood among Swisscom staff. Close to 70% of the workforce responded. The results are a huge incentive for the future, with improvements over the 2008 reported results in almost all areas. Particularly encouraging was the high level of employee satisfaction and above-average loyalty to Swisscom.

Health and safety in the workplace

Swisscom has redesigned and restructured its operational health management system across the Group. The traditional programmes aimed at promoting health in the workplace (Move!, the Swisscom Games, exercise, diet, relaxation, and addiction and stress prevention) were supplemented in 2009 by presence management, which is managed by line managers. Move!, a sports initiative running since 2006, was expanded to include health, culture, environment and social activities, and attracts some 7,000 employees every year. Alongside the Move! activities, which are offered throughout the year, the Swisscom Games took place in Tenero in September 2009 and were a resounding success. Occupational safety specialists from all Group companies cooperate with health management representatives on the Swisscom Safety Board, under the direction of Group Security. The Safety Board is responsible for coordinating and managing occupational safety and health protection development. The Safety Board is a point of contact for members of the Group Executive Board and the specialist units and is tasked with developing improvement measures and communicating these to all employees throughout the Group.

Long-term commitment to apprenticeships

In 2009, 223 apprentices started their vocational basic training at Swisscom. At the same time, 221 apprentices (over 95%) successfully completed their training. The total number of apprentices is currently 837 and remains stable at around 5.2% of the Swisscom workforce in Switzerland. Of the 221 apprentices who completed their training in 2009, two thirds and hence all those who wished to remain at Swisscom benefited from a transitional solution under the JobBridge scheme. In the face of rising youth unemployment, Swisscom is fulfilling its obligations as a socially responsible employer by making a long-term commitment to these young people. The training model fosters independence and responsibility, promotes on-the-job learning and develops self-motivation and commitment on the part of the apprentices. Learning and working on projects managed by employees keeps them in touch with the latest business developments at Swisscom. This year, for example, a number of apprentices from various vocational disciplines have been helping build the next-generation network. They are involved in expanding the fibre-optic network and are therefore becoming acquainted with the newest technology. The focus is on on-the-job learning.

Collective employment agreement and social plan

In December the collective employment agreement (CEA) covered around 14,700 employees in Switzerland, or 86.4% of the total workforce. Special terms and conditions of employment apply to executive staff. The CEA sets out the key terms and conditions of employment between the employer and employees and also contains contractual provisions governing relations between Swisscom and the unions. The CEA offers employees flexibility and progressive employment conditions: the working week consists of 40 hours and employees are entitled to five weeks' annual leave (six weeks from age 60). Swisscom also offers flexible working-hour models such as annual working hours, variable working hours and teleworking. The social plan defines the benefits provided by Swisscom to employees affected by redundancy. Responsibility for implementing the social plan lies with Worklink AG, a fully-owned subsidiary of Swisscom. Worklink AG opens up new prospects for Swisscom employees affected by job cuts, by providing them with advice and support in their search for new employment outside the company or arranging temporary external or internal placements. Members of management affected by redundancy are supported by separate outplacement schemes. The success rate of the scheme is high, with close to 80% of participants in the social plan finding new employment within a short space of time.

Employee representation and union relations

Swisscom is committed to engaging in active partnership with its social partners and fostering constructive dialogue, as best exemplified by the fair CEA. In issues such as salary negotiations or working hours, the unions are involved early on in the process. Under the CEA, employee representatives are granted co-determination rights in a number of areas; these rights are exercised by the employee association. The employee association and Swisscom engage in a mutual exchange of information. Members of the employee association are elected from among the workforce in general and free elections. Employees also have the right to elect two representatives to sit on the Board of Directors of Swisscom Ltd.

Pension plans

Obligatory and supplementary pensions for the majority of Swisscom employees in Switzerland are managed by the company's own pension foundation, comPlan. No amendments were made to the fund's regulations in 2009. comPlan insures employees against the economic consequences of old age, death and disability. At the end of 2009, 17,710 Swisscom employees and 5,489 pensioners were insured under comPlan. The interest rate on retirement savings capital was fixed at 2.0% for 2009. Existing pensions were not inflation-adjusted due to a shortfall in the requisite funding ratio for the fluctuation reserve. As at December 31, 2009, comPlan's year-end results, prepared in accordance with Swiss GAAP ARR accounting standards, showed overfunding of CHF 130 million, equivalent to a funding ratio of around 101%. Coverage in 2008 amounted to 94%. In 2009 comPlan posted a positive return on plan assets of 10.3%. At the end of 2009 the fair market value of the assets was CHF 6,731 million.

	Unit	2007	2008	2009
Personnel structure in Switzerland				
Total number of employees	FTE	19,844	19,943	19,479
Employees in Switzerland	FTE	15,959	16,104	15,995
thereof with part-time employment	%	18.3	17.6	17.5
thereof with temporary employment	%	1.1	0.8	0.7
thereof female employees	%	32.0	31.7	31.4
thereof female executives	%	8.7	9.7	9.9
Total number of traineeship positions	FTE	838	828	842
Nationalities in Switzerland				
– Switzerland	%	87.5	86.7	86.5
– Italy	%	3.5	3.6	3.6
– Germany	%	3.7	3.9	4.1
– Spain	%	1.0	0.9	0.9
– Other	%	4.3	4.9	4.8
Salary spread in Switzerland				
Minimum full-time salary	CHF	45,500	45,500	45,500
Development of employees in Switzerland				
Number of performance dialogues held	%	–	–	94.2
Fluctuation in Switzerland				
Fluctuation total per year (resignation by employee)	FTE	1,470	1,464	895
thereof fluctuation women	%	62.9	64.4	62.8
thereof fluctuation men	%	37.1	35.6	37.2
thereof fluctuation with an age under 30	%	53.8	52.3	52.5
thereof fluctuation with an age between 30 and 50	%	33.3	32.1	25.1
thereof fluctuation with an age over 50	%	12.9	15.6	22.4
Absences due to accidents and sickness in Switzerland				
Work-related accidents	Number of cases	237	238	308
Total days lost due to work-related accidents	Number of days	2,017	1,519	2,860
Days lost due to work-related accidents per FTE	Number of days	0.1	0.1	0.2
Non-work-related accidents	Number of cases	1,905	2,653	2,242
Total days lost due to non-work-related accidents	Number of days	13,950	16,945	15,283
Days lost due to non-work-related accidents per FTE	Number of days	0.9	1.1	1.0
Total days lost due to sickness	Number of days	99,621	108,427	112,315
Days lost due to sickness per FTE	Number of days	6.3	6.8	7.1

Risk factors

Overarching risk assessment

The telecommunications environment faces ongoing changes in technology, regulations, competition and customer behaviour. Corporate goals can be adversely affected by changes in the risk categories "strategy, credit, market, business and operational risks". Such changes give rise to risks which must be identified, assessed and managed by means of an appropriate risk strategy. Swisscom continually reviews identified risks and integrates them wherever possible and practical in its business plan. Risks such as those presented by the current financial crisis and the related economic downturn, regulatory risks and structural risks resulting from changes in technology can only be factored into the business plan to a limited degree. Other risk factors include scenarios such as interruptions to operations due to technical risks or changes in the competitive environment. Detailed information on risk management is provided in the section Corporate Governance. Risk areas and factors which could significantly affect future corporate goals are described below.

Regulatory issues and legal proceedings

For Swisscom, telecommunications and antitrust legislation entail risks which can impact the company's future financial position and results. In particular, the public authorities can issue rulings on prices and impose sanctions, which can result in an outflow of funds. Swisscom can appeal against official rulings before appeals bodies and courts. Regulatory decisions, especially regarding access prices, can also influence the range of products and services as well as investment decisions. Most of the issues contested by Swisscom in relation to the new Telecommunications Act have been resolved. Swisscom is regularly subject to antitrust investigations, primarily relating to instances of abuse by companies with market-dominant position. This includes practices such as offering discounts or bundled products, favouring certain business partners or charging excessively high or excessively low prices. In cases where such practices qualify as abusive, the companies in question face the threat of sanctions. Whether engaging in such practices is efficient and serves to promote or hinder competition depends on the circumstances surrounding the individual case. There is bound to be uncertainty surrounding an antitrust ruling on such practices which cannot be dispelled by the possibility of notification provided for under the Federal Cartel Act. Refraining from certain types of efficient behaviour in view of the antitrust risks involved cannot therefore be ruled out.
Ongoing legal proceedings relating to telecommunications and antitrust legislation are described in Notes 28 and 29 to the consolidated financial statements. The outcome of the ongoing proceedings could lead to a revised assessment in the coming year. A key priority is to avoid antitrust legal proceedings. Swisscom operates an internal compliance scheme to ensure that its business activities adhere to the provisions of antitrust legislation.

Economic downturn

The effect of the financial crisis and economic slowdown has so far been minimal. Despite a slight improvement in the economy, uncertainty concerning the future remains high. Swisscom monitors this risk factor using an economic indicator cockpit. Rising unemployment and a renewed fall in output pose a significant risk.

Telecommunications market in Switzerland

Consolidation between market players in Switzerland could have a prolonged impact on the structure of competition and on market behaviour. In particular, the announced merger between Orange Communications AG and Sunrise Communications AG could bring about significant changes in the Swiss telecommunications market. This risk factor is minimised by ensuring that Swisscom remains efficient and competitive. The current trend which is transforming the telecoms market into a TIME industry, coupled with growing competition from OTT providers (Over The Top: Apple, Google, etc.), is giving rise to a transformation risk. This risk is minimised by implementing various measures, such as restructuring, new business models and efficiency measures. This trend is increasingly driving the integration of technologies and devices for the provisioning of multimedia services. Risks could arise on the one hand in connection with the integration of this infrastructure, and on the other hand from its interaction with and interfaces to the existing infrastructure. If such risks occur, this may delay implementation of Swisscom's growth strategy or have a detrimental effect on customer satisfaction.

Reputation risk management

Swisscom analyses any risks which could have a negative bearing on its reputation, image and brand. Swisscom's reputation, including its image as a provider of high-quality services, allows it to stand out from the competition. Risks with an inherent potential to tarnish this reputation are analysed and addressed on an ongoing basis using suitable communication and risk-minimising measures. Quantitative risk management is supplemented by reputation risk management.

Business interruption

Swisscom's business is heavily dependent on technical infrastructures such as communications networks and IT platforms. Any major disruption to business operations poses a financial as well as a reputation risk. In these areas force majeure, human error, hardware or software crashes or criminal actions by third parties (e.g. computer viruses) can cause damage or interrupt operations. Disruption could harm Swisscom's high-quality image, customer loyalty or its ability to meet its financial targets. To reduce this risk, Swisscom developed a business continuity standard which was implemented in the Group companies. Another risk concerns obsolescence of the infrastructure, driven by changes in technology. Swisscom's current IT landscape is highly complex due to continuous development of older systems and integration of new systems. Lack of a harmonised IT landscape could hinder Swisscom from enhancing its competitive capability and exploiting further potential for cost savings.

Expansion of the fibre-optic network (FTTH)

The project to expand the fibre-optic network requires high levels of capital expenditure over a period of several years. Equally high are the inherent risks associated with the project, uncertainties surrounding the investment and risks related to the implementation strategy. Added to this, the project carries high regulatory and political risks. Swisscom engages in active risk management in the area of FTTH by following a multi-fibre strategy and offering cooperation models. In addition to inherent project risks and the aforementioned risks, the following additional risk categories are of relevance: infrastructure competition, partnerships, technology development (substitution risk) and solution design.

Fastweb valuation and market consolidation in Italy

The Italian market may undergo consolidation in the foreseeable future which could have a negative impact on Fastweb's achievement of its objectives. Swisscom acquired Italian-based Fastweb in 2007 for CHF 5.1 billion. At the time of acquisition Fastweb had net debts of CHF 1.8 billion. By acquiring Fastweb Swisscom was able to significantly enhance its growth potential. The value of the assets is contingent above all on achieving the revenue and profit growth projected in the business plan. The impairment test conducted at the closing of the accounts resulted in no impairment requirement. If future growth is lower than projected, there is a risk that this will result in an impairment of goodwill.

Environment and health

Electromagnetic radiation, for example from mobile antennas or mobile handsets, has repeatedly been claimed to be potentially harmful to the environment and health and is often the subject of controversial media discussions and public debates. Even now the public's wary approach to mobile antenna sites is impeding Swisscom's network expansion. There is a future risk that regulations governing electromagnetic emissions may be tightened or new regulations put in place. For Swisscom this would entail extra costs for additional antennae or other measures to comply with such regulations. Even without stricter legislation the public's attitude to the effects of electromagnetic radiation on the environment and health could also further impede the construction of mobile antennas or other wireless networks in future and drive up costs. Moreover, concerns about the possible effects of radiation from mobile communication systems and the use of mobile devices pose an additional risk related to the intensity of use. Should scientific studies furnish proof that electromagnetic radiation can have a significant effect on human health, this could prove detrimental to the use of wireless technologies and by extension have an impact on Swisscom's business performance. Climate change poses risks for Swisscom in the form of higher levels of precipitation and rising temperatures which can impact the operability of its telecommunications network, in particular in view of the potential risk to base stations and exchanges.

Long-term responsibility

Global Reporting Initiative (GRI)

Guidelines and application level

On the following pages, Swisscom provides its stakeholders with a report on its economic, social and ecological performance. The applicable guidelines of the Global Reporting Initiative (GRI 3) determine the scope and content of the sustainability report. GRI is the world's leading standard for corporate sustainability reporting. Swisscom has the opinion that the 2009 annual report complies with the application level A against the guideline of GRI 3. The level has been checked and confirmed by GRI.

Index

The GRI Index offers a standardised overview of reporting which is broken down by subject. The index includes references to the relevant pages of the annual report or other information sources for each subject area. The index is available on the Internet at www.swisscom.com/GRI.

Content and scope of the report

Content and scope

In 2009, Swisscom and its Group companies conducted business activities in a total of 19 countries. The Swisscom Group companies are listed in Note 41 to the consolidated financial statements. Information regarding Swisscom's social and ecological performance is based on the company's activities in Switzerland, as this is where the majority of its revenue is generated. Information on economic performance relates to the whole of the Swisscom Group.

Materiality

Regarding materiality Swisscom has defined and applied the following criteria for the report, taking into account the wishes and concerns of its stakeholders:

- Significance and relevance of sustainability issues for stakeholder groups;
- Impact on society and the environment;
- Effects on the company's financial position, results of operations and reputation.

Management approach

General approach

Throughout the Group, Swisscom applies a stringent, well-proven methodical management approach for dealing with relevant issues. This approach covers requirement analyses, target setting, planning, implementation and evaluation, and employs tried and tested management systems which are externally audited on an annual basis and comply with the following ISO standards: quality management (ISO 9001), environmental management (ISO 14001), information security management (ISO 27001) and the process assessment standard (ISO 15504), which Swisscom was the first company in the world to use in 2008 for the process of measuring electromagnetic fields.
When new employees join the company, they are made aware of ecological, social and other relevant issues at the Welcome Days. The Code of Conduct for Swisscom employees and other important guidelines are available and can be called up on the Internet at www.swisscom.ch/GHQ/content/Corporate_Governance/Grundsaetze. Information on additional management approaches which are not explicitly mentioned in this section can be found in the GRI Index at www.swisscom.ch/GRI.

Swisscom runs training courses for its staff as and when required. A Group-wide specific training course on the subject of corruption is planned for 2010. Employees having contact with customers also generally receive regular training, which broadens their knowledge of key aspects of corporate responsibility, among other things.

Specific approaches

Social aspects

Swisscom is aware of its responsibility towards the community and its responsibility as regards the data with which it is entrusted and its products and services, and makes every effort to comply in full with the applicable laws. Swisscom attaches particular importance to the requirements of telecommunications and anti-trust legislation, employment law and regulations on product and service descriptions, privacy and data protection, the protection of telecommunications secrecy, fighting corruption and protecting the health and safety of customers and third parties. The relevant governance is available at . Responsibility for compliance with the aforementioned laws lies with every individual. A point of contact is available within Human Resources and there is an anonymous form on the whistleblowing platform on the intranet which employees can use if necessary.
Swisscom is a non-denominational, politically neutral organisation which does not financially support any parties.

Environmental aspects

Environmental aspects are dealt with throughout the Group by Swisscom's environmental management system. Responsibility for implementing cost-cutting and efficiency measures lies with line management. Swisscom's sustainability policy and strategy can be viewed at www.swisscom.ch/GHQ/content/Responsibility. Further information is available in the Environment section on page 60.

Product responsibility

This issue is highly relevant for Swisscom and its stakeholders and is systematically analysed. This includes in particular issues relating to electromagnetic radiation, energy consumption for network operation and terminal devices, as well as the range of products and services which promote a more sustainable lifestyle. Swisscom takes these issues into account in its operational planning, in procurement and in the development of products and services. Information on the duty to provide information about terminal devices is available on page 61, while details relating to electromagnetic radiation can be found on page 63.

Sustainability strategy

Environmental protection

Swisscom's environmental policy and the priorities of its environmental strategy remain largely unchanged. They pursue the following medium-term objectives:

- Environmentally-friendly products and services: ecologically optimised products with low energy consumption; services which generate significantly lower CO_2 emissions.
- Operational ecology: This focuses on the problems of energy supply and climate change. The energy and climate policy is aimed at enhancing energy efficiency by reducing energy consumption and substituting environmentally harmful energy sources for clean energy.
- Commitments: Activities which benefit society as a whole.

By the end of 2010 Swisscom is aiming to improve energy efficiency by 17 % (compared to the reference year 2002) and limit direct CO_2 emissions to a maximum of 28,109 tonnes. These energy and climate policy goals were defined in a joint target agreement concluded with the Energy Agency for Industry (EnAW) back in 2004. As well as envisaging further growth in business activity, which will push up energy consumption slightly, it also set a target for further improving energy efficiency. Swisscom has set itself the goals of increasing efficiency by 20 % and further reducing CO_2 emissions by 10 % between 2010 and the end of 2015, resulting in a total reduction of 60 % in CO_2 emissions since the reference year 1990.

The main way Swisscom intends to increase energy efficiency is to switch the entire Swisscom network infrastructure to a fresh air cooling system. Other measures planned between now and 2015 aim to make end customer devices more energy efficient when in operation and in standby mode, as well as to promote environmentally-friendly services. A new sustainability strategy was adopted in August 2009 which includes the aforementioned targets and is applicable from 2010.

Society

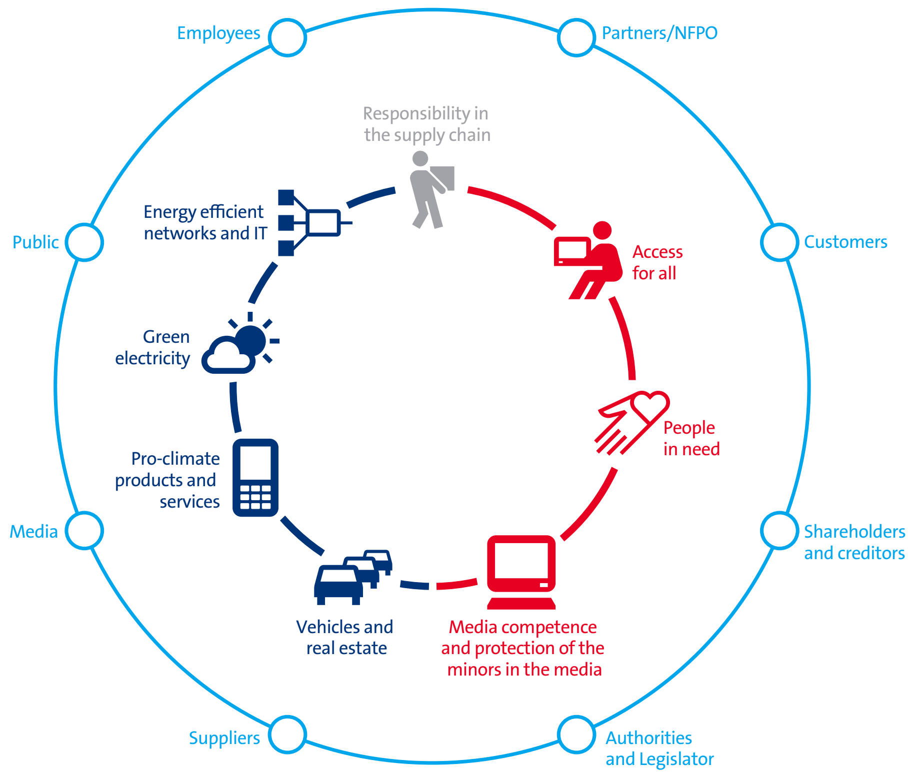
The social element of the sustainability strategy comprises three key action areas which Swisscom has been championing for many years and which therefore enjoys a high level of trust among the population, organisations and the public sector.

> Access for all: Swisscom is committed to ensuring that telecommunications do not become a social divider that distinguishes one group from another, and firmly believes that technological advancements in the field of new media will only benefit society as a whole if each and every member is able to take advantage of them.
> People in need: It would be unethical and completely against Swisscom's moral stance not to do everything in its power to help those in need. This is why Swisscom offers its support to a host of non-profit organisations, by supporting them to help others.
> Protecting youth in the media and promoting media skills. The children and youth of today are familiar with new media and their potencials. However, while most young people are proficient in using electronic media, it is up to the telecoms sector to teach them how to handle these new possibilities discerningly and responsibly.

Long-term responsibility: Regulation of responsibilities on the Board of Directors

The Board of Directors is responsible for overall management and supervision of the Swisscom Group Executive Board. It determines the strategic, organisational, budgetary and accounting guidelines, taking into account the goals set by the Federal Council which it, as majority shareholder, wishes to achieve. This includes, in particular, developing a corporate strategy based on sustainable and ethical principles within the boundaries of its business capabilities. The Board of Directors is clearly committed to pursuing a sustainable strategy. It delegates day-to-day business management to the CEO of Swisscom Ltd and delegates individual issues to the Chairman of the Board of Directors or the committees of the Board of Directors. The Board of Directors addresses economic, ecological and social issues within the various committees or as part of sustainability management, which is assigned to the Group Communications division. The Corporate Responsibility Group is mainly responsible for ecological and social issues, and implements the sustainability strategy across Swisscom.

Maintaining contact with stakeholders is an integral part of corporate responsibility, allowing Swisscom to gain a better understanding of their expectations and to incorporate these in its processes, products, services and the communication of information. Such requirements and expectations can also influence the strategy if they enable targets to be achieved more efficiently. This overview shows the stakeholder groups and action areas which are significant to both Swisscom and stakeholders themselves.



Swisscom comes into contact with its stakeholder groups in various ways, whether in response to external queries or via official channels. These encounters may take place via electronic media, by phone, through surveys, at information events or working sessions, road shows, conferences, in customers' homes or directly in Swisscom Shops. Swisscom contact persons are then responsible for evaluating and processing the information received. In the event of any conflicts of interest, the Group Executive Board has the final say and determines the strategy to be followed. In 2009, as in previous years, the concerns and expectations of stakeholder groups were incorporated in a number of specific projects and implemented in the form of measures as outlined below.
Swisscom strives to manage its relations with the various stakeholder groups consistently. The dialogue between Swisscom and some of these groups is detailed below:

- Customers: Swisscom conducts sample tests and interviews with residential customers on a monthly basis and with corporate customers on an annual basis. Customer relationship managers also spend time at customer touch points in order to experience customer needs first hand. Swisscom also writes blogs and runs electronic forums, including the environmental blog which was launched in 2006.
- Employees: Once a year, Swisscom conducts a satisfaction survey and organises a round-table discussion with employee representatives which forms an integral part of the collective employment agreement. The CEO of Swisscom Ltd also shares thoughts and ideas with employees as part of his roadshow, which takes him to various locations over a period of several months. By law, all employees must be given the opportunity to report any dubious accounting or auditing practices that

come to their notice. Swisscom's whistleblowing process was set up with this in mind. The Audit Committee acts as an internal reporting office.

- Suppliers: Once a year, the Key Supplier Day offers procurement organisations within Swisscom the opportunity to meet their most important suppliers. Starting in 2010, Swisscom will be presenting a Supplier Award in the categories of innovation, cooperation and sustainability.
- Shareholders and external investors: In addition to the Annual General Meeting, analyst presentations, roadshows and regular teleconferences allow shareholders to discuss issues with Swisscom. For a number of years, Swisscom has been fostering contact with numerous external investors and rating agencies in the area of sustainability. Shareholders and external investors did not criticise any of Swisscom's ecological or social activities in the year under review.
- Partners: In the context of projects Swisscom believes it is important to maintain regular dialogue with partners (for example the WWF Climate Group, of which Swisscom is a founding member).
- Authorities and legislators: Swisscom continually has to tackle political and regulatory issues, advocating its interests vis-à-vis political parties, public authorities and associations.
- Media: Swisscom's relationship with the media is informed by professional journalistic principles and is treated as a partnership.
- Community: Details can be found in the section "community" starting from the page 56.

Suppliers

Responsibility in the supply chain

Swisscom is not a manufacturing company, yet it still does CHF 2.3 billion worth of business every year with some 5,500 suppliers in networks, IT equipment, cables, merchandise and a wide range of services. Environmental and social aspects are playing an increasingly important role in this process. Swisscom laid the foundations for its future conduct in this area with the introduction of the Purchasing Policy at the end of 2008. This document sets out Swisscom's own policies in this area and the requirements it imposes on its suppliers. It can be called up at .
The Purchasing Policy has been an integral part of contract negotiations, regular evaluation meetings and supplier events, such as the Key Supplier Day, since early 2009.

Key supply chain figures –number of suppliers

Number of suppliers [1]	2007	2008	2009
Switzerland	4,465	4,575	5,103
Europe (excluding Switzerland)	375	306	320
North America	45	39	48
South America	1	–	–
Africa	1	2	–
Asia	20	20	12
Australia	3	2	2
Total suppliers [1]	**4,910**	**4,944**	**5,485**

[1] Suppliers to Swisscom (Switzerland) Ltd only.

Order volumes

Order volume	Unit	2007	2008	2009
100 largest suppliers [1]	in CHF mio.	1,790	1,810	1,800
All suppliers [1]	in CHF mio.	2,400	2,340	2,330

[1] Suppliers to Swisscom (Switzerland) Ltd only.

Corporate responsibility contract annex (CRV)

The CRV, which is based on the Purchasing Policy and also takes into account human rights issues, has formed an integral part of new procurement contracts since the beginning of 2009. The CRV is also incorporated into existing contracts when they come to be renegotiated. Around 1,800 new procurement contracts were concluded in 2009, and a standardised contract management system is planned for autumn 2010. From this time, Swisscom will be able to put an exact figure on the number of contracts with a CRV.

Key Supplier Day 2009

In 2009 the Key Supplier Day took place since 2003 for the first time. The event was attended by representatives of the main suppliers. Various presentations raised awareness about the issue of responsibility in the supply chain and the measures and initiatives Swisscom is employing in this area. To tie in with the realignment of the procurement organisations, Swisscom also announced the Supplier Awards and invited suppliers to enter. From now on, Swisscom will be presenting the awards in the categories of innovation, cooperation and sustainability every year.

Supplier evaluation and self-declaration

The system for evaluating suppliers was standardised and simplified in 2009, and 40 suppliers also completed a self-declaration on their environmental and social conduct. The results of the assessment were discussed in detail with 11 largest suppliers and, where necessary, joint targets were agreed for future collaboration.

Logistics

Swisscom launched a project in 2009 to consolidate existing logistics systems and storage locations with a view, among other things, to reducing the number of regional warehouses from 74 to 21 by the end of 2012. This will not only allow Swisscom to cut costs, but will also reduce CO_2 emissions by 60 tonnes a year thanks to optimised journeys.
A pilot project which aimed to significantly reduce delivery cycles to Swisscom Shops was completed in 2009. It will be implemented and extended to all Swisscom Shops during the first quarter of 2010. The new system could save over 5,000 delivery journeys every year.

Packaging

In 2009 Swisscom decided to largely do away with the additional packaging that comes with mobile phones and to massively reduce the amount of enclosed documentation such as user guides. Some 200,000 mobile phones have since been delivered in line with these new requirements.

Risk management system

One of the declared goals of Swisscom's purchasing department for 2010 and 2011 is to set up a comprehensive risk management system, incorporating ecological and social criteria. Up to now, this has been limited to identifying potential financial risks. Suppliers of promotional items were therefore analysed in 2009 as part of a project, and classified as high-risk based on environmental and social criteria. Alongside the development of internal guidelines for the employees involved, a multi-level supplier selection procedure was launched, which is designed to identify the best suppliers and minimise the existing known risks in this product group.

Employee training

The basic principles of the Purchasing Policy were communicated throughout Swisscom, and employees in Purchasing attended various special courses on the Purchasing Policy, CRV and other ecological issues.

Control tools

In addition to the self-declaration and CRV, on-site audits are an important additional control tool to ensure compliance with Swisscom's Purchasing Policy. The number of audits carried out by Swisscom has risen to a total of 31 since the Purchasing Policy was introduced, which is around twice as many as in previous years. To allow Swisscom to respond more flexibly to the increasing demand for audits, a partnership with the certification company SGS was launched in the second half of 2009 and is to be continued in 2010.

Community

Swisscom feels an obligation to provide responsible connectivity. To Swisscom, this means fulfilling its role as a supplier of nationwide communication services for all, while catering to data protection concerns, ensuring the protection of youth in the media, promoting media skills and minimising electromagnetic fields on its networks.
Swisscom is also committed to promoting a lively and vibrant community. Thanks to its position in the economy and links to Swiss culture, sport and the environment, Swisscom has established strong ties which are testament to its Swiss roots.

Offering

Telecommunications for all

As Swisscom's field of business continues to develop at a very rapid pace, Swisscom must continually expand its network infrastructure so as to ensure a minimum standard of service for the entire population, in line with its basic service provision mandate. Yet this also gives rise to varying usage among customers. While technophiles are keen to try out new things, technophobes take a more cautious approach. A major challenge for Swisscom is to ensure this rift does not become too wide. Swisscom's Help Point courses, which teach students about the world of mobile communications and the Internet in a practical hands-on manner, the Swisscom@home service and the HomeServiceTeam, which was set up in 2008, are just three schemes which are helping to achieve this goal. With its "Internet for Schools" initiative, Swisscom aims to make safe and appropriate use of the Internet a matter of course for all school children.
Many people living in Switzerland are visually impaired, hard of hearing or have mobility problems. Modern telecoms applications are hugely beneficial to this section of the population, but in order to use them, there must be an awareness of the need to make devices and services accessible to these people too.

Basic service provision and marginal regions

Since 1998 Swisscom has been mandated by the federal government to provide basic telecommunication services for Switzerland, and will continue to do so under the current mandate which runs until 2017. The aim of the mandate is the provision of analogue or digital network access throughout Switzerland. This covers voice-based services, including fax, Internet access, supplementary services, the provision of public payphones, calls to the emergency services, directory services and operator services for people with visual and hearing disabilities. For broadband Internet access, a minimum transmission speed of 600/100 Kbps applies.

	Unit	2007	2008	2009
Traffic minutes (fixnet national traffic)	mio. min.	7,556	7,421	7,100
Number of public payphones [1]		8,417	8,389	8,115
Emergency calls [2]	in thousands	3,100	2,600	2,700
Calls to the service for visually impaired/hard of hearing [3]	in thousands	505	514	496

[1] Of which 4,803 (2009), 4,862 (2008) and 4'869 (2007) within the scope of basic service provision.

[2] Emergency breakdown service was removed from the emergency numbers in April 2007.

[3] From 2008 (new basic service agreement) joint operator service (for the visually impaired and hard of hearing as well as persons with restricted mobility).

Aids for the disabled and hard of hearing

Accessibility covers all Swisscom's efforts to help persons with disabilities to take advantage of telecommunications.

- Swisscom supports the "Access for all" foundation, which aims to provide barrier-free Internet access to people with disabilities, in particular the visually impaired.
- In collaboration with the PROCOM Foundation – communication tools for the hard of hearing – Swisscom offers special services for people with significantly impaired hearing.
- Together with the Procap Foundation, Swisscom is committed to helping those with mobility problems. Swisscom is also a partner of the Fondation Suisse pour les Téléthèses FST (Swiss Foundation for Rehabilitation Technology).
- One in every ten people in Switzerland suffers from poor hearing. pro audito, a Swiss organisation that assists people with impaired hearing, offers a fast, discreet hearing test over the telephone. As a partner of pro audito, Swisscom supports this project, and in so doing is helping to promote the early detection of hearing loss.

Media skills

Using media safely, promoting a sense of responsibility

A comprehensive strategy that promotes sustainability and responsibility would not be complete without a commitment to ensuring that new media are safe and that customers use such media responsibly. Swisscom aims to protect children and young people from the risks posed by new media and is committed to endeavours that minimise the digital divide. With this in mind, Swisscom firmly believes that children should learn how to use information and communications technologies while at school.

Some older people are also unable to make optimal use of communications tools because of mental or physical disabilities. Day after day, Swisscom honours its responsibility in this area through initiatives such as Swisscom Help Points and Swisscom@home.

Protecting youth in the media and promoting media skills

While the Internet offers a vast array of information and practical tools, both the Internet and mobile communications harbour a number of dangers for our children. Swisscom takes these dangers seriously, and is determined not to leave parents and teachers to shoulder this responsibility alone. Swisscom helps parents, teachers, children and organisations in every way possible to protect children and young people from the related dangers and risks, if necessary providing on-site support.
The legal obligations governing the protection of minors in the media, which Swisscom as a telecoms and Internet provider must fulfil, were once again fully complied with in the year under review. In accordance with Art. 197 of the Federal Penal Code, it is forbidden for providers to offer content of a pornographic nature to persons under the age of 16. The Ordinance on Telecommunications Services (Art. 40f) outlines measures relating to the blocking of value-added services. Swisscom observes these regulations extremely rigorously.
Since 2008, the Industry Initiative of the Swiss Association of Telecommunications (asut) for Improved Youth Media Protection in New Media and the Promotion of Media Skills in Society has published a list of measures, in addition to the legal requirements, which Swisscom has pledged to comply with. Swisscom's comprehensive approach includes the provision of Internet filters, the obligation to actively inform customers, willingness to engage in dialogue with committed organisations, and the designation of a youth media protection officer. A review conducted in summer 2009 showed that Swisscom has implemented the voluntary measures in full.
Swisscom has been going one step further for years, however, even though this may go against economic interests.
> Age limit for access to certain services voluntarily increased to 18.
> No adult content included in the Video on Demand offering from Swisscom TV.
> Additional channel blocking via PIN on Swisscom TV.
> FSK age rating recommendation for all Video on Demand films.
> Exceptionally stringent requirements for third-party providers of value-added services.

Internet for Schools – a successful commitment

These technical restrictions are only effective, however, if children and young people are proficient in handling the new possibilities. Hence Swisscom's commitment to promoting media skills through its "Internet for Schools" initiative.
Swisscom has been providing free Internet access to all primary and secondary schools in Switzerland since 2001. At the end of 2009, more than 95 % of all schools had been connected to the cantonal educational network and were using one of Swisscom's most efficient and secure products. True to its promise, Swisscom continued the "Internet for Schools" initiative after the public-private partnership with the federal government officially expired in 2007. Encouraged by the feedback received from cantonal and political circles, Swisscom has decided to continue providing schools with services that meet the needs of day-to-day school life and to further expand these offerings in 2010:
> Swisscom is extending the service to include preschools. In so doing, it is satisfying the needs of cantonal education departments, which are increasingly merging preschools and primary schools. This means that the number of connections provided under the scheme is set to increase almost three-fold over the coming years.
> Schools that require high-performance bandwidths (large educational centres or schools which use the Internet particularly intensively) can now take advantage of connections with a bandwidth of up to 50 Mbps. These connections will also be provided to schools free of charge by Swisscom.

Schools Service experience

The "Internet for Schools" initiative covers much more than simply connecting schools to the World Wide Web. The accompanying "Schools Service" programme also offers many free supplementary services for schoolchildren, teachers and parents:
> The Internet SchoolNetGuide, the most recent issue of which explored the subject of "The Social Internet". The next issue in early 2010 will report on the protection of youth in the media.
> Swissdox, the online newspaper archive: pupils can carry out research free of charge on this online archive of Swiss newspapers.
> Series of teaching materials about telecommunications for all school levels: the series covers fixed-line and mobile telephony, Internet, history, environment and other telecoms-related issues.
> Rental of mobile devices: In order to meet the needs of many schoolchildren, Swisscom has been offering mobile devices since 2007, which schools can rent free of charge for educational purposes.
> Youth protection course for parents and teachers: An informative two-hour course which highlights the risks posed by new media and possible ways to protect children and young people more effectively.

Support and partnership

- Swisscom Help Point – courses for all: The Swisscom Help Point has been teaching customers how to use mobile devices and the Internet since 2005. Training sessions are offered every week at the training centres in Berne, Basel, Lausanne, Lucerne, Geneva and Zurich. Four training buses also visit around 80 towns and villages across Switzerland every year. In 2009, 38,000 people attended training courses on using modern communications media. Since its launch, over 130,000 customers have received training through Swisscom Help Point. With this campaign, Swisscom is making an important contribution to ensuring the digital divide between the generations is continually reduced.
- Swisscom@home – support in the customer's home: 25 experts have been offering support on Swisscom's full range of products and services throughout Switzerland since 2006. Customers can receive advice free of charge and with no obligation in the comfort of their own homes. The service is highly regarded thanks to the reliable and professional service provided by the team of experts. Swisscom@home continues to grow and surpassed the 28,000 customer mark in 2009.
- HomeServiceTeam – the computer, Internet and multimedia professionals: The HomeServiceTeam is also focussed on customer service: the on-site service for computers, Internet and multimedia, launched in 2008, is represented by 80 experts across the whole of Switzerland. The team of professionals offers customers support with setting up and installing computers, networks and software, helps customers with any issues that cannot be resolved via the hotline and conducts individual training sessions.
- Partnership with Pro Senectute and the terzStiftung: Swisscom has been working closely with Pro Senectute for a year and through this partnership, underscores its intention of helping senior citizens get the most out of what the digital world has to offer. October 1, 2009 was the International Day of Older Persons. To mark this event, Pro Senectute asked people in Switzerland to call an elderly person they know. Swisscom supported this campaign and offered Swisscom Shop customers the opportunity to call someone for free on that day from selected shops. The terzStiftung is committed to independence and security in old age. It aims to support society and the economy, and to solve the challenges of generation change in a harmonious and sustainable manner. Swisscom firmly believes that the telecoms sector can offer real added value in this area and has therefore been a partner of the foundation for two years.
- Compisternli – a project to unite the generations: Compisternli trains children so that they can teach older people about mobile communications. Swisscom supports Compisternli by providing infrastructure and communications services.

Commitments to Switzerland

Sport and culture

Swisscom's cultural and sports sponsorships reflect the company's commitment to all regions and all stakeholder groups in Switzerland. The brand values of customer focus and customer experience are the criteria by which sponsorships are selected, with the priority for long-term partnerships on winter sports and a wide range of cultural events.

As a leading partner of Swiss Olympic and partner to the Swiss Paralympic Committee, Swisscom supports a broad range of competitive sports. In recent years there has been a deliberate shift in Swisscom's sports sponsorships towards winter sports, in view of the enthusiasm for such sports in Switzerland and the fact that winter sports are an important basis for the country's economic development. With this in mind, Swisscom supports Swiss winter sports athletes of all ages and, as the main sponsor of Swiss-Ski, helps them to achieve peak performance in downhill and Nordic skiing, snowboarding, freestyle and telemark skiing. The aim of the long-term partnership is to restore Switzerland's standing as the world's Number One skiing nation. As part of its partnership with Swiss-Ski, Swisscom invests 20 % of its annual sponsorship fees in fostering the development of the association's junior talents. Swisscom has also developed a downhill training programme for junior talents, the key focus of which is the Swisscom Junior Ski Team with members from regions across Switzerland. During the 2008/2009 winter sports season, Swisscom set up , the first comprehensive Swiss online platform for all fans of winter sports.

As official telecoms partner of all Swiss FIS World Cup events, Swisscom is enhancing Switzerland's status as an event organiser and winter sports venue. In this capacity Swisscom maintains a long-established partnership with the Swiss Tourist Board. In 2009 Swisscom was also official partner and telecoms provider for the World Ice Hockey Championships, which were held in Switzerland.

In the cultural arena, Swisscom sponsors the renowned and popular Open Air music festivals and the AVO Session in Basel. It also supports the medium of film by acting as main sponsor of the International Film Festival in Locarno and as communications partner of various film distribution companies when new films are launched.
Swisscom is also a member of the Board of Trustees of the Museum of Communication in Berne, which organises exhibitions on communications past, present and future with the emphasis on the human aspects. Visitor surveys show that the museum is well received as a family-oriented and interactive museum, with 99 % of visitors rating it as good or very good. The temporary exhibition staged in 2009, "Goodbye & Hello – in dialogue with the Beyond" was immensely popular and earned the museum two nominations for international industry design prizes.
As sponsor of the Sasso San Gottardo Foundation, Swisscom underscores its awareness of the special importance of mountains for Switzerland. The foundation is devoted to the essential resources that the Alps give us: energy, water, living space, mobility, warmth and cold, protection and security.

Responsibility and partnership

Swisscom's close bonds with Switzerland's economy and culture take many forms. This wide variety of ties gives rise to a special obligation towards the community in general, and the most disadvantaged members of it in particular. Swisscom puts its expertise to good use through various partnerships in a bid to support the socially disadvantaged and people in need.

- Swiss Solidarity (Glückskette): Swiss Solidarity is Switzerland's platform for humanitarian aid and relief. Established by SRG SSR idée Suisse, the Swiss broadcasting corporation, it also works closely with private media and the print media. Swisscom has been a partner of Swiss Solidarity for 63 years, and under this partnership also supports the work of the charity's 30 partner relief agencies.
- The Samaritans (Die Dargebotene Hand): Swisscom is the official communications partner of the "Samaritans telephone number 143". The Samaritans' telephone number (143) is the first point of contact at any hour of the day or night for people in difficult situations. A non-denominational, culturally and politically neutral organisation, it is committed to the principles of IFOTES (the International Federation of Telephonic Emergency Services).

Environment

Once again in 2009 Swisscom made a positive contribution to protecting the environment by launching environmentally-friendly and energy-saving products and services, which help reduce CO_2 emissions. Swisscom also slightly increased its energy efficiency and is well on the way to achieving its target of a continued reduction in CO_2 emissions. Swisscom's other environmental aspects are seen as non-critical and are currently under control. Further information on this subject is available at www.swisscom.com/GHQ/content/Engagement.

Environmentally-friendly products

- Life cycle assessment of terminal devices and networks: The life cycle assessments of Swisscom's networks and terminal devices carried out over the past few years have consistently identified the following main environmental impacts: energy consumed by customer terminal devices, energy consumed to produce terminal devices and energy consumed by the network elements. The impact of these factors on the life cycle assessment has largely been constant. The main environmental impacts for 2009 have therefore not been changed and form the basis of the environmental section of the sustainability strategy.
- Ecomode plus: Cordless phones that are equipped with Ecomode plus only emit minimal radiation. This product has been well received by customers and the Ecomode plus models now make up 60 % of all Swisscom cordless phones sold.
- Samsung Blue Earth: Swisscom was the first telecoms provider in Switzerland to successfully launch a mobile device equipped with a solar panel in November 2009. The device can be recharged independently of the mains using solar energy.
- Customer network devices: In collaboration with Motorola and the Federal Office for Energy, Swisscom successfully developed the first prototype for an IPTV set-top box at the end of 2008 which uses less than three watts of power in standby mode, and this figure is to be reduced to one watt by 2011. Together with ten other telecoms providers, Swisscom launched a competition for

DSL chip manufacturers to build the most efficient DSL router in 2009. Furthermore, all Swisscom TV customers are offered a power strip or remote control socket so that they can completely switch off their set-top boxes and modems.

Sustainable services

In terms of services, those which entail a significant ecological benefit are designated accordingly. These include conferencing, Unified Communications, telepresence and teleworking. A special CO_2, time and cost calculator developed by Swisscom shows business customers what savings they can achieve by using these services.

- Eco-friendly services: Swisscom conducted specific training sessions and demonstrations of eco-friendly services in the fields of mobility and climate protection for interested target groups, for example for the mobility advisors at the Federal Office for Energy and for the Berne Business Climate Platform. Furthermore, Swisscom launched the realistic videoconferencing solution, Telepresence, at eight of its locations. At a media event organised in conjunction with the WWF, a study was presented which showed the high level of willingness among Swiss businesses to make increasing use of modern conferencing systems and to reduce travel in the future. Participants had the option of following the event via Telepresence.
- Recycling: Swisscom also enables its customers to help alleviate electronic waste by granting a two-year guarantee on all telecoms equipment and offering repair services and outstanding quality products. Any electronic devices from the Swisscom range can be returned to Swisscom. It also offers a disposal service in collaboration with SWICO Recycling, the recycling commission of the Swiss Association for Information, Communication and Organisational Technology. The system is financed through an up-front recycling charge which is included in the purchase price of the device. The recycling statistics are available from SWICO.
- Solidarcomm: Solidarcomm is constantly being developed. In 2009, eight tonnes of old devices were handed in and many of them were sold via a third-party company in countries with a demand for low-cost second-hand mobile equipment. All proceeds from the sales go to Swisscom's social partners, Terre des Hommes Switzerland and Réalise.
- Services for employees: In the year under review, Swisscom expanded its CO_2 savings platform for employees, , to include new functions such as the interactive selection of personal climate protection targets.
- Solar vignette: Swisscom launched the solar vignette for all customers who have not purchased a Samsung Blue Earth device but would still like to recharge their mobile phone using solar energy. By purchasing the vignette for CHF 5, customers are guaranteed that enough solar energy to offset the power consumption of their mobile device will be fed into the electricity grid.
- Online billing: Online billing is increasingly being seen as an attractive and environmentally friendly alternative to a paper bill and 10 % of Swisscom customers have now opted to use this method. This equates to a 5 % increase compared to the previous year and five tonnes of paper saved.
- Duty to provide information on terminal devices: Swisscom is obliged to disclose price information and ensure cost transparency regarding terminal devices and also provides information on the devices' radiation levels on a voluntary basis.

Operational ecology – 2009 environmental review

Legal compliance

Swisscom regularly monitors compliance with current environmental legislation and takes the necessary action to adapt to changed legal conditions. Swisscom is not aware of any circumstances within the company which are not legally compliant in the year under review.

Energy and climate aspects

CO_2 emissions resulting from the consumption of fossil fuel decreased slightly to 26,296 tonnes. These are direct CO_2 emissions, which have to be reported under scope 1 of the Greenhouse Gas Protocol Initiative. Of this, vehicle fuel accounts for 49.6 %, with heating fuel making up the remaining 50.4 %. With a deviation of 6 % versus the fixed CO_2 target, Swisscom has a small safety margin and is still on track to achieve the targets agreed with the Energy Agency for Industry. The electricity mix which Swisscom purchases in Switzerland is not produced from fossil fuels and is thus free from CO_2 emissions. Swisscom does not therefore have to report any indirect CO_2 emissions under scope 2 of Greenhouse-Gas-Protocol-Initiative. While Swisscom does not conduct an estimation of other indirect CO_2 emissions under scope 3 of Greenhouse-Gas-Protocol-Initiative at present, it is pursuing a number of related projects, for example to evaluate CO_2 emissions in suppliers' logistical processes. At the end of 2009, Swisscom achieved an increase of 15.7 % in energy efficiency compared to 2002; this is in line with the target agreed with the Energy Agency for Industry.

Heating fuel consumption

Swisscom consumed 212 terajoules (59 GWh) to heat its buildings in 2009. This equates to an 11 % decline compared to 2008, which can be attributed to the 17 % decrease in heating degree days and termination of leases on some buildings. Swisscom carried out further building renovation work in 2009. However, one of the difficulties in making structural renovations is the fact that Swisscom does not own all the buildings it uses. In such cases, Swisscom has to find collaborative solutions which benefit both parties. In addition, immediate operational optimisation measures are implemented to improve overhead costs and energy usage wherever possible.

Mobility policy and vehicle fuel consumption

One of Swisscom's declared main goals – to offer impeccable customer service, including on the customer's premises – requires the deployment of more staff, which is why mobility expenditure has increased slightly. A total of 71 million kilometres were driven in 2009, which corresponds to energy consumption of 93.3 terajoules (25.9 GWh). This represents a slight decrease in vehicle fuel consumption of 2.6 % compared to 2008, which can be attributed to the use of more fuel-efficient vehicles.
Swisscom primarily consumes petrol and diesel, but also low-pollutant vehicle fuels which emit less CO_2, such as natural gas and biofuel. The petrol and diesel vehicles comply with the highest environmental standards, with over 50 % of the vehicle fleet classified in energy efficiency categories A and B. Swisscom also operates a fleet of 41 hybrid vehicles and 11 natural gas-powered vehicles, which are mainly deployed as pool vehicles at various locations throughout Switzerland.
In the year under review, the internal cost allocation model was changed from the previous principle (whereby every car user pays the same amount per day and vehicle type) to the user-pays principle. In this way, internal car users pay the actual costs incurred and have an incentive to keep these to a minimum, in other words to drive fewer kilometres.
A separate CO_2 levy of 1.5 cents per air mile has been charged on international flights since 2007. This money is used to fund internal environmental projects in the field of mobility. For example, the fund was used to cover the additional costs of purchasing hybrid vehicles or replacing older vehicles with more fuel-efficient ones, so that they can be offered as pool vehicles and rented at a cheaper rate.

Electricity consumption and green electricity

Electricity consumption in 2009 totalled 445 GWh. This figure was based on a forecast and was not adjusted for third-party consumption. The increased electricity consumption year-on-year is attributable to the company's growing activities and the extended network infrastructure.
In 2009 Swisscom continued to implement its most important energy saving project, "Mistral", a cooling technology that uses only fresh air all year round, thereby eliminating the need for traditional, energy-intensive cooling systems with compressors and significantly enhancing energy efficiency. This method was successfully deployed in over 320 telephone exchanges by the end of 2009, which represents an increase of 60 % compared to the previous year. Thirty mobile base stations and three Swisscom Broadcast transmission stations were also converted to the new system. At the end of 2009, 10 GWh of energy had been saved compared to the previous cooling method. Once all installations in the

public switched telephone network have been converted, Swisscom expects to save 45 million kilowatts of electricity every year versus conventional cooling methods: equivalent to the volume consumed by around 9,000 households or around 10 % of Swisscom's current electricity consumption. Besides saving energy and increasing efficiency, Swisscom also cares about the quality of the electricity it uses. Around 13 million kWh of "Naturemade Star" green electricity was purchased in 2009, attesting to Swisscom's preference for renewable energies. This electricity is generated from ecological hydro power, wind power, solar energy and biomass. Swisscom is still Switzerland's biggest consumer of wind and solar power.

Awards

In recognition of its innovative Mistral fresh air cooling system, Swisscom was presented with the Info-Vision Award in the "Go Green" category at the World Broadband Forum Europe at the end of September 2008. It was also presented with the Swiss Green IT Innovation Award 2009 in the category "Green IT" – solutions for IT applications at the Orbit trade fair in Zurich on May 15, 2009.

Other environmental aspects

The analysis conducted in the year under review revealed that Swisscom's impact on the ecosystem is minimal and is progressing in the right direction.

- Paper: Swisscom uses 100 % recycled paper in its offices and uses only paper with the FSC quality seal for other purposes such as advertising and printed materials.
- Water: Consumption of water for sanitation facilities has increased slightly in proportion to the number of employees. As water is not used in business processes, however, it does not constitute an important environmental aspect for Swisscom.
- Recycling: Swisscom minimises the volume of waste it produces by carefully selecting materials and extending the useful life of products where possible. Waste is not recycled in-house but is disposed of by a qualified and authorised specialist company. A contract has been concluded with the Swiss Waste Exchange for the disposal and recycling of waste. Special waste is disposed of by authorised, independently supervised specialist companies in accordance with legal requirements.
- Land: When decommissioned base stations are demolished, Swisscom ensures that the land is ecologically restored. The Swisscom Broadcast mast and building in Waldenburg were replaced in 2009. In this protected area of the Jura, Swisscom had to comply with official legislation in the form of special structural measures. No other project had any significant impact on the biosphere in the year under review. Further information on ecological restoration is available in Note 28 to the consolidated financial statements.
- Electromagnetic fields: Technology always harbours potential risks for the environment. Mobile telephony is available throughout most of Switzerland, and the number of local wireless networks (WLAN) is growing. Mindful of the major responsibility that operating these wireless networks entails, Swisscom commissions internal and external experts to observe and scientifically analyse the influence of non-ionising radiation on organisms. It also supports relevant scientific work, for example projects conducted by the Swiss Research Foundation on Mobile Communication, based at the Swiss Federal Institute of Technology (ETH) in Zurich. Based on current knowledge, scientific experts consider the applicable limit for electromagnetic fields as safe. See statement dated August 2009 on www.icnirp.org. If customers still wish to minimise emissions as a preventative measure when using wireless devices, Swisscom offers suitable products and can provide information on practical measures to take. For example, Swisscom has added to its range of cordless (DECT) telephones a number of devices which emit ultra-low radiation when in Ecomode plus mode. Customers can go online to find out the SAR limits of every mobile device in the range. Those who are interested can find a list of low-radiation mobile devices in the Swisscom range and tips on making low-emission phone calls at www.swisscom.ch.
- Environment and health: People who are affected by the construction and operation of mobile networks or who simply require general information on wireless technologies, the environment and health, can receive advice from specially trained Swisscom employees. Swisscom believes it has a duty to make customers and other interested parties aware of the scientific evidence in the controversial debate surrounding wireless technologies, the environment and health. This evidence shows that if emission limits are complied with, no detrimental effects on human health can be detected. The emission limits are still considered a reliable method of protecting the health of the population. This was the conclusion of the International Commission on Non-Ionising Radiation Protection (ICNIRP), which analysed studies conducted in this field over the past ten years, and this

view is shared by the Swiss Federal Office of Public Health. Nevertheless, both admit that knowledge gaps exist which need to be researched further, and Swisscom supports this.

- Dialogue with local authorities and people living near mobile communications installations: Mobile applications are becoming more and more popular with customers. The quantity of bits and bytes transmitted via Swisscom mobile antennae for advanced services doubles every ten months. It goes without saying that Swisscom upgrades its network to accommodate growing customer needs in line with this trend. In concrete terms, this means building new mobile communications installations, or expanding existing ones. It is common knowledge that, while mobile communications are held in high regard and used extensively, the related infrastructure is not widely accepted. In terms of network construction, therefore, Swisscom has to walk a fine line between diverging interests, and for many years has engaged in dialogue with the various groups, from local residents to municipal authorities. The DIALOG model has helped step up efforts to reconcile the interests of those involved. Based on an initiative launched by Swisscom and its competitors in the Swiss mobile communications market, the DIALOG agreement guarantees heads of local authorities regular information on network planning in their area and, in the case of building projects, gives them the opportunity to suggest viable alternative locations. In the year under review, the DIALOG model was signed by the cantons of Lucerne and Aargau, and is being evaluated by the cantons of Solothurn, Zurich, Zug and Schaffhausen.

Commitment to external environmental activities

Swisscom has long been committed to a number of environmental initiatives in keeping with its sustainability strategy, for instance through its cooperation with the WWF Switzerland and as a member of the WWF Climate Group. It also supports the WWF's SMARAGD project, a European network for the protection of endangered flora, fauna and biotopes. Swisscom is not only the principal sponsor of the SMARAGD project but also plays an active role, and teams of Swisscom employees regularly volunteer their services to work on various local projects. Over 200 employees provided assistance in five SMARAGD regions in 2009.

Swisscom is also patron of the Swiss National Park and the GLOBE programme, which raises awareness of environmental issues among schoolchildren and provides a global forum for teachers, pupils and scientists. This global exchange of views is only possible thanks to modern telecommunications. In conjunction with Telecom Italia, Swisscom also leads the European Energy Task Team (ETNO), a working group which aims to increase energy efficiency in the telecoms sector. In addition, for the past five years Swisscom has been a member of the Environmental Engineering (EE) working group of the European Telecommunications Standards Institute (ETSI). As part of this commitment, Swisscom has been fully supporting the broadening of the application of the ETSI Standard EN 300019-1-3 (class 3.1) governing the operation of IT facilities. This harmonisation will facilitate deployment of the new fresh air cooling technology in data processing environments.

Towards a common goal

Exchanging ideas and opinions with external partners is important to Swisscom, which is why it works with a number of organisations and associations that pursue the same goals. In the area of sustainability, these are:

- European Telecommunications Network Operators (ETNO), Sustainability Working Group. Swisscom was one of the first telecommunications providers in Europe to sign the ETNO Environmental Charter in 1996 and the Sustainability Charter in 2002.
- Swiss Association for Environmentally Conscious Management (ÖBU); Swisscom has been a member since 1999.
- Energy Agency for Industry (EnAW): Swisscom has signed a target agreement for CO_2 reduction and increased energy efficiency. Swisscom joined the EnAW in 2003.
- Transparency International (Switzerland) which aims to combat all forms of corruption. Swisscom has been a member since 2005.

In the environmental area:

- WWF Climate Group: This group aims to promote ecological products and services which generate low CO_2 emissions or are more environmentally friendly. Swisscom has been an active member since 2006.
- Association for Environmentally Sound Energy (VUE) Swisscom has had a seat on the Board since 2006.
- "Climate Cent" Foundation Swisscom signed a target agreement for CO_2 reduction in mobile products at the end of 2007.
- ETNO Energy Task Team: This group was formed by several European telecommunications providers which are particularly interested in the aspects of energy efficiency and CO_2 emissions in the telecoms sector. Swisscom has led this group since 2007.
- Energho: an association which promotes energy efficiency in buildings. Swisscom has had a seat on the Board since 2008.

Environmental performance indicators in Switzerland

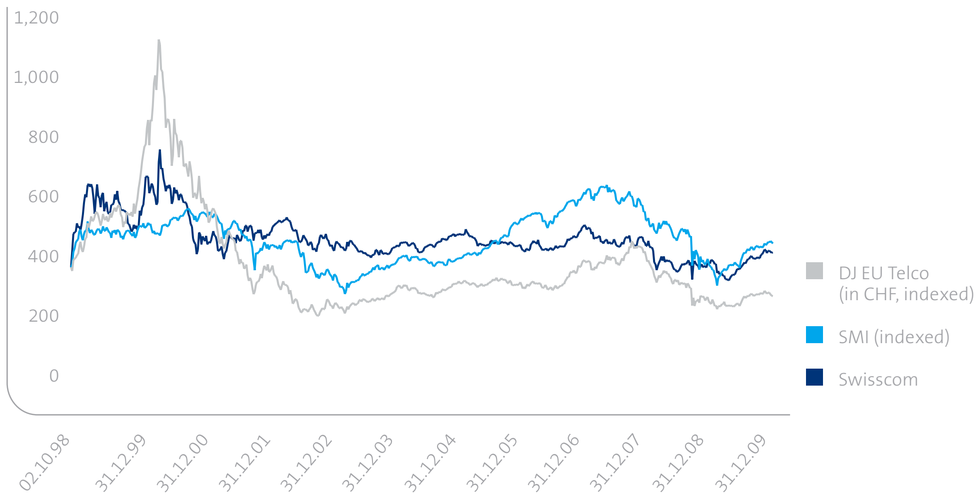
	Unit	2007	2008	2009
Performance indicators				
Employees in Switzerland (full-time equivalent)	FTE	15,959	16,104	15,995
Financial added value [1]	in CHF millions	6,204	6,020	6,086
Telecom traffic (transmitted data volume)	millions of gigabits	1,051	1,531	2,082
Land/buildings				
Net floor space (NFS)	millions of m^2	1.02	1.01	0.88
Paper for photocopying and printing				
Format A4 100% recycled (other formats converted)	millions of sheets	58.1	61.0	49.6
Water/sewage				
Water consumption [2]	m^3	449,725	453,811	453,698
Energy, electricity				
Electrical energy consumption [3]	Terajoule	1,477	1,538	1,584
	GWh	410	427	445 [4]
Energy, heating				
Heating oil [5]	Terajoule	148.3	176.0	161.2
Natural gas	Terajoule	30.7	37.0	24.9
District heating	Terajoule	34.4	25.0	25.8
Heating, total	Terajoule	213.4	238.0	211.9
Energy, fuel				
Gasoline	Terajoule	96.4	98.0	93.3
Diesel fuel	Terajoule	81.4	82.6	83.1
Natural gas	Terajoule	0.2	0.6	0.4
Total fuel	Terajoule	178.0	181.2	176.8
Vehicles total	Number	3,166	3,392	3,240
Kilometers driven	millions of km.	66.1	70.0	71.0
Energy, total				
Energy consumption	Terajoule	1,868	1,957	1,973
	GWh	519	544	548
Air emissions				
Carbon dioxide CO_2	Tons	25,736	28,367	26,296
Nitrous gases NO_x	Tons	37.2	40.6	39.7
Sulphur dioxide SO_2	Tons	4.7	5.1	4.9
Waste				
Waste tonnage [6]	Tons	1,265	970	855

[1] Financial added value, in Switzerland as per system limit for environmental indicators: EBITDA (operating income before interest, taxes and depreciation and amortization) + personnel expense.
[2] Management estimates.
[3] Energy conversion: 1 terajoule (TJ) = 0.278 gigawatt hours (GWh).
[4] Value 2009 based on a forecast.
[5] Heating oil consumption based on extrapolations.
[6] Based on data provided by the Swiss Waste Exchange and the Group companies; domestic waste not included.

Share information

Swisscom share

Performance of the Swisscom share on the virt-x



The Swisscom share was exposed to the effects of the difficult overall situation on the stock markets in 2009, hitting a historical low of CHF 291.25 on April 28, and subsequently rising by 16.5% to close the year at CHF 395.60. This increase in value lagged behind the Swiss Market Index SMI (+18.3%), but was above the European Telco Index (+10.6%). Average daily trading volume fell by 28% to 140,030 units. Total sales volume of Swisscom shares traded amounted to CHF 12.1 billion in 2009. On April 24, 2009, Swisscom paid out an ordinary dividend of CHF 19 per share. Based on the share price at the end of 2008, this equates to a return of 5.6%. Taking into account the increase in share price, the Swisscom share achieved a total shareholder return of 22.1% in 2009, thereby exceeding the TSR (total shareholder return) of the SMI (+21.1%) and the DJ Euro Telco Index (+17%, in CHF).
Swisscom shares are listed on the SIX Swiss Exchange and traded under the ticker symbol "SCMN" (Securities No. 874251), and in the USA in the form of American Depositary Receipts (ADR) at a ratio of 1:10 (Over-the-Counter Level 1 programme) under the ticker symbol "SCMWY" (Pink Sheet No. 69769).

		2005	2006	2007	2008	2009
Par value per share at end of year	CHF	1.00	1.00	1.00	1.00	1.00
Number of shares issued at end of period	in thousands	56,719	56,719	56,719	53,441	51,802
Closing price at end of period	CHF	414.75	461.25	442.00	339.50	395.60
Earnings per share	CHF	33.79	28.90	39.92	33.90	37.22
Ordinary dividend per share	CHF	16.00	17.00	18.00	19.00	20.00 [1]
Extraordinary dividend per share	CHF	–	–	2.00	–	–
Ratio payout/earnings per share	%	47.35	58.82	50.10	56.05	53.73
Equity per share	CHF	100.29	79.80	107.60	104.03	123.73
Market capitalization at end of year	in CHF millions	23,523	23,894	22,896	17,587	20,491

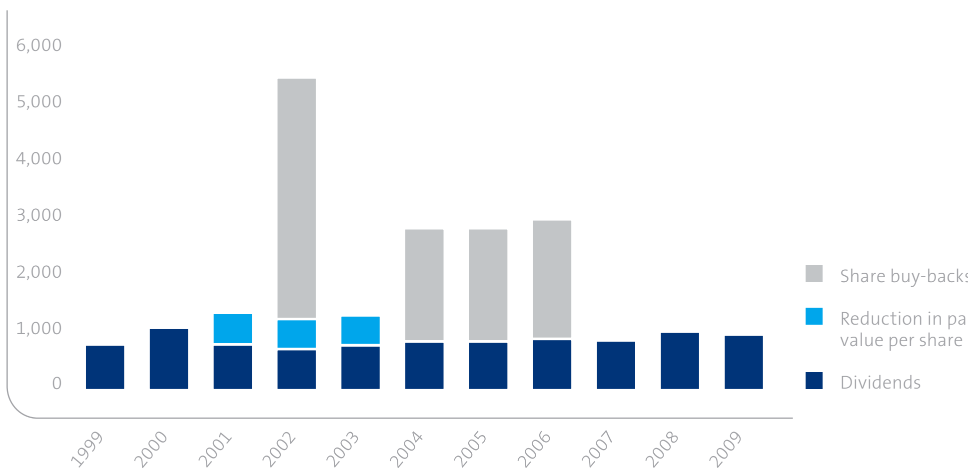
[1] In accordance with the proposal of the Board of Directors to the Annual General Meeting.

Payout policy

in CHF millions	2009	2008	Change
Operating income (EBITDA)	4,666	4,789	(123)
Change in operating assets and liabilities and other receipts and payments from operating activities	14	(277)	291
Capital expenditure in property, plant & equipment and other intangible assets	(1,987)	(2,050)	63
Proceeds from sale of property, plant and equipment and other intangible assets	31	26	5
Dividends paid to minority interests	(55)	(12)	(43)
Operating free cash flow	**2,669**	**2,476**	**193**

In accordance with Swisscom's payout policy, up to half of the operating free cash flow is paid out to shareholders in the subsequent year, with payment at least on a par with the previous year's dividend. At the Annual General Meeting of Shareholders on April 27, 2010, the Swisscom Board of Directors will propose that the ordinary dividend be increased to CHF 20 per share (2008: CHF 19). This corresponds to a total dividend amount of CHF 1,036 million or 39% of operating free cash flow. This payout will allow Swisscom to further reduce net debt and give it more financial flexibility.

Development of distribution CHF in millions since initial public offer



Since going public in 1998, Swisscom has distributed a total of CHF 21.8 billion to shareholders: CHF 9.8 billion in dividend payments, CHF 1.6 billion in capital reductions and CHF 10.4 billion in share buybacks. Since the flotation, Swisscom has paid out a total of CHF 194 per share, which, compared to the issue price of CHF 340 at the time of going public, represents an annual return of 5.1%. Together with the overall increase in share price of CHF 55.60 per share, this corresponds to an average annual total return of 6.5%.

Financial review

Summary

in CHF millions, except where indicated	2009	2008	Change
Net revenue	12,001	12,198	–1.6%
Operating income before depreciation and amortization (EBITDA)	4,666	4,789	–2.6%
EBITDA as % of net revenue	38.9	39.3	
Operating income (EBIT)	2,678	2,640	1.4%
Net income	1,925	1,751	9.9%
Earnings per share (in CHF)	37.22	33.90	9.8%
Operating free cash flow	2,669	2,476	7.8%
Capital expenditure in property, plant & equipment and other intangible assets	1,987	2,050	–3.1%
Net debt at end of period	8,932	9,860	–9.4%
Number of full-time equivalent employees at end of period	19,479	19,943	–2.3%

- In 2009, Swisscom's net revenue fell by CHF 197 million or 1.6% to CHF 12,001 million. Of this decline, CHF 132 million can be attributed to currency effects. Based on constant exchange rates, net revenue fell by only CHF 65 million, or 0.5%.
- The Group's Italian subsidiary, Fastweb, increased net revenue in local-currency terms by 8.5% to EUR 1,853 million.
- Excluding Fastweb, revenue dropped by CHF 282 million. Continued price erosion in the Swiss business had an impact of more than CHF 400 million on revenue, which was only partly offset by customer growth and new offerings.
- Operating expense fell year-on-year by CHF 74 million, or 1.0%. The provisions for regulatory risks were increased by CHF 30 million in the fourth quarter of 2009.
- Operating income before depreciation and amortization (EBITDA) fell by CHF 123 million or 2.6% to CHF 4,666 million. Of this decline, CHF 39 million can be attributed to currency effects. At constant exchange rates, EBITDA decreased by only CHF 84 million or 1.7%. While cost savings were unable to compensate fully for the reduction in net revenues, the EBITDA margin saw a year-on-year decline of 0.4 percentage points to 38.9%.
- Despite lower income before depreciation and amortization (EBITDA), net income grew by 9.9% to CHF 1,925 million due to lower depreciation and amortization and one-off items in the prior year's financial result.
- Capital expenditure fell by 3.1% to CHF 1,987 million and amounted to 16.6% (2008: 16.8%) of net revenue.
- Operating free cash flow grew by CHF 193 million or 7.8% to CHF 2,669 million. The decline in operating income before depreciation and amortization (EBITDA) was more than offset by the change in net working capital and lower capital expenditure.
- Net debt at December 31, 2009 fell year-on-year by CHF 928 million to CHF 8,932 million. This equates to 1.9x of EBITDA in 2009.
- In 2009, Swisscom issued two debenture bonds to the value of CHF 1,250 million and CHF 1,500 million which were used for the early repayment of bank loans.
- Headcount fell by 464 FTEs or 2.3% to 19,479 FTEs as a result of increased efficiency, outsourcing of facility management and changes in the scope of consolidation.
- Excluding Fastweb, Swisscom expects to close 2010 with net revenue of around CHF 9.15 billion, EBITDA of around CHF 3.75 billion and capital expenditure of around CHF 1.3 billion. Fastweb is expected to post revenue of around EUR 1.95 billion, EBITDA of around EUR 580 million and capital expenditure of approximately EUR 410 million. Operating free cash flow for the Group, including Fastweb, will be some CHF 2.6 billion.

Net revenue

in CHF millions	2009	2008	Change
Swisscom Switzerland	8,378	8,596	–2.5%
Fastweb	2,783	2,698	3.2%
Other operating segments	839	903	–7.1%
Group Headquarters	1	1	–
Net revenue	**12,001**	**12,198**	–1.6%

Swisscom Switzerland recorded a 2.5% drop in revenue to CHF 8,378 million, with revenue falling both in the fixed network and mobile areas. The lower revenue due to price reductions as a result of competition and regulatory factors could not be offset by customer growth and growth in mobile data services. Net revenue for Fastweb was 3.2% higher at CHF 2,783 million, an increase of 8.1% based on constant exchange rates. The higher revenue at Fastweb is due to sustained customer growth. Customer numbers rose year-on-year by 10.9% to 1.64 million. Net revenue generated by other operating segments fell by 7.1% to CHF 839 million, primarily as a result of lower revenue from Hospitality Services due to the difficult economic environment, the withdrawal from broadband business in Eastern Europe and the outsourcing of Swisscom Real Estate's facility management business.

Goods and services purchased

in CHF millions	2009	2008	Change
National and international traffic fees	695	797	–12.8%
Traffic fees of foreign subsidiaries	762	782	–2.6%
Customer premises equipment and merchandise	789	775	1.8%
Miscellaneous goods and services purchased	402	443	–9.3%
Total goods and services purchased	**2,648**	**2,797**	**–5.3%**

Goods and services purchased were CHF 149 million or 5.3% lower year-on-year at CHF 2,648 million. This decrease is primarily due to lower traffic charges and a reduction in materials purchased. Traffic charges fell largely as a result of lower roaming and termination prices for international traffic. Expenses for customer premises equipment and merchandise rose as a result of the growth in Fastweb customers. On the other hand the overall number of handsets sold by Swisscom Switzerland fell, although more iPhones were sold than in the previous year. Other goods and services purchased were lower, primarily due to the drop in revenue from outsourcing and project business.

Personnel expense

in CHF millions	2009	2008	Change
Salary and wage costs	2,049	1,999	2.5%
Social security expenses	232	225	3.1%
Pension cost	176	120	46.7%
Termination benefits	30	3	–
Other personnel expense	90	119	–24.5%
Total personnel expense	**2,577**	**2,466**	**4.5%**
Full-time equivalent employees at end of year	19,479	19,943	–2.3%
Average number of full-time equivalent employees	19,813	19,801	0.1%

Personnel expense increased by CHF 111 million or 4.5% to CHF 2,577 million, mainly due to salary increases, higher pension cost and termination benefits. The higher pension costs are due to the valuation and accounting method prescribed by IFRS. However, the actual contributions paid in relation to salary costs fell. At 19,479 FTEs, headcount at December 31, 2009 was lower by 464 FTEs or 2.3% compared with the previous year. This decline is primarily the result of increased efficiency at Swisscom Switzerland, the outsourcing of facility management and the withdrawal from the broadband business in Eastern Europe.

Other operating expense

in CHF millions	2009	2008	Change
Rental expense	381	355	7.3%
Repair and maintenance expense	260	296	–12.2%
Information technology cost	187	181	3.3%
Advertising and selling expenses	199	213	–6.6%
Dealer commissions	400	443	–9.7%
Consultancy expenses and freelance employees	222	256	–13.3%
Allowances for receivables	138	152	–9.2%
Miscellaneous operating expenses	737	704	4.7%
Total other operating expense	**2,524**	**2,600**	**–2.9%**

Other operating expense fell year-on-year by CHF 76 million or 2.9% to CHF 2,524 million. This reduction is a result of cost savings, primarily for network maintenance, consulting services and freelance employees. The lower number of mobile handsets sold by Swisscom Switzerland led to a reduction in expenses for dealer commissions. An additional provision of CHF 30 million was recognized under miscellaneous operating expense in the fourth quarter of 2009 for regulatory risks in relation to access services in Switzerland.

Capitalized self-constructed assets and other income

in CHF millions	2009	2008	Change
Capitalized self-constructed assets	278	269	3.3%
Gain on sale of property, plant and equipment	16	15	6.7%
Compensation payment from Telecom Italia in connection with proceedings about unfair solicitation of customers	30	48	–37.5%
Miscellaneous income	90	122	–26.2%
Total capitalized self-constructed assets and other income	**414**	**454**	**–8.8%**

At CHF 414 million, capitalized self-constructed assets and other income were CHF 40 million or 8.8% lower year-on-year. The level of self-constructed assets increased by CHF 9 million or 3.3% year-on-year, to CHF 278 million. In 2008 and 2009, Fastweb received a compensation payment from Telecom Italia for the latter's unfair solicitation of customers.

Depreciation, amortization and impairment losses

in CHF millions	2009	2008	Change
Depreciation & amortization and impairment losses on property, plant & equipment	1,438	1,563	–8.0%
Amortization of other intangible assets	550	557	–1.3%
Impairment losses on goodwill and other intangible assets	–	29	–
Total depreciation, amortization and impairment losses	**1,988**	**2,149**	**–7.5%**

Depreciation, amortization and impairment losses decreased year-on-year by CHF 161 million or 7.5% to CHF 1,988 million, primarily due to the change in useful lives. Following a regulatory ruling concerning prices for interconnection services, the useful lives of cabling were reviewed and revised in early 2009. The useful life of copper cables was increased from 15 to 20–30 years, and for fiber-optic cables from 15 to 20 years, effective from January 1, 2009. The positive impact on depreciation and amortization for 2009 amounted to CHF 100 million. Amortization of other intangible assets includes scheduled amortization related to business combinations totaling CHF 163 million (2008: CHF 186 million), which were capitalized within the purchase price allocation as intangible assets.

Net financial result

in CHF millions	2009	2008	Change
Interest income	48	113	(65)
Interest expense	(316)	(434)	118
Net interest expense	**(268)**	**(321)**	**53**
Present-value adjustments on provisions	(22)	(12)	(10)
Costs for termination of hedges	(96)	–	(96)
Recognition of provisions for cross-border lease agreements	–	(126)	126
Dilution gain in connection with associated companies	44	–	44
Foreign exchange gains (foreign exchange losses)	14	(8)	22
Other financial result, net	(8)	(21)	13
Total financial income and financial expense, net	**(336)**	**(488)**	**152**

At CHF 336 million, the net financial result was CHF 152 million higher year-on-year. This improvement is largely due to one-off charges in the previous year. A provision of CHF 126 million related to the early termination of cross-border lease agreements was recognized in the second quarter of 2008. Net interest expense fell by CHF 53 million year-on-year as a result of the reduction in net debt. Swisscom posted an improved foreign exchange result of CHF 22 million in 2009 and a dilution gain of CHF 44 million on its investment in the associated company Belgacom International Carrier Services. In the second half of 2009, hedging relationships were terminated in connection with the early repayment of bank loans, resulting in an expense of CHF 96 million.

Associated companies

in CHF millions	2009	2008	Change
Share of results of associated companies	**43**	**47**	**(4)**
Carrying amount of associated companies	228	285	(57)
Dividends received	93	9	84

This position mainly comprises the share of investments in Belgacom International Carrier Services, Cinetrade and PubliDirect. The share of profits of investments in associated companies fell year-on-year by CHF 4 million to CHF 43 million. Dividends of CHF 93 million (2008: CHF 9 million) mainly result from dividend payments made by PubliDirect and Belgacom International Carrier Services.

Income tax expense

in CHF millions	2009	2008	Change
Current tax expense	339	343	–1.2%
Deferred tax expense	121	105	15.2%
Total income tax expense	**460**	**448**	**2.7%**
Effective income tax rate	19.3%	20.4%	
Income taxes paid	300	401	–25.2%

Income tax expense amounted to CHF 460 million (2008: CHF 448 million), corresponding to an effective income tax rate of 19.3% (2008: 20.4%). Income tax payments fell year-on-year by CHF 101 million to CHF 300 million. In future a long-term income tax rate of around 21% is expected.

Net income and earnings per share

in CHF millions, except where indicated	2009	2008	Change
Net revenue	**12,001**	**12,198**	**–1.6%**
Operating expense	(7,335)	(7,409)	–1.0%
Operating income before depreciation and amortization (EBITDA)	**4,666**	**4,789**	**–2.6%**
Depreciation, amortization and impairment losses	(1,988)	(2,149)	–7.5%
Operating income (EBIT)	**2,678**	**2,640**	**1.4%**
Financial income and financial expense, net	(336)	(488)	–31.1%
Share of results of associated companies	43	47	–8.5%
Income before income taxes	**2,385**	**2,199**	**8.5%**
Income tax expense	(460)	(448)	2.7%
Net income	**1,925**	**1,751**	**9.9%**
Share of net income attributable to equity holders of Swisscom Ltd	1,928	1,756	9.8%
Share of net income attributable to minority interests	(3)	(5)	–
Average number of shares outstanding (in mio.)	51.800	51.793	–
Earnings per share (in CHF)	37.22	33.90	9.8%

Net income increased year-on-year by 9.9% or CHF 174 million to CHF 1,925 million, due primarily to lower depreciation and amortization as a result of the change in useful lives and one-off items in the prior year's net financial result. The largest one-off item in the previous year was a provision of CHF 126 million for the early termination of long-term lease agreements. Earnings per share are calculated on the basis of net income attributable to the equity holders of Swisscom Ltd and the average number of shares outstanding. Net income attributable to the equity holders of Swisscom Ltd increased year-on-year by 9.8% to CHF 1,928 million. Earnings per share rose accordingly from CHF 33.90 to CHF 37.22.

Segment results

	Net revenue [1]			Operating income before depreciation and amortization (EBITDA)		
in CHF millions	2009	2008	Change	2009	2008	Change
Swisscom Switzerland	8,453	8,681	–2.6%	3,675	3,768	–2.5%
Fastweb	2,793	2,698	3.5%	831	864	–3.8%
Other operating segments	1,727	1,834	–5.8%	334	349	–4.3%
Group Headquarters	6	6	–	(160)	(176)	–9.1%
Intersegment elimination	(978)	(1,021)	–4.2%	(14)	(16)	–12.5%
Total	**12,001**	**12,198**	**–1.6%**	**4,666**	**4,789**	**–2.6%**

[1] Includes intersegment revenue.

Segment reporting is made based on the segments "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business", "Wholesale" and "Networks" which are regrouped under "Swisscom Switzerland", as well as "Fastweb" and "Other operating segments". "Group Headquarters", which includes non-allocated costs, is disclosed separately.
The divisions of Swisscom Switzerland are disclosed as individual segments. The support functions of finance, human resources and strategy of Swisscom Switzerland are included in the "Networks" division. Revenue and results of the segments correspond to the internal reporting system. No separate network costs are charged for the financial management of customer segments. The results of the customer segments "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business" and "Wholesale" therefore correspond to a contribution margin before network costs. Network

costs are budgeted, monitored and controlled by the "Networks" division, which is managed as a cost centre. Consequently, no revenue is credited to the "Networks" segment in the context of segment reporting. The segment result of the "Networks" segment consists of operating expenses as well as depreciation and amortization less costs of capitalized self-constructed assets and other income. The total segment result of Swisscom Switzerland corresponds to the operating income (EBIT) of Swisscom Switzerland.

The segment result of "Fastweb" and "Other operating segments" corresponds to the operating income (EBIT) of these units. This encompasses net revenue from external customers and other segments less segment expense and depreciation, amortization and impairment losses on property, plant and equipment as well as on intangible assets. Segment expense includes goods and services purchased, personnel expense and other operating expense less capitalized self-constructed assets and other income.

"Group Headquarters" does not charge management fees to other segments for financial management, nor does the "Networks" segment charge any network costs to other segments. Other intersegment services are recharged at market prices.

Swisscom Switzerland

in CHF millions, except where indicated	2009	2008	Change
Net revenue and segment result			
Revenue wireless	3,718	3,803	–2.2%
Revenue wireline access lines	2,146	2,166	–0.9%
Revenue wireline traffic	1,154	1,243	–7.2%
Revenue other	1,360	1,384	–1.7%
Revenue from external customers	**8,378**	**8,596**	**–2.5%**
Intersegment revenue	75	85	–11.8%
Net revenue of Swisscom Switzerland	**8,453**	**8,681**	**–2.6%**
Direct costs	(1,870)	(2,038)	–8.2%
Indirect costs (including capitalized costs and other income)	(2,908)	(2,875)	1.1%
Total segment expense	**(4,778)**	**(4,913)**	**–2.7%**
Segment result before depreciation and amortization	**3,675**	**3,768**	**–2.5%**
Margin as % of net revenue	*43.5*	*43.4*	
Depreciation, amortization and impairment losses	(962)	(1,028)	–6.4%
Segment result	**2,713**	**2,740**	**–1.0%**
Capital expenditure and number of employees			
Capital expenditure in property, plant & equipment and other intangible assets	1,219	1,171	4.1%
Full-time equivalent employees at end of year	11,866	12,034	–1.4%
Operational data in thousands, except where indicated			
Telephone access lines PSTN/ISDN	3,484	3,623	–3.8%
Broadband access lines	1,803	1,756	2.7%
Unbundled fixed access lines	153	31	–
Swisscom TV subscribers	230	118	94.9%
Mobile subscribers (SIM cards)	5,610	5,370	4.5%
Average revenue in CHF per mobile user (ARPU) per month	50	53	–5.7%
Average minutes per mobile user (AMPU) per month	113	114	–0.9%

In the past year, Swisscom Switzerland's revenue from external customers dropped by CHF 218 million or 2.5% to CHF 8,378 million. Fixed-network revenue fell due to price and volume factors, while the reduction in mobile revenue was attributable to cheaper subscription prices, lower termination and roaming charges and reduced handset sales. The decline in revenue resulting from sustained price erosion due to competition and regulation amounted to over CHF 400 million. Growth in mobile subscribers, broadband access lines and IPTV subscribers (Swisscom TV) as well as higher revenue from mobile data services partly offset the reduction in revenue.

Segment expense was CHF 135 million or 2.7% lower at CHF 4,778 million. Direct costs fell as a result of lower termination and roaming prices as well as reduced number of mobile handsets sold. Cost savings offset higher expenses related to improvements in customer service. An additional provision of CHF 30 million was recognized under operating expense in the fourth quarter of 2009 for regulatory risks in relation to access services. At CHF 3,675 million, the segment result before depreciation and amortization was CHF 93 million or 2.5% below the prior-year level. A large part of the drop in revenue was offset by cost savings. At 43.5%, the margin was in line with the previous year.

The number of PSTN/ISDN access lines decreased by 139,000 or 3.8% to 3.5 million, mainly due to an increase in the number of unbundled fixed access lines. Unbundled fixed access lines at the end of 2009 amounted to 153,000 (2008: 31,000). The net number of broadband access lines increased year-on-year by 47,000 or 2.7% to 1.8 million. The number of Swisscom TV subscribers almost doubled compared to the previous year, to end 2009 at 230,000. The net number of mobile subscribers increased year-on-year by 240,000 or 4.5% to 5.6 million. Revenue generated by mobile data services (excluding SMS) was 18.2% higher at CHF 410 million, while average revenue per user per month (ARPU) declined by 5.7% to CHF 50 due to price reductions and new tariff models.

Residential Customers

The Residential Customers segment mainly comprises access fees for broadband services, fixed and mobile subscriptions as well as national and international telephone and data traffic for residential customers. The segment also includes value-added services and TV offerings, handset sales and directory business. Since July 2008, the branch network acquired from The Phone House AG (Phone House) have also been included in the Residential Customers segment. The following table lists the key figures for the Residential Customers segment:

in CHF millions, except where indicated	2009	2008	Change
Net revenue and segment result			
Revenue from external customers	4,722	4,774	–1.1%
Intersegment revenue	291	342	–14.9%
Net revenue	**5,013**	**5,116**	**–2.0%**
Direct costs	(1,253)	(1,326)	–5.5%
Indirect costs (including capitalized costs and other income)	(852)	(828)	2.9%
Total segment expense	**(2,105)**	**(2,154)**	**–2.3%**
Segment result before depreciation and amortization	**2,908**	**2,962**	**–1.8%**
Margin as % of net revenue	*58.0*	*57.9*	
Depreciation, amortization and impairment losses	(94)	(65)	44.6%
Segment result	**2,814**	**2,897**	**–2.9%**
Capital expenditure and number of employees			
Capital expenditure in property, plant & equipment and other intangible assets	131	162	–19.1%
Full-time equivalent employees at end of year	4,675	4,696	–0.4%
Operational data in thousands, except where indicated			
Telephone access lines PSTN/ISDN	2,693	2,826	–4.7%
Broadband access lines	1,279	1,148	11.4%
Swisscom TV subscribers	230	118	94.9%
Mobile subscribers (SIM cards)	4,423	4,293	3.0%
Average revenue in CHF per mobile user (ARPU) per month	42	44	–4.5%
Average minutes per mobile user (AMPU) per month	94	94	–

Revenue from external customers fell year-on-year by CHF 52 million or 1.1% to CHF 4,722 million, largely due to lower revenue generated by fixed-line traffic and mobile telephony. Traffic revenue declined largely as a result of lower volumes due to competition and substitution. Revenue from mobile telephony dropped as a result of price reductions and new tariff models as well as the lower volume of handset sales. This decline in revenue was only partially offset by growth in the customer base and growth in mobile data services. Revenue from other segments fell by CHF 51 million or 14.9% to CHF 291 million, chiefly as a result of lower termination prices and a reduction in recharges for internal project services.

The net number of mobile subscribers increased year-on-year by 130,000 or 3.0%, to 4.4 million, of which 49% were prepaid subscribers and 51% postpaid subscribers as of the end of 2009. The 4.5% drop in average revenue per user (ARPU) per month from CHF 44 to CHF 42 is mainly attributable to price reductions. The net number of broadband access lines rose by 11.4% to 1.3 million, while the number of Swisscom TV subscribers almost doubled in the space of a year, to end 2009 at 230,000.

At CHF 2,105 million, segment expense was CHF 49 million or 2.3% below the previous-year level. Direct costs fell by CHF 73 million or 5.5% to CHF 1,253 million. The reduction in direct costs is due to lower sales of mobile handsets and reduced traffic fees as a result of lower roaming and termination prices. Indirect costs rose by CHF 24 million or 2.9% to CHF 852 million. Despite a lower headcount, personnel expenses rose as a consequence of salary increases and higher pension cost. Headcount fell year-on-year by 21 FTEs or 0.4% to 4,675 FTEs. Other indirect costs were reduced as a result of cost-cutting measures.

However, these cost-cutting measures were unable to fully make up for the decline in revenue, as a consequence of which the segment result before depreciation and amortization ended the year CHF 54 million or 1.8% lower at CHF 2,908 million.

Small and Medium-Sized Enterprises

The Small and Medium-Sized Enterprises segment mainly comprises access fees for broadband services, fixed and mobile subscriptions as well as national and international telephone and data traffic for small and medium-sized enterprises. The following table lists the key figures for the Small and Medium-Sized Enterprises segment:

in CHF millions, except where indicated	2009	2008	Change
Net revenue and segment result			
Revenue from external customers	1,101	1,097	0.4%
Intersegment revenue	55	57	–3.5%
Net revenue	**1,156**	**1,154**	**0.2%**
Direct costs	(173)	(203)	–14.8%
Indirect costs (including capitalized costs and other income)	(133)	(135)	–1.5%
Total segment expense	**(306)**	**(338)**	**–9.5%**
Segment result before depreciation and amortization	**850**	**816**	**4.2%**
Margin as % of net revenue	*73.5*	*70.7*	
Depreciation, amortization and impairment losses	(3)	(1)	–
Segment result	**847**	**815**	**3.9%**
Capital expenditure and number of employees			
Capital expenditure in property, plant & equipment and other intangible assets	9	7	28.6%
Full-time equivalent employees at end of year	765	758	0.9%
Operational data in thousands, except where indicated			
Telephone access lines PSTN/ISDN	511	511	–
Broadband access lines	173	158	9.5%
Mobile subscribers (SIM cards)	445	411	8.3%
Average revenue in CHF per mobile user (ARPU) per month	92	97	–5.2%
Average minutes per mobile user (AMPU) per month	200	203	–1.5%

Revenue from external customers increased year-on-year by CHF 4 million or 0.4% to CHF 1,101 million. On the one hand, the increase is a result of growth in mobile subscribers and broadband access lines as well as higher revenue generated by mobile data services. On the other, lower volumes and cheaper tariffs led to a reduction in fixed-network revenue.
The number of broadband access lines rose by 9.5% to end the year at 173,000. While the number of mobile subscribers increased year-on-year by 34,000 or 8.3% to 445,000, average revenue per user (ARPU) per month fell by 5.2% to CHF 92 due to new tariff models, price reductions and an increase in the number of SIM cards for mobile data services.
Segment expense was CHF 32 million or 9.5% lower at CHF 306 million. Direct costs fell by CHF 30 million or 14.8% to CHF 173 million, largely as a result of lower roaming and termination prices as well as reduced expenditure for purchased goods in the hardware and software business. At CHF 133 million, indirect costs remained virtually stable year-on-year.
Thanks to the increase in revenue and to cost-cutting measures, the segment result before depreciation and amortization improved by CHF 34 million or 4.2% to CHF 850 million. Headcount was practically unchanged year-on-year at 765 full-time equivalent employees.

Corporate Business

The Corporate Business segment specializes in communications solutions for corporate customers. Offerings range from individual products to integrated solutions for business ICT infrastructures. This includes a comprehensive range of services for the planning, installation, commissioning, maintenance and operation of network infrastructures based on the mobile and fixed networks as well as the related IT systems. The following table lists the key figures for the Corporate Business segment:

in CHF millions, except where indicated	2009	2008	Change
Net revenue and segment result			
Revenue from external customers	1,678	1,750	–4.1%
Intersegment revenue	147	156	–5.8%
Net revenue	**1,825**	**1,906**	**–4.2%**
Direct costs	(443)	(531)	–16.6%
Indirect costs (including capitalized costs and other income)	(431)	(432)	–0.2%
Total segment expense	**(874)**	**(963)**	**–9.2%**
Segment result before depreciation and amortization	**951**	**943**	**0.8%**
Margin as % of net revenue	*52.1*	*49.5*	
Depreciation, amortization and impairment losses	(50)	(42)	19.0%
Segment result	**901**	**901**	**–**
Capital expenditure and number of employees			
Capital expenditure in property, plant & equipment and other intangible assets	79	78	1.3%
Full-time equivalent employees at end of year	2,220	2,211	0.4%
Operational data in thousands, except where indicated			
Telephone access lines PSTN/ISDN	280	286	–2.1%
Broadband access lines	20	19	5.3%
Mobile subscribers (SIM cards)	742	666	11.4%
Average revenue in CHF per mobile user (ARPU) per month	72	80	–10.0%
Average minutes per mobile user (AMPU) per month	175	191	–8.4%

Revenue from external customers declined by CHF 72 million or 4.1% to CHF 1,678 million as a result of a reduction in volume in project and outsourcing business as well as lower prices and volumes in the fixed-network area. The 11.4% increase in revenue generated by mobile telephony was outweighed by lower traffic and subscription prices, with a corresponding reduction of 10.0% in average revenue per user (ARPU) to CHF 72 per month. The reduction of 8.4% in average number of minutes per mobile subscriber per month (AMPU) to 175 minutes is largely attributable to the increase in SIM cards for mobile data services.

Segment expense fell by CHF 89 million or 9.2% to CHF 874 million, chiefly as a result of lower roaming and termination costs as well as reduced expenses resulting from the decline in revenue from project and outsourcing business.
The segment result before depreciation and amortization increased accordingly by CHF 8 million or 0.8% to CHF 951 million year-on-year. Headcount increased by 9 FTEs or 0.4% to 2,220 full-time equivalent employees.

Wholesale

Wholesale primarily covers the use of Swisscom fixed and mobile networks by other telecommunication providers as well as the use of third-party networks by Swisscom. In addition, it includes roaming by foreign operators whose customers use the Swisscom mobile network, as well as broadband services and regulated products related to the unbundling of the local loop for other telecommunication providers. The following table lists the key figures for the Wholesale segment:

in CHF millions, except where indicated	2009	2008	Change
Net revenue and segment result			
Revenue from external customers	877	975	–10.1%
Intersegment revenue	568	693	–18.0%
Net revenue	**1,445**	**1,668**	**–13.4%**
Direct costs	(931)	(1,072)	–13.2%
Indirect costs (including capitalized costs and other income)	(37)	7	–
Total segment expense	**(968)**	**(1,065)**	**–9.1%**
Segment result	**477**	**603**	**–20.9%**
Margin as % of net revenue	*33.0*	*36.2*	
Number of full-time equivalent employees			
Full-time equivalent employees at end of year	92	105	–12.4%
Operational data in thousands, except where indicated			
Broadband access lines	331	431	–23.2%
Unbundled fixed access lines	153	31	–
Wholesale traffic in million minutes	11,263	12,878	–12.5%

Revenue from external customers fell year-on-year by CHF 98 million or 10.1% to CHF 877 million. Price reductions drove down revenue from roaming by foreign customers on the Swisscom mobile network as well as revenue from broadband services for other telecommunication providers. This reduction in revenue could not be offset by additional revenue from the unbundling of the local loop. In addition, revenue from interconnection services fell as a result of lower prices and volumes. Intersegment revenue was CHF 125 million or 18.0% lower at CHF 568 million, largely due to lower roaming and termination prices.
Segment expense fell by CHF 97 million or 9.1% to CHF 968 million. Direct costs were CHF 141 million or 13.2% lower at CHF 931 million, mainly as a result of price reductions for roaming and termination. An additional provision of CHF 30 million was recognized in the fourth quarter of 2009 for regulatory risks in relation to access services. In the previous year, provisions for interconnection services amounting to CHF 12 million were released. Taking into account these adjustments of provisions, segment result fell by CHF 84 million or 14.2%. The lower segment result is largely attributable to a fall in revenue from external customers. The reduction in intersegment revenue has only a minimal impact on the segment's overall results.

Networks

The Networks segment primarily covers the planning, operation and maintenance of Swisscom's fixed and mobile network infrastructures and associated IT systems. It also includes the support functions for Swisscom Switzerland in the areas of finance, human resources and strategy. Since expenses incurred are not charged to individual business units, the segment discloses costs only and no revenue. The following table lists the key figures for the Networks segment:

in CHF millions, except where indicated	2009	2008	Change
Segment result			
Personnel expense	(657)	(641)	2.5%
Rental expense	(229)	(229)	–
Repair and maintenance expense	(203)	(247)	–17.8%
Information technology cost	(330)	(329)	0.3%
Other expense	(275)	(317)	–13.2%
Capitalized self-constructed assets and other income	184	208	–11.5%
Segment result before depreciation and amortization	**(1,510)**	**(1,555)**	**–2.9%**
Depreciation, amortization and impairment losses	(817)	(923)	–11.5%
Segment result	**(2,327)**	**(2,478)**	**–6.1%**
Capital expenditure and number of employees			
Capital expenditure in property, plant & equipment and other intangible assets	1,000	923	8.3%
Full-time equivalent employees at end of year	4,114	4,264	–3.5%

The segment result before depreciation and amortization fell by CHF 45 million or 2.9% to CHF –1,510 million, largely due to cost-cutting measures. Despite a lower headcount, personnel expense rose as a result of salary increases, higher termination benefits and pension cost. Headcount fell by 150 FTEs or 3.5% to 4,114 full-time equivalent employees, as a consequence of improvements in efficiency. The costs of capitalized self-constructed assets decreased due to a reduction in network construction activities. Depreciation and amortization fell as a result of the change in useful lives for cables, with a positive impact of CHF 100 million on depreciation and amortization for 2009.
At CHF 1,000 million, capital expenditure was CHF 77 million or 8.3% higher, chiefly due to increased investments related to fiber-optic expansion.

Fastweb

Fastweb is Italy's second largest provider of broadband telecommunications services, with a product portfolio that covers voice, data, Internet and IPTV services as well as video on demand for residential and business customers. Fastweb also delivers mobile services based on MVNO (mobile virtual network operator) contracts, and provides a comprehensive range of network services and customized solutions. In local currency terms (EUR), Fastweb's key figures are as follows:

in EUR millions, except where indicated	2009	2008	Change
Net revenue and segment result			
Revenue from external customers	1,846	1,708	8.1%
Intersegment revenue	7	–	–
Net revenue	**1,853**	**1,708**	**8.5%**
Goods and services purchased	(655)	(596)	9.9%
Personnel expense	(210)	(197)	6.6%
Other operating expense	(528)	(491)	7.5%
Capitalized self-constructed assets and other income	91	124	–26.6%
Total segment expense	**(1,302)**	**(1,160)**	**12.2%**
Segment result before depreciation and amortization	**551**	**548**	**0.5%**
Margin as % of net revenue	*29.7*	*32.1*	
Depreciation, amortization and impairment losses	(539)	(524)	2.9%
Segment result	**12**	**24**	**–50.0%**
Capital expenditure and number of employees			
Capital expenditure in property, plant & equipment and other intangible assets	434	438	–0.9%
Full-time equivalent employees at end of year	3,125	3,077	1.6%
Number of subscribers in thousands			
Broadband subscribers	1,644	1,483	10.9%

Fastweb continued to post solid revenue and customer growth in 2009. Net revenue grew by 8.5% to EUR 1,853 million, with residential customers accounting for 38%, small and medium-sized enterprises 22% and corporate customers 40%. Thanks to robust customer acquisition, revenue from residential customers grew by 6% to EUR 697 million, with the net number of Fastweb residential customers growing year-on-year by 130,000 or 10.9% to 1.32 million. Revenue in the corporate business segment rose by 12% to EUR 749 million. Fastweb benefited primarily from long-term contracts with public administrations, with revenue from government agencies rising by 29% or EUR 40 million. At the same time, Fastweb acquired new industrial and financial corporate customers.

At EUR 551 million, the segment result before depreciation and amortization (EBITDA) was 0.5% higher year-on-year. Following a settlement in connection with proceedings concerning illegal solicitation of customers by Telecom Italia, Fastweb received compensation of EUR 30 million in the second quarter of 2008 and a further EUR 20 million in the second quarter of 2009. Both payments were recorded under other income. The difficult economic climate in Italy led to additional allowances of EUR 19 million in 2009 for bad debts. Adjusted for these one-off items, EBITDA rose by EUR 32 million or 6.2%. The adjusted EBITDA margin fell from 30.3% to 29.7% mainly due to growth in the lower-margin corporate business.

At December 31, 2009, headcount was 48 full-time equivalent employees or 1.6% higher year-on-year at 3,125 full-time equivalent employees. The increase in headcount is a result of the expansion of the sales department. Capital expenditure fell by EUR 4 million or 0.9% to EUR 434 million. More than half of capital expenditure was related to customer growth. Capital expenditure on network infrastructure is in decline.

Fastweb is included in Swisscom's consolidated financial statements as at December 31, 2009 as follows:

in CHF millions	2009	2008	Change
Net revenue	2,793	2,698	3.5%
Segment result before depreciation and amortization	831	864	–3.8%
Capital expenditure in property, plant & equipment and other intangible assets	657	691	–4.9%

The average CHF/EUR exchange rate fell by 4.5% year-on-year. The increase in revenue in Swiss francs therefore only amounted to 3.5% (local currency +8.5%) and the segment result before depreciation and amortization decreased by 3.8% (local currency +0.7%).

Other operating segments

Other operating segments mainly comprise the operating segments Swisscom IT Services, Swisscom Participations and Hospitality Services. Swisscom IT Services includes the Group companies Swisscom IT Services Ltd, Comit Ltd as well as the companies acquired in June 2009, Sourcag Ltd and Resource Ltd. Swisscom Participations mainly comprises Swisscom Broadcast Ltd, Swisscom Real Estate Ltd, Cablex Ltd, Billag Ltd, Alphapay Ltd, Curabill Ltd and the Sicap Group. The newly-acquired Weco Inkasso AG has also been included since the end of October 2009. The Minick Group was also included under Swisscom Participations in 2008 until its sale in September of that year. The following table lists the key figures for Other operating segments:

in CHF millions, except where indicated	2009	2008	Change
Net revenue and segment result			
Swisscom IT Services	435	435	–
Swisscom Participations	324	359	–9.7%
Hospitality Services	74	92	–19.6%
Other	6	17	–64.7%
Revenue from external customers	**839**	**903**	**–7.1%**
Intersegment revenue	888	931	–4.6%
Net revenue	**1,727**	**1,834**	**–5.8%**
Goods and services purchased	(108)	(142)	–23.9%
Personnel expense	(599)	(588)	1.9%
Other operating expense	(661)	(702)	–5.8%
Intersegment expense	(71)	(82)	–13.4%
Capitalized self-constructed assets and other income	46	29	58.6%
Total segment expense	**(1,393)**	**(1,485)**	**–6.2%**
Segment result before depreciation and amortization	**334**	**349**	**–4.3%**
Margin as % of net revenue	*19.3*	*19.0*	
Depreciation, amortization and impairment losses	(219)	(300)	–27.0%
Segment result	**115**	**49**	**134.7%**
Capital expenditure and number of employees			
Capital expenditure in property, plant & equipment and other intangible assets	121	191	–36.6%
Full-time equivalent employees at end of year	4,151	4,496	–7.7%

Revenue from external customers decreased year-on-year by CHF 64 million or 7.1% to CHF 839 million. Revenue from external customers at Swisscom IT Services was unchanged compared with the previous year at CHF 435 million. Disregarding Sourcag Ltd and Resource Ltd, which were acquired in June 2009, revenue from external customers fell by CHF 25 million or 5.8%. This decline is primarily the result of lower revenue from the operation of software platforms for banks and from project and outsourcing business. Swisscom Participations recorded a CHF 35 million or 9.7% drop in revenue from external customers to CHF 324 million, chiefly due to the move to outsource Swisscom Real Estate's facility management operations as well as the one-off income recorded in the prior year by Swisscom Broadcast for services related to the European Football Championship. The difficult economic environment drove revenue for Hospitality Services down by CHF 18 million or 19.6% to end the year at CHF 74 million. Other revenue declined as a result of Swisscom's exit from the broadband business in Eastern Europe. At CHF 888 million, intersegment revenue was 4.6% below the prior-year level. The main reasons for this drop were the lower volume of services procured from Swisscom IT Services by other segments, outsourcing of facility management operations and the lower costs of network maintenance carried out by Cablex.

Segment expense fell by CHF 92 million or 6.2% to CHF 1,393 million. The reduction in goods and services purchased is mainly attributable to the fall in revenue generated by Hospitality Services as well as lower costs at Swisscom IT Services as a result of the decline in revenue from project and outsourcing businesses. Despite fewer full-time equivalent positions, personnel expense increased slightly compared to the previous year, largely due to the rise in salaries and higher pension cost. At 4,151 full-time equivalent employees, headcount at December 31, 2009 was lower by 345 full-time equivalent employees or 7.7% compared with the previous year, primarily due to the outsourcing of Swisscom Real Estate's facility management operations and the exit from the broadband market in Eastern Europe. Other operating expense was reduced thanks to cost-cutting measures.

At CHF 334 million, the segment result before depreciation and amortization was CHF 15 million or 4.3% lower year-on-year. The decline in revenue could not be fully offset by cost savings.

At CHF 121 million, capital expenditure was CHF 70 million or 36.6% below the previous-year level. This reduction is mainly attributable to lower capital expenditure by Swisscom Broadcast and Hospitality Services and Swisscom's exit from the broadband market in Eastern Europe.

Group Headquarters

Group Headquarters comprises the Group divisions and the employment company Worklink. The following table lists the key figures for Group Headquarters:

in CHF millions, except where indicated	2009	2008	Change
Net revenue and segment result			
Net revenue	**6**	**6**	**–**
Operating expense	(166)	(182)	–8.8%
Operating income before depreciation and amortization (EBITDA)	**(160)**	**(176)**	**–9.1%**
Depreciation, amortization and impairment losses	(9)	(9)	–
Operating income (EBIT)	**(169)**	**(185)**	**–8.6%**
Capital expenditure and number of employees			
Capital expenditure in property, plant & equipment and other intangible assets	2	10	–
Full-time equivalent employees at end of year	337	336	0.3%

The operating income before depreciation and amortization improved by CHF 16 million to CHF –160 million, primarily due to cost-cutting measures and the non-recurrence of costs recorded in the prior year in connection with the launch of the new brand.

Cash flows from operating activities

in CHF millions	2009	2008	Change
Operating income before depreciation and amortization (EBITDA)	4,666	4,789	(123)
Change in net working capital and other receipts and expenditures from operating activities	14	(277)	291
Income taxes paid	(300)	(401)	101
Cash flow provided by operating activities	**4,380**	**4,111**	**269**

Cash flows from operating activities increased year-on-year by CHF 269 million or 6.5% to CHF 4,380 million. The reduction in operating income before depreciation and amortization (EBITDA) was more than offset by higher net working capital and lower income tax payments. The change in net working capital in 2009 includes payments of CHF 93 million (2008: CHF 90 million) in respect of provisions for interconnection and access services.

Cash flows from investing activities

in CHF millions	2009	2008	Change
Capital expenditure in property, plant & equipment and other intangible assets	(1,987)	(2,050)	63
Proceeds from sale of property, plant and equipment and other intangible assets	31	26	5
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(47)	(47)	–
Proceeds from sale of subsidiaries, net of cash and cash equivalents sold	4	4	–
Purchase and sale of shares in associated companies	(1)	(2)	1
Proceeds from other current and non-current financial investments	883	372	511
Expenditures for current and non-current financial assets	(72)	(221)	149
Interest received	35	111	(76)
Dividends received	93	9	84
Cash flow used in investing activities	**(1,061)**	**(1,798)**	**737**

In 2009, cash flows from investing activities amounted to CHF 1,061 million. Due to the early termination of cross-border leasing agreements, financial assets of some CHF 800 million were sold in the course of 2009.

Capital expenditure on tangible and other intangible assets

in CHF millions	2009	2008	Change
Swisscom Switzerland	1,219	1,171	4.1%
Fastweb	657	691	–4.9%
Other operating segments	121	191	–36.6%
Group Headquarters	2	10	–80.0%
Intersegment elimination	(12)	(13)	–7.7%
Total capital expenditure in tangible and other intangible assets	**1,987**	**2,050**	**–3.1%**
Total capital expenditure as % of net revenue	16.6	16.8	

Capital expenditure fell by CHF 63 million or 3.1% to CHF 1,987 million primarily due to the lower volume of capital expenditure at Fastweb as well as Swisscom's exit from the broadband business in Eastern Europe. Capital expenditure at Swisscom Switzerland rose year-on-year by 4.1% to CHF 1,219 million. Swisscom Switzerland's share of capital expenditure in new infrastructures such as fiber-optic networks and the mobile network with high data transmission speeds rose from 26% to 32% of total capital expenditure. Capital expenditure includes costs of capitalized self-constructed assets of CHF 278 million (2008: CHF 269 million).

Cash flows from financing activities

in CHF millions	2009	2008	Change
Issuance of financial liabilities	3,262	525	2,737
Repayment of financial liabilities	(5,225)	(1,240)	(3,985)
Interest paid	(258)	(436)	178
Acquisition of treasury shares for share-based compensation	(2)	(6)	4
Dividends paid to equity holders of Swisscom Ltd	(984)	(1,036)	52
Dividends paid to minority interests	(55)	(12)	(43)
Other cash flows from financing activities	(482)	(78)	(404)
Cash flow used in financing activities	**(3,744)**	**(2,283)**	**(1,461)**

Cash used for financing activities in 2009 amounted to CHF 3,744 million. Due to the early termination of cross-border lease agreements, financial liabilities of around CHF 1.1 billion were repaid. In 2009, dividend payments to equity holders of Swisscom Ltd and to minority interests amounted to CHF 1,039 million (2008: CHF 1,048 million). In the year under review, two debenture bonds amounting to a total of CHF 2,750 million were issued, which were used in full to repay existing bank loans. Bank loans worth around CHF 800 million were also repaid in 2009. Other cash flows from financing activities in 2009 include payments totaling CHF 258 million to settle provisions related to the early termination of cross-border lease agreements.

Net debt

in CHF millions, except where indicated	31.12.2009	31.12.2008	Change
Debenture bonds	4,801	2,032	2,769
Bank loans	2,570	6,140	(3,570)
Private placements	1,523	1,339	184
Financial liabilities from cross-border lease agreements	15	1,096	(1,081)
Finance lease liabilities	486	502	(16)
Other financial liabilities	615	683	(68)
Total financial liabilities	**10,010**	**11,792**	**(1,782)**
Cash and cash equivalents	(532)	(958)	426
Current financial assets	(178)	(163)	(15)
Non-current fixed interest-bearing deposits	(360)	–	(360)
Financial assets from cross-border lease agreements	(8)	(808)	800
Non-current derivative financial instruments	–	(3)	3
Net debt	**8,932**	**9,860**	**(928)**
Ratio net debt/operating income (EBITDA)	1.9	2.1	
Ratio net debt/equity	1.3	1.7	

Net debt consists of total financial liabilities less cash and cash equivalents, current financial assets, financial assets from cross-border lease agreements as well as non-current fixed interest-bearing deposits and derivative financial instruments.
Swisscom set itself the goal of achieving a maximum net debt/EBITDA ratio of around 2x. This value may be exceeded temporarily. Any figure below this represents financial room for manoeuvre. As at December 31, 2009, the net debt/EBITDA ratio was 1.9.
On April 8, 2009, Swisscom issued a debenture bond with a value of CHF 1,250 million. The coupon amounts to 3.50% with a term until 2014. On September 14, 2009, Swisscom issued a further debenture bond with a value of CHF 1,500 million, with a coupon of 3.25% and a term until 2018. The debenture bonds were used in full to repay existing bank loans. In the first half of 2009, various cross-border lease agreements were terminated early. As a result of these terminations, financial assets were sold and financial liabilities repaid. On December 31, 2009, financial liabilities from cross-border lease agreements amounted to CHF 15 million.

Maturity profile of financial liabilities

Swisscom aims for a broadly-diversified debt portfolio. This involves paying particular attention to balancing maturities and a diversification of financing instruments and financial markets. The following shows the maturity profile of interest-bearing liabilities at nominal value as at December 31, 2009:

in CHF millions	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
Debenture bonds	350	–	1,800	2,600	–	4,750
Bank loans	–	2,200	203	–	97	2,500
Private placements	334	–	408	800	–	1,542
Finance lease liabilities	17	12	29	23	404	485
Other financial liabilities	388	45	13	–	–	446
Total	**1,089**	**2,257**	**2,453**	**3,423**	**501**	**9,723**

Credit ratings

Swisscom has been rated by Standard & Poors and Moody's since 2007. It currently has an A (stable) rating from Standard & Poors and an A2 (stable) rating from Moody's.

Balance sheet

in CHF millions	31.12.2009	31.12.2008	Change
Assets			
Cash and cash equivalents and current financial investments	710	1,128	–37.1%
Trade and other receivables	2,926	2,798	4.6%
Property, plant and equipment	8,044	8,070	–0.3%
Goodwill	6,664	6,633	0.5%
Other intangible assets	2,315	2,282	1.4%
Associated companies and non-current financial assets	652	1,138	–42.7%
Income tax assets	96	96	–
Defined benefit assets	38	–	–
Other current and non-current assets	553	593	–6.7%
Total assets	**21,960**	**22,738**	**–3.4%**
Liabilities and equity			
Financial liabilities	10,010	11,792	–15.1%
Trade and other payables	2,314	2,186	5.9%
Defined benefit obligations	351	428	–18.0%
Provisions	877	1,197	–26.7%
Income tax liabilities	742	570	30.2%
Other current and non-current liabilities	938	802	17.0%
Total liabilities	**15,232**	**16,975**	**–10.3%**
Share of equity attributable to equity holders of Swisscom Ltd	6,409	5,389	18.9%
Share of equity attributable to minority interests	319	374	–14.7%
Total equity	**6,728**	**5,763**	**16.7%**
Total liabilities and equity	**21,960**	**22,738**	**–3.4%**
Equity ratio at end of year	30.6%	25.3%	

At CHF 21,960 million, the balance sheet total as at December 31, 2009 was CHF 778 million or 3.4% lower year-on-year. The main reason for the decline is the early termination of cross-border lease agreements in the second quarter of 2009 as well as lower net debt. Conversely, equity was CHF 965 million or 16.7% higher at CHF 6,728 million, corresponding to an equity ratio of 30.6% (previous year: 25.3%). In 2009 net income and other comprehensive income recognized in equity totaling CHF 2,001 million exceeded dividend payments totaling CHF 1,039 million by CHF 962 million. Other comprehensive income recognized in equity in 2009 includes currency translation losses of CHF 13 million in respect of foreign subsidiaries as a result of lower exchange rates. Compared to the end of 2008, the CHF/EUR exchange rate fell from 1.49 to 1.48. As at December 31, 2009, cumulative currency translation losses recognized in equity amounted to CHF 798 million.

Distributable reserves are calculated on the basis of equity reported in the stand-alone financial statements of Swisscom Ltd in accordance with statutory accounting provisions, rather than on the basis of equity as disclosed in the consolidated balance sheet prepared in accordance with International Financial Reporting Standards (IFRS). At December 31, 2009, shareholders' equity of Swisscom Ltd amounted to CHF 3,984 million. The difference between this amount and the equity as disclosed in the consolidated balance sheet is primarily due to income retained by subsidiaries as well as different accounting and valuation methods. Under Swiss company-law provisions, share capital and that part of the general legal reserves representing 20% of the share capital may not be distributed. At December 31, 2009 Swisscom Ltd had distributable reserves of CHF 3,921 million.

Post-employment benefits

The defined benefit obligations and pension cost in the consolidated financial statements are measured in accordance with International Financial Reporting Standards (IFRS). At the end of 2009, the defined benefit obligations according to IFRS amounted to CHF 830 million, of which only CHF 313 million are recognized in the balance sheet. Assets amounting to CHF 38 million and liabilities of CHF 351 million are recognized in the balance sheet. Unrecognized defined benefit obligations consist of unamortized actuarial losses of CHF 514 million as well as unamortized past-service costs of CHF 3 million. The difference between the excess of CHF 111 million according to Swiss GAAP ARR and the underfunding of CHF 830 million according to IFRS results from the actuarial measurement method prescribed by IFRS which, in contrast to the calculation according to Swiss GAAP ARR, also takes into account actuarial assumptions for future developments such as salary and contribution increases, pension increases and early retirements. The obligation is also measured using a differing discount rate.

Litigation

Proceedings related to interconnection and access services – Swisscom Switzerland

Since 2000, various proceedings concerning the prices for interconnection and access services have been in course. The provisions were increased by CHF 30 million in the fourth quarter of 2009. At December 31, 2009, provisions set aside for the current proceedings against Swisscom Switzerland concerning interconnection and access services amounted to CHF 251 million (2008: CHF 296 million). In 2009, payments totaling CHF 93 million (2008: CHF 90 million) were made.

Competition Commission proceedings

In the proceedings related to mobile termination charges, the Competition Commission (ComCo) imposed a penalty of CHF 333 million on February 5, 2007. Based upon a legal opinion, Swisscom is of the opinion that, from a present-day perspective, it is unlikely that the penalty will be ultimately upheld in a court of final appeal and continues therefore not to recognize any provisions in its consolidated financial statements for the year ending December 31, 2009.

In its decision of November 5, 2009, the Competition Commission imposed a penalty of CHF 220 million on Swisscom for allegedly abusing its market-dominant position in the area of ADSL services. Based on a legal opinion, Swisscom is of the opinion that, from a present-day perspective, it is unlikely that the fine will be ultimately upheld by a court of final appeal and has therefore not recognized any provisions in its consolidated financial statements for the year ending December 31, 2009.

Changes in scope of consolidation

In 2009, payments totaling CHF 47 million (2008: CHF 47 million) were made for acquisitions, while income of CHF 4 million (2008: CHF 4 million) was generated from disposals of Group companies. Acquisitions and disposals of subsidiaries in 2008 and 2009:

- Acquisition of Weco Inkasso AG by Alphapay on October 31, 2009
- Acquisition of Sourcag Ltd by Swisscom IT Services on June 30, 2009
- Acquisition of Resource Ltd by Swisscom IT Services on June 30, 2009
- Disposal of the Airbites companies in Eastern Europe in 2008 and 2009
- Disposal of Minick Holding AG on September 1, 2008
- Acquisition of branch network of The Phone House AG by Swisscom Switzerland on July 1, 2008
- Acquisition of Webcall GmbH by Swisscom Switzerland on June 23, 2008
- Acquisition of local.ch AG by Swisscom Directories on January 1, 2008

Acquisitions are included in the consolidated financial statements from the date of acquisition, and disposals up to the date of sale. The subsidiaries acquired and disposed of in 2008 and 2009 have no material impact on the net revenue and results for these financial years.

Impact of exchange rate fluctuations

Swisscom is exposed to the effects of exchange rate fluctuations due to the translation of the financial statements of foreign subsidiaries into Swiss francs. Foreign business operations primarily concern the Italian subsidiary Fastweb. The average exchange rates were as follows:

Currency	2009	2008	Change
1 EUR	1.508	1.579	–4.5%
1 GBP	1.697	1.979	–14.3%
1 USD	1.083	1.079	0.4%

The following shows the impact of exchange rate fluctuations on net revenue, operating income before depreciation and amortization (EBITDA) and operating free cash flow:

Development in %	Change in CHF	Change in local currency
Net revenue	–1.6%	–0.5%
Operating income before depreciation and amortization (EBITDA)	–2.6%	–1.7%
Operating free cash flow	7.8%	8.2%

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The most significant accounting policies are described in the note 3 to the Consolidated Financial Statements. Swisscom applied IFRS 8 “Operating Segments” early, with effect from January 1, 2008. The following changes in International Financial Reporting Standards and Interpretations were applied for the first time in the year under review:

- Swisscom applied the changes in IAS 1 (revised) “Presentation of Financial Statements” and IAS 23 (revised) “Borrowing Costs” from January 1, 2009, with the effects outlined below. In addition, Swisscom has applied the further changes to existing International Financial Reporting Standards (IFRS) and Interpretations which have no material impact on the results of operations or financial situation of the Group.
- IAS 1 (revised) “Presentation of Financial Statements” (effective from January 1, 2009): The revised standard now requires companies to disclose a statement of comprehensive income and to provide additional disclosures regarding the positions under other comprehensive income. Furthermore, changes in equity resulting from transactions with shareholders and other changes in equity must be presented separately. A balance sheet must also be presented at the beginning of the comparative period if the prior-year figures have been retroactively changed or items have been reclassified. The revised standard also provides for new improved designations for components of the financial statements, although these are not mandatory.
- IAS 23 (revised) “Borrowing Costs” (effective from January 1, 2009): IAS 23 (revised) requires companies to capitalize borrowing costs that are directly attributable to the purchase or production of a qualifying asset. The option of recognizing costs as an expense in the period in which they are incurred has been eliminated. The revised standard is to be applied prospectively from January 1, 2009. Borrowing costs amounting to CHF 15 million were capitalized in 2009.

Enterprise value

in CHF millions, except where indicated	31.12.2009	31.12.2008
Enterprise value		
Market capitalization at end of year	20,491	17,587
Net debt	8,932	9,860
Minority interests from subsidiaries	405	442
Enterprise value (EV)	**29,828**	**27,889**
Operating income before depreciation and amortization (EBITDA)	4,666	4,789
Ratio enterprise value/EBITDA	**6.4**	**5.8**

Swisscom's enterprise value is calculated based on the market value of its equity, net debt and minority interests in subsidiaries. The market capitalization was calculated based on the share price at the end of the period. The minority interests in Fastweb were valued at the equity share price of Fastweb and the other minority interests at their carrying amount. In 2009, the enterprise value rose by 7.0% to CHF 29.8 billion. The enterprise value/EBITDA ratio also grew, from 5.8 to 6.4. Both effects are primarily due to the increase in share price of 16.5%. Net debt was reduced by CHF 0.9 billion.

Current operations value and future growth value

in CHF millions, except where indicated	31.12.2009	31.12.2008
NOPAT, COV and FGV		
Operating income (EBIT)	2,678	2,640
Adjustments [1]	213	218
Share of results of associated companies	43	47
Operating taxes	(613)	(613)
NOPAT [2]	**2,321**	**2,292**
Weighted average cost of capital (WACC)	6.5%	6.5%
Current operations value (COV)	**35,708**	**35,258**
Future growth value (FGV)	(5,880)	(7,369)
Growth rate implicit in share price	–1.3%	–1.7%

[1] Adjustments: depreciation and amortization from purchase price allocations, termination benefits.
[2] NOPAT: net operating profit after taxes.

The current operations value is calculated by dividing NOPAT (net operating profit after tax) by the weighted average cost of capital (WACC). The assumption is that future capital expenditure corresponds to depreciation and amortization and that operating income will remain unchanged. Capital costs were calculated on the basis of the enterprise value (market value) at the beginning of the period. A weighted average cost of capital (WACC) rate of 6.5% was applied in both years. This rate corresponds to a long-term value and does not take into account the current low returns on risk-free investments. The calculated current operations value exceeds the enterprise value by CHF 5.9 billion or 19.7%. It can therefore be concluded that the share price implies negative future NOPAT growth.

Quarterly review 2008 and 2009

in CHF millions, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2008	1. quarter	2. quarter	3. quarter	4. quarter	2009
Net revenue	**2,933**	**3,058**	**3,094**	**3,113**	**12,198**	**2,916**	**3,001**	**3,008**	**3,076**	**12,001**
Goods and services purchased	(627)	(674)	(768)	(728)	(2,797)	(623)	(655)	(664)	(706)	(2,648)
Personnel expense	(641)	(620)	(592)	(613)	(2,466)	(654)	(650)	(606)	(667)	(2,577)
Other operating expense	(582)	(661)	(628)	(729)	(2,600)	(587)	(630)	(585)	(722)	(2,524)
Capitalized self-constructed assets and other income	78	163	82	131	454	82	135	92	105	414
Operating income (EBITDA)	**1,161**	**1,266**	**1,188**	**1,174**	**4,789**	**1,134**	**1,201**	**1,245**	**1,086**	**4,666**
Depreciation and amortization	(507)	(523)	(519)	(600)	(2,149)	(472)	(477)	(476)	(563)	(1,988)
Operating income (EBIT)	**654**	**743**	**669**	**574**	**2,640**	**662**	**724**	**769**	**523**	**2,678**
Net financial result	(113)	(212)	(70)	(93)	(488)	(63)	(66)	(111)	(96)	(336)
Share of results of associated companies	6	12	10	19	47	8	12	9	14	43
Income tax expense	(122)	(122)	(139)	(65)	(448)	(122)	(134)	(130)	(74)	(460)
Net income	**425**	**421**	**470**	**435**	**1,751**	**485**	**536**	**537**	**367**	**1,925**
Share attributable to equity holders of Swisscom Ltd	428	412	473	443	1,756	485	530	536	377	1,928
Share attributable to minority interets	(3)	9	(3)	(8)	(5)	–	6	1	(10)	(3)
Net revenue by segments [1]										
Swisscom Switzerland	2,117	2,162	2,206	2,196	8,681	2,079	2,113	2,136	2,125	8,453
Fastweb	618	686	687	707	2,698	664	719	678	732	2,793
Other operating segments	440	472	446	476	1,834	407	411	431	478	1,727
Group Headquarters	1	2	2	1	6	1	2	2	1	6
Intersegment elimination	(243)	(264)	(247)	(267)	(1,021)	(235)	(244)	(239)	(260)	(978)
Total net revenue	**2,933**	**3,058**	**3,094**	**3,113**	**12,198**	**2,916**	**3,001**	**3,008**	**3,076**	**12,001**
Operating income before depreciation and amortization										
Swisscom Switzerland	947	971	934	916	3,768	919	938	967	851	3,675
Fastweb	179	260	205	220	864	182	217	211	221	831
Other operating segments	83	95	94	77	349	62	91	102	79	334
Group Headquarters	(43)	(60)	(35)	(38)	(176)	(34)	(34)	(32)	(60)	(160)
Intersegment elimination	(5)	–	(10)	(1)	(16)	5	(11)	(3)	(5)	(14)
Total operating income (EBITDA)	**1,161**	**1,266**	**1,188**	**1,174**	**4,789**	**1,134**	**1,201**	**1,245**	**1,086**	**4,666**
Capital expenditure in property, plant & equipment and other intangible assets										
Swisscom Switzerland	239	248	241	443	1,171	207	272	291	449	1,219
Fastweb	161	202	162	166	691	124	202	146	185	657
Other operating segments	29	41	44	77	191	21	40	20	40	121
Group Headquarters	–	6	2	2	10	–	1	1	–	2
Intersegment elimination	(9)	6	(7)	(3)	(13)	(1)	(6)	(3)	(2)	(12)
Total capital expenditure	**420**	**503**	**442**	**685**	**2,050**	**351**	**509**	**455**	**672**	**1,987**
Operating free cash flow	751	620	765	352	2,476	693	659	791	526	2,669
Full-time equivalent employees	19,718	19,795	19,995	19,943	19,943	20,102	19,970	19,704	19,479	19,479

[1] Includes intersegment revenue.

in CHF millions, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2008	1. quarter	2. quarter	3. quarter	4. quarter	2009
Swisscom Switzerland Revenue and results										
Residential Customers	559	562	653	593	2,367	546	578	603	595	2,322
Small & Medium-Sized Enterprises	99	107	113	111	430	105	112	116	114	447
Corporate Business	137	148	148	143	576	138	144	143	147	572
Wholesale	112	109	109	100	430	95	92	100	90	377
Revenue wireless	**907**	**926**	**1,023**	**947**	**3,803**	**884**	**926**	**962**	**946**	**3,718**
Residential Customers	361	363	366	362	1,452	368	365	363	363	1,459
Small & Medium-Sized Enterprises	90	90	91	89	360	89	89	90	91	359
Corporate Business	42	41	42	41	166	40	41	40	40	161
Wholesale	45	48	47	48	188	41	42	41	43	167
Revenue wireline access lines	**538**	**542**	**546**	**540**	**2,166**	**538**	**537**	**534**	**537**	**2,146**
Residential Customers	164	159	154	158	635	153	145	143	148	589
Small & Medium-Sized Enterprises	59	60	58	58	235	59	57	57	57	230
Corporate Business	44	44	44	45	177	41	39	40	40	160
Wholesale	57	47	39	53	196	47	44	46	38	175
Revenue wireline traffic	**324**	**310**	**295**	**314**	**1,243**	**300**	**285**	**286**	**283**	**1,154**
Residential Customers	81	89	74	76	320	85	98	87	82	352
Small & Medium-Sized Enterprises	18	20	16	18	72	16	17	16	16	65
Corporate Business	191	205	204	231	831	192	191	192	210	785
Wholesale	39	43	31	48	161	45	39	40	34	158
Revenue other	**329**	**357**	**325**	**373**	**1,384**	**338**	**345**	**335**	**342**	**1,360**
Residential Customers	1,165	1,173	1,247	1,189	4,774	1,152	1,186	1,196	1,188	4,722
Small & Medium-Sized Enterprises	266	277	278	276	1,097	269	275	279	278	1,101
Corporate Business	414	438	438	460	1,750	411	415	415	437	1,678
Wholesale	253	247	226	249	975	228	217	227	205	877
Revenue from external customers	**2,098**	**2,135**	**2,189**	**2,174**	**8,596**	**2,060**	**2,093**	**2,117**	**2,108**	**8,378**
Segment result before depreciation and amortization										
Residential Customers	744	772	732	714	2,962	725	751	754	678	2,908
Small & Medium-Sized Enterprises	200	207	207	202	816	214	207	217	212	850
Corporate Business	226	236	238	243	943	231	239	237	244	951
Wholesale	146	158	136	163	603	128	124	130	95	477
Networks	(369)	(402)	(378)	(406)	(1,555)	(379)	(382)	(371)	(378)	(1,510)
Intersegment elimination	–	–	(1)	–	(1)	–	(1)	–	–	(1)
Segment result (EBITDA)	**947**	**971**	**934**	**916**	**3,768**	**919**	**938**	**967**	**851**	**3,675**
Margin as % of net revenue	44.7	44.9	42.3	41.7	43.4	44.2	44.4	45.3	40.0	43.5

In thousands, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2008	1. quarter	2. quarter	3. quarter	4. quarter	2009
Swisscom Switzerland Operational data										
Residential Customers	2,868	2,854	2,842	2,826	2,826	2,795	2,764	2,728	2,693	2,693
Small & Medium-Sized Enterprises	509	512	510	511	511	512	512	512	511	511
Corporate Business	288	288	288	286	286	284	282	280	280	280
Access lines PSTN/ISDN	**3,665**	**3,654**	**3,640**	**3,623**	**3,623**	**3,591**	**3,558**	**3,520**	**3,484**	**3,484**
Residential Customers	1,050	1,078	1,101	1,148	1,148	1,192	1,222	1,247	1,279	1,279
Small & Medium-Sized Enterprises	148	152	153	158	158	162	164	168	173	173
Corporate Business	18	19	19	19	19	19	19	20	20	20
Wholesale	439	450	448	431	431	410	390	363	331	331
Broadband access lines	**1,655**	**1,699**	**1,721**	**1,756**	**1,756**	**1,783**	**1,795**	**1,798**	**1,803**	**1,803**
Residential Customers	2,091	2,102	2,139	2,172	2,172	2,177	2,193	2,219	2,246	2,246
Small & Medium-Sized Enterprises	380	392	399	411	411	422	430	440	445	445
Corporate Business	591	623	654	666	666	681	695	714	742	742
Mobile subscribers postpaid	**3,062**	**3,117**	**3,192**	**3,249**	**3,249**	**3,280**	**3,318**	**3,373**	**3,433**	**3,433**
Residential Customers	2,038	2,064	2,092	2,121	2,121	2,134	2,160	2,170	2,177	2,177
Mobile subscribers prepaid	**2,038**	**2,064**	**2,092**	**2,121**	**2,121**	**2,134**	**2,160**	**2,170**	**2,177**	**2,177**
Mobile subscribers	**5,100**	**5,181**	**5,284**	**5,370**	**5,370**	**5,414**	**5,478**	**5,543**	**5,610**	**5,610**
Residential Customers	44	44	45	44	44	40	42	44	41	42
Small & Medium-Sized Enterprises	94	99	101	96	97	88	94	95	91	92
Corporate Business	81	83	82	76	80	71	72	71	70	72
ARPU mobile subscriber per month in CHF	**52**	**53**	**54**	**52**	**53**	**48**	**50**	**50**	**49**	**50**
Residential Customers	92	95	95	95	94	94	94	94	96	94
Small & Medium-Sized Enterprises	199	211	202	200	203	189	202	202	201	200
Corporate Business	194	202	183	186	191	175	178	171	173	175
AMPU mobile subscriber per month in minutes	**112**	**116**	**114**	**114**	**114**	**111**	**113**	**113**	**115**	**113**
Unbundled fixed access lines	2	4	12	31	31	57	82	115	153	153
Swisscom TV subscribers	64	80	95	118	118	139	165	186	230	230
Retail traffic in millions of minutes	2,698	2,620	2,440	2,581	10,339	2,596	2,373	2,303	2,429	9,701
Wholesale traffic in million minutes	3,468	3,218	3,002	3,190	12,878	3,095	2,820	2,616	2,732	11,263

in EUR millions, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2008	1. quarter	2. quarter	3. quarter	4. quarter	2009
Fastweb										
Residential Customers	164	167	155	171	657	176	171	171	179	697
Small & Medium-Sized Enterprises	93	95	92	99	379	102	105	99	100	406
Corporate Business	132	163	179	197	671	165	197	174	207	743
Revenue from external customers	**389**	**425**	**426**	**467**	**1,707**	**443**	**473**	**444**	**486**	**1,846**
Segment result (EBITDA)	113	161	127	147	548	122	143	139	147	551
Number of subscribers in thousands	1,338	1,398	1,441	1,483	1,483	1,542	1,575	1,605	1,644	1,644

Outlook

		2009 outlook	2009 actual	2010 outlook
Net revenue				
Swisscom excluding Fastweb	in CHF billions	9.2–9.3	9.22	around 9.15
Fastweb	in EUR billions	around 1.8	1.85	around 1.95
Operating income before depreciation and amortization (EBITDA)				
Swisscom excluding Fastweb	in CHF billions	3.8–3.9	3.84	around 3.75
Fastweb	in EUR billions	around 0.56	0.55	around 0.58
Capital expenditure in property, plant & equipment and other intangible assets				
Swisscom excluding Fastweb	in CHF billions	around 1.35	1.33	around 1.3
Fastweb	in EUR billions	around 0.42	0.43	around 0.41
Change in net operating assets				
Swisscom including Fastweb	in CHF billions	around –0.1	–	around –0.1
Operating free cash flow				
Swisscom including Fastweb	in CHF billions	2.6–2.7	2.67	around 2.6

Excluding Fastweb, Swisscom expects to close 2010 with net revenue of around CHF 9.15 billion, EBITDA of around CHF 3.75 billion and capital expenditure of around CHF 1.3 billion. Fastweb is expected to post revenue of around EUR 1.95 billion, EBITDA of around EUR 580 million and capital expenditure of approximately EUR 410 million. Operating free cash flow for the Group, including Fastweb, will be some CHF 2.6 billion.

Corporate Governance and Remuneration Report

- Corporate governance
- Remuneration report

Corporate governance

1 Principles

Transparency and clearly-defined responsibilities are the cornerstones of Swisscom's corporate governance policy: transparency in financial reporting, as well as clearly assigned responsibilities governing interactions with shareholders, the Board of Directors, the Group Executive Board and Group companies.
As a company listed on the SIX Swiss Exchange, Swisscom complies with the provisions of the Directive on Information relating to Corporate Governance issued by the SIX Swiss Exchange, as well as Arts. 663b^{bis} and 663c Para. 3 of the Swiss Code of Obligations and the prevailing standards laid down in the Swiss Code of Best Practice for Corporate Governance, including Annex 1 (Recommendations for compensation for members of the Board of Directors and the Group Executive Board).
Since the relocation of SWX Europe's trading operations from London to Zurich on May 4, 2009, shares in Swisscom Ltd have been traded on the SIX Swiss Exchange. Since this date the company has been subject solely to Swiss stock exchange regulations and supervision.
Swisscom's principles and rules on corporate governance are set out in the Articles of Incorporation, the Organisational Rules and the regulations of the committees of the Board of Directors, which are regularly reviewed for on-going relevance and revised as required. Of particular importance in this context are the Swisscom Code of Ethics introduced by the Audit Committee in 2003 and revised in March 2008, and the Swisscom Code of Conduct approved by the Group Executive Board in 2005. The Swisscom Code of Ethics applies to the CEO and CFO of Swisscom Ltd, the CEOs and CFOs of the Group companies, as well as other senior financial, accounting or controlling officers of Swisscom. The standards defined in the Code of Ethics are intended to ensure honest conduct, inline with the principles of corporate ethics, particularly as regards the handling of conflicts of interest between personal and professional relationships. The Swisscom Code of Conduct describes how Swisscom Management expects all managers and employees to conduct themselves and gives them guidelines on how to behave in the daily course of business. On January 1, 2010 the Board of Directors approved a new Code of Conduct, which supersedes the hitherto Code of Ethics and Code of Conduct.
The Swisscom Code of Ethics is available in German at www.swisscom.ch/codeofethics, the 2005 Swisscom Code of Conduct in English at www.swisscom.ch/codeofconduct-2005 and the 2010 Code of Conduct in English at www.swisscom.ch/codeofconduct-2010.

2 Group structure and shareholders

Group structure

In 2001 Swisscom was reorganised to create a corporate group with independently operating subsidiaries divided into Categories I ("strategic"), II ("important") and III ("other"). The aim of the new structure was to increase transparency for management and shareholders while allocating clear responsibilities to the subsidiaries for their respective submarkets. Rapid advances in technology, combined with the convergence of hitherto stand-alone communications technologies and applications as well as changes in customer requirements, prompted Swisscom to create a more customer-focused Group structure with effect from January 1, 2008. As a result, the business activities of Fixnet, Mobile and Solutions were merged to form Swisscom (Switzerland) Ltd. The Swisscom Participations management unit, created at the same time, is now significantly smaller and was therefore transferred to Group Finance & Controlling in September 2009. Swisscom Participations is not a legal entity and consists of the companies Alphapay Ltd, Billag Ltd, Cablex AG, Curabill Ltd, Evita AG, Sicap AG, Swisscom Broadcast Ltd und Swisscom Real Estate Ltd. A diagram of the Group structure is shown in the section Group organisation on page 31.
Swisscom Ltd is the holding company responsible for overall management of the Swisscom Group with its four divisions, Group Finance & Controlling, Group Strategy & Business Development, Group Communications and Group Human Resources. Strategic and financial management of the operationally autonomous Group companies is assured through the assignment of powers and responsibilities laid down by the Board of Directors of Swisscom Ltd. In addition, in the case of the "strategic

companies" Fastweb S.p.A. and Swisscom IT Services Ltd, the CEO and CFO, respectively, have seat on the Board of Directors as Chairman together with the CSO (Chief Strategy Officer) of Swisscom Ltd and other representatives of Swisscom. Furthermore, the Board of Directors of Swisscom (Switzerland) Ltd is identical to that of Swisscom Ltd. In the case of the "important" subsidiaries, the responsibilities of the Chairman of the Board of Directors are fulfilled by the CEO of a "strategic" Group company, the head of a Group division or another person appointed by the CEO. Other representatives of Swisscom are also members of the Board of Directors.

A list of Group companies, including name, registered office, share capital, shareholding and segment affiliation is given in Note 41 to the consolidated financial statements. For the purposes of segment reporting in the consolidated financial statements, Residential Customers, Small and Medium-Sized Enterprises, Corporate Business, Wholesale, Networks, Fastweb and Other, including Swisscom IT Services Ltd, Swisscom Participations and Hospitality Services Plus SA, are presented as segments. Group Headquarters together with Worklink AG and Swisscom Re AG are also presented separately.

Swisscom Ltd, a company governed by Swiss law and headquartered in Ittigen (canton of Berne, Switzerland), is listed in the Main Standard (formerly the Main Market Segment) of the SIX Swiss Exchange (Securities No: 874251; ISIN Code: CH0008742519; Ticker Symbol: SCMN). Swisscom Ltd was delisted from the New York Stock Exchange in 2007. The delisting took effect at the end of 2007, thus ending Swisscom's reporting obligations under the US Securities Exchange Act. Swisscom nevertheless remains committed to effective corporate governance mechanisms and to high reporting standards. The former ADR programme was converted to a Level 1 programme with over-the-counter trading (OTC) (symbol: SCMWY; Pink Sheets ID: 69769; ISIN number: CH00874251.9; CUSIP for ADR: 871013108). At December 31, 2009, Swisscom Ltd had a stock market capitalisation of CHF 20,491 million.

The shares of Fastweb S.p.A., headquartered in Milan, Italy, are listed on the Borsa Italiana (ISIN Code: IT0001423562; Ticker Symbol: FWB). At December 31, 2009 the stock market capitalisation of this holding was EUR 1,535 million (CHF 2,278 million). Swisscom Ltd holds 82.1% of the company's shares.

Significant shareholders

Information regarding significant shareholders are made available if any disclosure notifications pursuant to Art. 20 of the Federal Act on Stock Exchanges and Securities Trading are made during the financial year. There is an obligation to disclose shareholdings where a person or group subject to the disclosure obligation attains, falls below or exceeds 3, 5, 10, 15, 20, 25, 33.33, 50 or 66.67 per cent of the voting rights in Swisscom Ltd.

Following the decision by the Annual General Meeting on April 21, 2009 to cancel 1,639,057 treasury shares, Swisscom Ltd announced on July 16, 2009 that its holding of treasury shares was less than 3%.

Cross-shareholdings

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

3 Capital structure

Capital

At December 31, 2009 the share capital of Swisscom Ltd amounted to CHF 51,801,943, divided into registered shares with a par value of CHF 1 per share. The shares are fully paid-up.

Authorised and conditional capital

There is no authorised or conditional share capital.

Changes in capital

Changes in the equity of Swisscom Ltd in the stand-alone financial statements under commercial law in the years 2007 to 2009:

in CHF millions	Share capital	General reserves	Reserve for treasury shares	Retained earnings	Total shareholders' equity
Balance at January 1, 2007	**57**	**255**	**2,212**	**1,935**	**4,459**
Net income	–	–	–	1,276	1,276
Dividend payment	–	–	–	(881)	(881)
Balance at December 31, 2007	**57**	**255**	**2,212**	**2,330**	**4,854**
Net income	–	–	–	2,375	2,375
Dividend payment	–	–	–	(1,036)	(1,036)
Share capital reduction	(4)	–	(1,474)	30	(1,448)
Balance at December 31, 2008	**53**	**255**	**738**	**3,699**	**4,745**
Net income	–	–	–	779	779
Dividend payment	–	–	–	(984)	(984)
Share capital reduction	(1)	–	(737)	182	(556)
Balance at December 31, 2009	**52**	**255**	**1**	**3,676**	**3,984**

The Annual General Meeting held on April 24, 2007 approved a dividend for fiscal 2006 of CHF 17 per share. No additional payouts were made to shareholders in 2007.
The Annual General Meeting held on April 22, 2008 approved the payment of an ordinary dividend of CHF 18 per share and a special dividend of CHF 2 per share. At the same time, it voted to reduce the share capital by CHF 3,277,561 from CHF 56,718,561 to CHF 53,441,000, by cancelling around two thirds of the treasury shares acquired under the 2006 share buy-back programme.
On April 21, 2009 the Annual General Meeting approved the payment of a dividend of CHF 19 per share for fiscal 2008. At the same time it voted to reduce the share capital by CHF 1,639,057 from CHF 53,441,000 to CHF 51,801,943, by cancelling the remainder of the shares acquired under the 2006 share buy-back programme.

Shares, participation certificates and profit-sharing certificates

Each registered share of Swisscom Ltd has a par value of CHF 1 per share. Each share entitles the holder to one vote. Voting rights can only be exercised if the shareholder has been inscribed with voting rights in the share register of Swisscom Ltd. All registered shares are eligible for a dividend, with the exception of treasury shares held by Swisscom Ltd. There are no preferential rights. For further details, please refer to the end of the section Shareholders' participation rights.
Registered shares of Swisscom Ltd are not issued in certificate form, but instead are held as book-entry securities in the holdings of SIX SIS AG, up to a maximum limit determined by the Federal government. Shareholders may at any time request confirmation of the registered shares held by them. However, shareholders have no right to request the printing and delivery of certificates for registered shares (registered shares with no right to printed certificates).
Swisscom Ltd has issued neither participation certificates nor profit-sharing certificates.

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 any special restrictions.
Swisscom has issued special regulations governing the registration of trustees and nominees in the share register. To facilitate tradability of the company's shares on the stock market, the Articles of Incorporation allow the Board of Directors, by means of regulations or agreements, to permit the fiduciary entry of registered shares with voting rights which exceed the percentage restriction of 5% by fiduciaries, provided that the latter disclose their fiduciary capacity. In addition, fiduciaries or nominees must be subject to supervision by a banking or financial market supervisory authority or otherwise provide the necessary assurances 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. In accordance with this provision, which can be revised with an absolute majority of the voting shares cast, the Board of Directors has issued regulations governing the entry of fiduciaries and nominees in the Swisscom share register. The entry of fiduciaries and nominees as shareholders with voting rights is subject to application and the conclusion of an agreement specifying the entry restrictions and disclosure obligations of the fiduciary or nominee. In particular, each fiduciary or nominee undertakes, within the percentage limit of 5%, not to request entry as a shareholder with voting rights for the account of an individual beneficial owner for more than 0.5% of the registered share capital of Swisscom Ltd entered in the commercial register.
No exceptions for the fiduciary entry of registered shares with voting rights above the aforementioned percentage limit were granted in fiscal 2009.

Debenture bonds, convertible bonds and options

During the course of 2007 Swisscom placed debenture bonds on the Swiss domestic market for the first time for a value of CHF 1,500 million. The first tranche, issued on July 19, 2007, was for CHF 550 million with a coupon of 3.50% and a term of six years, and CHF 350 million with a coupon of 3.75% and a term of ten years. The second tranche, issued on 22 October 2007, was for CHF 350 million with a coupon of 3.25% and a term of three years, and a CHF 250 million top-up of the ten-year bond issued in July 2007 with a coupon of 3.75%. On September 17, 2008, Swisscom issued a further bond for CHF 500 million (basic tranche with top-up option) with a coupon of 4.00% and a term of seven years. During the course of 2009, Swisscom issued two further bonds worth a total of CHF 2,750 million. The first, worth CHF 1,250 million, was issued on April 8, 2009 with a coupon of 3.50% and a term of five years. The second, worth CHF 1,500 million (basic tranche with top-up option), was issued on September 14, 2009 with a coupon of 3.25% and a term of nine years. The investors are entitled to sell the bonds back to Swisscom if a shareholder other than the Swiss Confederation holds more than 50% of Swisscom's shares and at the same time Swisscom's rating falls below BBB-/Baa3.
The Swisscom Ltd equity share plan is described in note 11 to the consolidated financial statements.

4 Board of Directors

Members of the Board of Directors

The Board of Directors of Swisscom Ltd currently comprises nine members, none of whom holds or has held an executive role within the Swisscom Group in any of the three business years prior to the period under review. The Board members have no significant commercial links with Swisscom Ltd or the Swisscom Group.

An overview of the composition of the Board of Directors at December 31, 2009, including the functions of each member within the Board, their nationality, the year they were first elected and their remaining tenure, is given below. Details of their career and qualifications as well as other activities and interests such as mandates in important companies, organisations and foundations, or permanent functions in important interest groups, are also disclosed.

Name	Year of birth	Function	Initial year of office	Appointed until
Anton Scherrer [1,2,3,4]	1942	Chairman	2005	2010
Hugo Gerber [2]	1955	Member, representative of the employees	2006	2010
Michel Gobet [2]	1954	Member, representative of the employees	2003	2011
Torsten G. Kreindl [1,3]	1963	Member	2003	2011
Hansueli Loosli [1]	1955	Member	2009	2011
Catherine Mühlemann [1]	1966	Member	2006	2010
Felix Rosenberg [2,3]	1941	Member, representative of the Confederation	1998	2011
Richard Roy [3,4]	1955	Deputy Chairman	2003	2011
Othmar Vock [3,4]	1943	Member	2005	2011

[1] Member of the Finance Committee.
[2] Member of the Personnel and Organization Committee.
[3] Member of the Compensation Committee.
[4] Member of the Audit Committee.

Anton Scherrer

Swiss citizen
Qualifications: Degree in Food Technology from the Swiss Federal Institute of Technology (ETH), Dr. sc. techn. ETH
Career history: research, consulting and managerial posts in various industrial and brewing companies in Switzerland and abroad; 1984–1991 delegate to the Board of Directors, Hürlimann Holding AG; 1991–2001 various executive positions, Federation of Migros Cooperatives, with responsibility for 14 industrial companies and the entire logistics operations; 2001–2005 Chief Executive Officer and Chairman of the Retail Committee, Federation of Migros Cooperatives; until end of June 2005 Chairman of the Board of Directors of Migrosbank, Globus magazine and the international travel company Hotelplan.
Other mandates: member of the Executive Board, economiesuisse; member of the Capvis Industry Advisory Board, Capvis Equity Partners AG, Zurich; member of the Board of Directors, Orior AG, Zurich; member of the Board of Trustees, Agrovision Foundation Muri; member of the Board of Trustees, ETH Zurich Foundation, Zurich; member of the Advisory Board, Digma Management Consulting AG, Zurich; member of the Executive Committee, Institute of Marketing and Retailing, University of St. Gallen; President of the Marketing Promoter Program, Institute of Marketing and Retailing, University of St. Gallen; President of the Foundation promoting the Master of Law and Economics programme at the University of St. Gallen.

Hugo Gerber

Swiss citizen
Qualifications: Diploma in postal services; IMAKA management diploma; diploma in personnel & organisational development, Solothurn University of Applied Sciences, Northwestern Switzerland
Career history: 1986–1990 General Secretary ChPTT; 1991–1999 General Secretary VGCV; 2000–2003 General Secretary of the Transfair union; 2003–2008 President of the Transfair union; since 2009 independent consultant
Other mandates: Member of SUVA Board of Directors; member of the Publica Federal pensions commission; President of the support fund for Federal employees; President of the Forum Politique Suisse; RUAG Pension Fund Board of Trustees; member of the Managing Committee of Swiss Travel Fund Cooperative (REKA); since March 2009 member of the Board of Directors of Worklink AG

Michel Gobet

Swiss citizen
Qualifications: Degree in history
Career history: General Secretary and Deputy General Secretary of the PTT Union; since 1999 General Secretary of the Communication union
Other mandates: Member of Union Network International (UNI); member of the UNI Europa ICTS Steering Group

Torsten G. Kreindl

Austrian citizen
Qualifications: Doctorate in economic engineering (Dr. techn.)
Career history: Chemie Holding AG; W. L. Gore & Associates Inc.; member of the Management Board, Booz Allen & Hamilton, Germany; 1996–1999 CEO of Broadband Cable Business, Deutsche Telekom, and Chief Executive Officer, MSG Media Services; 1999–2005 partner, Copan Inc.; since 2005 partner in Grazia Group Equity GmbH, Stuttgart, Germany
Other mandates: Consultant to Pictet Funds, Geneva; member of the Board of Directors of XConnect Networks, London, UK

Hansueli Loosli

Swiss citizen
Qualifications: Commercial apprenticeship; Swiss Certified Accountant and Controller; Executive Management Program, University of St. Gallen
Career history: 1982–1985 Controller, Deputy Director of Mövenpick Produktions AG, Adliswil; 1985–1992 latterly Managing Director of Waro AG, Volketswil; 1992–1996 Director of non-food product procurement, Coop Switzerland, Wangen; 1992–1997 Managing Director, Coop Zurich, Zurich; 1997–2000 Chairman of the Executive Board and the Coop Group Executive Board, Coop Switzerland, Basle; since 2001 Chairman of the Executive Board, Coop Genossenschaft, Basle
Other mandates: Chairman of the Board of Directors, transGourmet Holding SE, Cologne, Germany; member of the Board of Directors of Coopernic SCRL, Brussels, Belgium; Chairman of the Board of Directors of Coop-ITS-Travel AG, Wollerau; Chairman of the Board of Directors of Bell Holding AG, Basle; member of the Board of Directors of Palink UAB, Vilnius, Lithuania; member of the Board of Directors of Palink SIA, Riga, Latvia

Catherine Mühlemann

Swiss citizen
Qualifications: Lic. phil I; Swiss Certified PR Consultant
Career history: 1994–1997 Head of Media Research, Swiss Television DRS; 1997–1999 program researcher SF1 and SF2, 1999–2001 program director TV3; 2001–2003 Managing Director, MTV Central; 2003–2005 Managing Director, MTV Central & Emerging Markets; 2005-2008 Managing Director, MTV Central & Emerging Markets and Viva Media GmbH (Viacom); since 2008 partner in Andmann Media Holding GmbH, Baar
Other mandates: Member of the Berlin Board; member of the Foundation for the Future of Berlin; member of the Board of Directors, Rod Kommunikation AG, Zurich; member of the supervisory board of various Internet start-up companies

Felix Rosenberg
Swiss citizen
Qualifications: Degree in law (lic. iur.)
Career history: 1968–1969 clerk to the local court in Baden; 1969–1974 Departmental Secretary, Finance, Forestry and Military Department of the Cantonal Government of Thurgau; 1974–1989 member of the Cantonal Government of Thurgau; 1989–1997 member of the PTT General Directorate; 1989–1998 Chief Executive Officer of Telecom PTT and, until end-March 1998, of Swisscom
Other mandates: Chairman of the Board of Directors of Voigt Holding AG, Romanshorn, until June 2009; Chairman of the Board of Directors of De Martin AG, Wängi; President of the Board of Trustees, Swiss Pro Patria Foundation, until end of July 2009.

Richard Roy
German citizen
Qualifications: Degree in engineering (university of applied sciences)
Career history: Hewlett-Packard (HP); 1995–1997 member of the Board of Directors, Siemens Nixdorf Informationssysteme AG; 1997–2001 Chief Executive Officer, Microsoft GmbH, Germany; 2001–2002 Vice-President of the Corporate Strategy Division of Microsoft EMEA, Paris, France; since 2002 independent management consultant
Other mandates: Chairman of the Supervisory Board, Balda AG, Bad Oeyenhausen, Germany until July 2009; Vice-Chairman of the Supervisory Board, Premiere AG, Unterföhring, Germany until July 2009; member of the Supervisory Board, Update Software AG, Vienna; Member of the Supervisory Board, Freenet AG, Hamburg until July 2009; member of the Supervisory Board, Reality Capital Partners AG, Frankfurt am Main, Germany until April 2009; since November 2009 member of the Board of Directors of Qnamic AG, Hägendorf

Othmar Vock
Swiss citizen
Qualifications: Commercial diploma; PED (Program for Executive Development) IMD, Lausanne; Federal certified export manager
Career history: 1975–1983 Commercial Financial Director, Ciba-Geigy Group; 1984–1990 Financial Director of Company Treasury/Controlling, Roche Group; 1990–1993 Director of Internal Auditing, Roche Group; 1993–2004 Chief Financial Officer, Givaudan SA (formerly Fragrance/Flavours Subgroup of the Roche Group)
Other mandates: member of the Board of Directors of Ivoclar-Vivadent, Schaan, Liechtenstein; member of the Board of Directors of Cytos AG, Schlieren

Composition, election and term of office

With the exception of the representative of the Swiss Confederation, the Board of Directors of Swisscom Ltd is elected by shareholders at the Annual General Meeting. The Board currently comprises nine members, but according to the Articles of Incorporation may comprise between seven and nine. The members are elected individually for a term of two years. The maximum term of office for members elected by the Annual General Meeting is 12 years. Members who reach the age of 70 retire from the Board as of the date of the next Annual General Meeting.
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. Felix Rosenberg is currently the sole representative. The maximum term of office or age limit for the Federal representative is determined by the Federal Council. 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 include two employee representatives. These are currently Hugo Gerber and Michel Gobet.

Internal organisation, powers and responsibilities

The Telecommunications Enterprise Act (TEA) makes reference to the Swiss Code of Obligations in respect of the non-transferable and irrevocable duties of the Board of Directors of Swisscom Ltd. The Board of Directors is therefore responsible for overall direction and supervision of the Swisscom Group Executive Board. It lays down the strategic, administrative, budgetary and accounting guidelines, taking into account the four-year goals set by the Federal Council in accordance with the TEA and which it, as majority shareholder, aims to achieve. The Board of Directors has delegated day-to-day business management to the CEO in accordance with the TEA, the Articles of Incorporation and the Organisational Regulations.

The Board of Directors convenes as often as business requires. In fiscal 2009 it convened eleven times, with meetings lasting an average of seven hours. It also held one telephone conference. At the beginning of 2009, a further-education workshop was held for the members of the Board of Directors. A number of members also attended lectures and seminars in Switzerland and abroad during the course of the year. Wherever possible, the Board of Directors also attends the Swisscom Group's annual one-day management meeting.

The Board of Directors is convened by the Chairman. If he is unable to attend, the meeting is convened by the Deputy Chairman. The CEO, CFO and CSO of Swisscom Ltd are regularly invited to meetings of the Board of Directors. The agenda is set by the Chairman. Any Board member may request the inclusion of further items on the agenda. Board members receive supporting documents prior to the meeting to allow them to prepare themselves on items on the agenda. The Board of Directors may invite members of the Group Executive Board, senior employees of Swisscom Ltd, auditors or other experts to attend its meetings, in order to ensure appropriate reporting to members of the Board. Furthermore, the Chairman of the Board of Directors and the CEO report to each meeting of the Board of Directors on unusual events, the general course of business and major business transactions, as well as on any measures that have been implemented. On average, 98% of members were present at the meetings of the Board of Directors.

The Board of Directors has four standing committees and one ad-hoc committee whose task it is to carry out detailed examinations of matters of importance. The committees comprise two to four members. Each member of the Board of Directors also sits on one of the standing committees. The Chairman is a member of all standing committees; these are chaired by other members. The duties and responsibilities of the standing committees are laid down in a set of regulations. All minutes of the meetings of the Finance, Audit and Personnel and Organisation Committees are distributed to all members of the Board of Directors in order to ensure transparency.

Finance Committee

This committee is chaired by Torsten G. Kreindl; the other members are Hansueli Loosli, Catherine Mühlemann and Anton Scherrer. The CEO, CFO and the CSO regularly attend meetings of the Finance Committee. Other members of the Group Executive Board or project managers are also regularly invited to the meetings, depending on the items on the agenda. The committee met on six occasions in fiscal 2009. The meetings lasted on average four hours and 98% of members were present. The committee prepares, for the attention of the Board of Directors, the groundwork for business transactions such as the establishment or winding-up of major Group companies, the formation or sale of important participations, the entering into or termination of strategic alliances, medium-term budgeting, and major investments or disposals, as well as authorisation for all important purchases, contracts, sureties, guarantees, and letters of comfort. The Finance Committee has the final say in approving important loans, credits and financing.

Personnel and Organisation Committee

This committee is chaired by Felix Rosenberg; the other members are Hugo Gerber, Michel Gobet and Anton Scherrer. The CEO and CPO (Chief Personnel Officer) also regularly attend meetings of the Personnel and Organisation Committee along with other members of the Group Executive Board or project managers. depending on the topics to be discussed. The committee met on six occasions in fiscal 2009. All members were present at the two- to three-hour meetings. The committee prepares, for the attention of the Board of Directors, the groundwork for all organisational issues concerning the Group structure and matters relating to corporate policy, personnel and salary policy, general terms and conditions of employment for members of the Group Executive Board, the collective employment agreement and major restructuring projects. The Personnel and Organisation Committee has the final say, particularly with regard to the approval of statutes and organisational regulations issued by "strategic" and "important" Group companies, the approval of general terms and conditions of employment for senior executives of Swisscom Ltd (with the exception of members of the Group Executive Board), the approval of employee equity share plans offered by Swisscom Ltd and the Group companies, the approval of pension fund and social-insurance policies, as well as the election of employer representatives to the pension funds.

Audit Committee

This committee is chaired by Othmar Vock; the other members are Richard Roy and Anton Scherrer. The CEO, CFO, Head of Group Accounting & Reporting, Head of Internal Audit and the external auditors also attend the meetings. The committee met on six occasions in fiscal 2009. All members were present at the meetings, which lasted on average six hours. Three teleconferences were also held, lasting on average one hour. All members are classified as independent and possess the specialist knowledge required. Othmar Vock is considered a financial expert. The committee handles all matters relating to internal and external audit as well as all matters to be dealt with by the Board of Directors that require specialist financial know-how, and thus constitutes the central controlling instrument of the Board of Directors. It prepares, for the attention of the Board of Directors, the groundwork for the following business: structure of the accounting system, financial controls and financial planning, appointment of the auditors, business performance reviews, including quarterly statements and projections, the annual report and applications for the registration of shares. It is responsible for checking and assessing the qualifications, independence and performance of the external auditors, managing the share register, monitoring the organisation and processes of the internal control system for financial reporting, and ensuring that an adequate risk management system is in place. In addition, the committee has approved a procedure for handling complaints submitted anonymously by employees in matters relating to external accounting, the internal control system for financial reporting and the auditing of the annual accounts ("whistle blowing").

Compensation Committee

For details of the Compensation Committee, please refer to the section Remuneration report on page 116.

Nomination Committee

This committee meets on an ad-hoc basis in order to prepare the groundwork for the election of new members to the Board of Directors and the Group Executive Board. As a rule, it comprises the Chairman of the Board of Directors and the chairmen of the Finance, Audit and Personnel and Organisation Committees. Based on a general requirements profile covering all aspects of corporate management, the committee presents suitable candidates to the Board of Directors. The Board of Directors selects the members of the Group Executive Board and submits proposals on the election of members of the Group Executive Board to the Annual General Meeting. The committee met on two occasions in fiscal 2009. All members were present at the meetings, which lasted on average two hours.
The regulations of the Board of Directors and the regulations of all committees of the Board of Directors are available in German at www.swisscom.ch/basicprinciples.

Information instruments of the Board of Directors

The Chairman of the Board of Directors and the CEO meet one to two times a month in order to discuss fundamental issues concerning Swisscom Ltd and the Group companies. Furthermore, the CEO reports in detail to each ordinary meeting of the Board of Directors on the general course of business and major business transactions as well as on any measures that have been implemented. The Board of Directors also receives a monthly report of all key performance indicators relating to the Group and all segments containing important Group companies. In addition, every quarter the Board of Directors receives detailed information on the course of business and on the assets, financial, earnings and risk position of the Group and the segments. Most importantly, it receives projections for the income statement, cash-flow statement and balance sheet for the current fiscal year. Internal financial reporting is carried out in accordance with the same accounting principles and standards as external reporting. The reporting includes key non-financial information for controlling and steering purposes. Each member of the Board of Directors is also entitled to request information on any matters concerning the Group at any time.
The Board of Directors discusses risk management and the internal controlling system in detail once a year. The Audit Committee deliberates on these topics four times a year.

Controlling instruments of the Board of Directors

Risk management

Swisscom operates a comprehensive and sustainable risk management system on behalf of the Board of Directors and the Group Executive Board. Strategic, credit, market, reputation, business and operational risks are identified by means of a proactive risk assessment system which takes into account internal and external events and are controlled using an appropriate risk strategy. The system, which is within the remit of the finance division, monitors Swisscom's risk profile and is implemented and documented in accordance with internationally recognised standards and incorporates all relevant divisions. It is made up of the following five elements:

- Risk identification: risks facing Swisscom Ltd and its Group companies are identified in a comprehensive risk analysis conducted once a year by way of workshops and interviews. Each risk is allocated a risk owner. The risk portfolio is reviewed and updated quarterly.
- Risk assessment: identified risks are assessed according to the probability of occurrence and their qualitative and quantitative effects in the event of occurrence.
- Risk strategy: Swisscom pursues a risk strategy which supports its corporate goals. In principle, risks should only be borne where core competences exist; otherwise they should be avoided or transferred .
- Implementation of the risk strategy: identified risks are managed in accordance with the risk strategy. Implementation of the risk strategy is subject to a regular review.
- Reporting: the Board of Directors, Audit Committee and Group Executive Board are informed about risks and their possible effects on a quarterly basis.

The most significant risks are listed in the section Risk factors beginning on page 47.

Internal control system

Swisscom operates an internal control system within the framework of the risk management system, in order to ensure reliable internal and external financial reporting and safeguard against false disclosure (violations or errors) concerning business transactions. On the basis of the internationally recognised COSO framework, the internal control system guarantees the necessary workflows and instruments in order to ensure the timely identification and assessment of risks related to the quality of accounting, and to control such risks by means of appropriate measures. Internal rules and instruments such as the Code of Ethics, the Accounting Manual or the whistle-blowing platform support this goal. The internal control system involves all the key responsible units, particularly the Audit Committee and the Group Executive Board, in line with their organisational level. Swisscom views the internal control system as an ongoing task and an opportunity to continually improve workflows in the bookkeeping, accounting and financial reporting areas.

Internal auditing

Alongside risk management, internal auditing is an essential part of the Swisscom Group's corporate governance and is the responsibility of the Group Internal Audit unit. Group Internal Audit supports the Swisscom Ltd Board of Directors and the Audit Committee in complying with statutory and regulatory supervisory and controlling obligations. Management is shown potential areas where business processes can be improved.

Group Internal Audit is responsible for planning and performing audits throughout the Group in compliance with the guidelines for the profession. In particular, Group Internal Audit is responsible for performing independent and objective audits and assessments to verify the efficiency, compliance and effectiveness of the internal control system and risk management. The audit findings are documented, and any measures implemented in this context are monitored.

With a view to achieving maximum independence, Group Internal Audit is under the control of the Chairman of the Board of Directors and not the management, and reports to the Audit Committee of Swisscom Ltd. The Audit Committee is briefed on the audit findings and the status of measures at its meetings. In addition to ordinary reporting, Group Internal Audit informs the Audit Committee of any irregularities which come to its attention.

Group Internal Audit liaises closely and exchanges information with the external auditors. Audit planning, in particular, is closely coordinated. The integrated strategic audit plan is drawn up annually on the basis of a risk analysis submitted to the Audit Committee for approval. Special audits may also be commissioned.

Members of the Group Executive Board

In accordance with the Articles of Incorporation, the Group Executive Board must comprise one or more members who may not simultaneously be members of the Board of Directors. Temporary membership of the Board of Directors is only permitted in exceptional cases. Accordingly, the Board of Directors has delegated responsibility for overall executive management of Swisscom Ltd to the CEO. The CEO is entitled to delegate his powers to a subordinate, in particular to other members of the Group Executive Board.
The members of the Group Executive Board are appointed by the Board of Directors. The Group Executive Board comprises the CEO of Swisscom Ltd, the heads of the Group divisions, the CEO of Swisscom IT Services Ltd and the heads of the divisions of Swisscom (Switzerland) Ltd.
Jürg Rötheli, formerly CEO of Swisscom Participations, stepped down from the Group Executive Board at the end of August 2009.
The list below gives an overview of the composition of the Board of Directors at December 31, 2009, including the year of appointment of each member and their function within the Group. Details of their career and qualifications as well as other activities and interests such as mandates in important companies, organisations and foundations, and permanent functions in important interest groups are also provided.
Members of the Group Executive Board at December 31, 2009:

Name	Year of birth	Function	Appointed as of [1]
Carsten Schloter	1963	CEO of Swisscom Ltd	January 2006
Ueli Dietiker	1953	CFO of Swisscom Ltd	August 2007
Eros Fregonas	1964	CEO of Swisscom IT Services Ltd	May 2007
Guido Garrone	1961	Head of Networks of Swisscom (Switzerland) Ltd	January 2008
Heinz Herren	1962	Head of Small- and Medium-Sized Enterprises of Swisscom (Swizerland) Ltd	August 2007
Stefan Nünlist	1961	CCO of Swisscom Ltd	July 2001
Christian Petit	1963	Head of Residential Customers of Swisscom (Switzerland) Ltd	August 2007
Günter Pfeiffer	1958	CPO of Swisscom Ltd	June 2004
Daniel Ritz	1966	CSO of Swisscom Ltd	September 2006
Urs Schaeppi	1960	Head of Corporate Business of Swisscom (Switzerland) Ltd	August 2007

[1] Member of the Group Executive Board of Swisscom: Carsten Schloter since 2000; Stefan Nünlist since 2001; Ueli Dietiker since 2002 (CFO April–March 2006); Günter Pfeiffer since 2004; Daniel Ritz and Urs Schaeppi since 2006; Eros Fregonas, Heinz Herren and Christian Petit since 2007; Guido Garrone since 2008.

Carsten Schloter
German citizen
Qualifications: Degree in business administration
Career history: 1985–1992 various positions at Mercedes-Benz France SA; 1992–1994 member of the Management Board, debitel France SA; 1995–1999 various positions at debitel Germany; 1999 member of the Management Board, debitel AG; 2000–2001 Head of Public Com and Head of Mobil Com, Swisscom; 2001–January 2006 CEO of Swisscom Mobile Ltd; since January 2006 CEO of Swisscom Ltd and since January 2008 CEO of Swisscom (Switzerland) Ltd
Since March 2000 member of the Swisscom Group Executive Board
Other mandates: Chairman of the Board of Directors, Fastweb S.p.A.; member of the Executive Board of the Association Suisse des Télécommunications (ASUT), Berne

Ueli Dietiker
Swiss citizen
Qualifications: Certified public accountant
Career history: 1972–1988 ATAG Ernst & Young; 1988–1994 various positions at Motor Columbus AG, latterly as CFO; 1995–December 1998 CFO, Cablecom Holding AG; January 1999–June 2001 CEO, Cablecom Holding AG; September 2001–March 2002 Head of Strategic Growth and Related Businesses, Swisscom Ltd; July 2003–June 2004 Head of Group Human Resources, Swisscom Ltd; April 2002–March 2006 CFO, Swisscom Ltd; March 2006–December 2007 CEO, Swisscom Fixnet Ltd; since August 2007 CFO and since April 2002 Deputy CEO, Swisscom Ltd
Since April 2002 member of the Swisscom Group Executive Board
Other mandates: member of the Board of Directors, Zuckermühle Rupperswil AG; Vice-Chairman of the Board of Directors, Fastweb S.p.A.; member of the Board of Directors and Chairman of the Audit Committee of Sanitas health insurance provider; member of the Board of Directors and Chairman of the Audit Committee of Wincare health insurance provider

Eros Fregonas
Swiss and Italian citizen
Qualifications: Degree in electronic engineering, Swiss Federal Institute of Technology (ETH), Zurich
Career history: 1987–1996 Andersen Consulting; 1996–2005 CEO, Boss Lab AG (now B-Source); 2005–2007 independent financial and IT consultant; since May 2007 CEO, Swisscom IT Services Ltd
Since May 2007 member of the Swisscom Group Executive Board

Guido Garrone
Italian citizen
Qualifications: Degree in electronic engineering (Politecnico di Milano, Italy); post-graduate diploma in general management (ISTUD, Istituto Studi Direzionali, Stresa, Italy)
Career history: 1988–1999 various positions at Sirti S.p.A, Milan, latterly as Head of Engineering; 1999 co-founder of Fastweb S.p.A.; 1999–2007 various positions at Fastweb S.p.A., latterly as Chief Technology Officer from 2003–2007; since January 2008 Head of Networks, Swisscom (Switzerland) Ltd
Since January 2008 member of the Swisscom Group Executive Board

Heinz Herren
Swiss citizen
Qualifications: Degree in electronic engineering (HTL)
Career history: 1986–1988 Hasler AG; 1988–1991 XMIT AG; 1991–1993 Ascom Telematik AG; 1993–1994 Bedag Informatik; 1994–2000 3Com Corporation; 2000–2000 Inalp Networks Inc.; 2001–2005 Head of Wholesale Marketing, Swisscom Fixnet; 2005–2007 Head of Small and Medium-Sized Enterprises, Swisscom Fixnet; since August 2007, Head of Small and Medium-Sized Enterprises, Swisscom (Switzerland) Ltd
Since August 2007 member of the Swisscom Group Executive Board

Stefan Nünlist
Swiss citizen
Qualifications: Degree in law (lic. iur.), attorney and notary; Wharton Advanced Management Program (University of Pennsylvania, Philadelphia, USA)
Career history: 1991–1996 Federal Department of Foreign Affairs (DFA); 1997–1998 Federal Department of Economic Affairs (DEA); 1999–2000 Atel AG; since January 2001 Chief Communications Officer (CCO), Swisscom Ltd
Since July 2001 member of the Swisscom Group Executive Board
Other mandates: member of the Management Board of the Association of Swiss Advertisers; member of the Swiss Tourism Council; member of Olten Municipal Council; since November 2009 member of the Board of Directors of Oltra AG, Olten

Christian Petit
French citizen
Qualifications: MBA ESSEC Cergy-Pontoise
Career history: 1993–1999 debitel France; 2000–2003 Head of Operations, Swisscom Mobile Ltd; 2003–2006 Head of Product Marketing, Swisscom Mobile Ltd; 2006–June 2007 CEO, Hospitality Services Plus SA; since August 2007 Head of Residential Customers, Swisscom (Switzerland) Ltd
Since August 2007 member of the Swisscom Group Executive Board

Günter Pfeiffer
German citizen
Qualifications: Doctorate in economics and business administration (Dr. rer. pol.), University of Cologne
Career history: 1988–1995 Director of Holding Projects, Detecon; 1995–1996 Senior Director International, T-Mobile; 1997–1999 Vice-President Marketing, VEBA-Telekom; 2000–2004 Head of Participation Management, Swisscom Ltd; since June 2004 Chief Personnel Officer (CPO), Swisscom Ltd
Since June 2004 member of the Swisscom Group Executive Board

Daniel Ritz
Swiss citizen
Qualifications: Doctorate in business administration (Dr. oec.), University of St. Gallen
Career history: 1988 internship, Ciba-Geigy (now Novartis); 1992–1993 project manager, University of St. Gallen, 1994–2001 consultant, Boston Consulting Group AG; 2001–2006 partner, Boston Consulting Group AG; since September 2006 Chief Strategy Officer (CSO), Swisscom Ltd
Since September 2006 member of the Swisscom Group Executive Board
Other mandates: President of the Swiss Institute for Business Cycle Research (SKG) and member of the Board of Directors, Fastweb S.p.A.

Urs Schaeppi
Swiss citizen
Qualifications: Degree in engineering (Dipl. Ing. ETH) and business administration (lic. oec. HSG)
Career history: 1987–1991 Iveco Motorenforschungs AG; 1991–1994 Head of Electronics Marketing, Ascom AG; 1994–1998 plant manager at Biberist paper factory; 1998–2006 Head of Commercial Business and member of the Executive Board, Swisscom Mobile Ltd; 2006–2007 CEO, Swisscom Solutions Ltd; since August 2007 Head of Corporate Business, Swisscom (Switzerland) Ltd
Since March 2006 member of the Swisscom Group Executive Board
Other mandates: member of the Board of Directors, Fastweb S.p.A.; member of the Board of Directors, BV Group, Berne

Management agreements

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

6 Shareholders' participation rights

Voting rights and representation restrictions

Each registered share entitles the holder to one vote. Voting rights can only be exercised if the shareholder has been entered with voting rights in the share register of Swisscom Ltd. The Board of Directors may refuse to recognise an acquirer of shares as a shareholder or beneficial owner with voting rights if the latter's total holding, when the new shares are added to any voting shares already registered in its name, would then exceed the limit of 5% of all registered shares entered in the commercial register. The acquirer is inscribed in the register as a shareholder or beneficial owner without voting rights for the remaining shares. 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 the capital and voting majority.
The Board of Directors may recognise an acquirer of shares with more than 5% of all registered shares as a shareholder or beneficial owner 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 establishing 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 owner with voting rights any acquirer of shares who fails to expressly declare upon request that it has acquired the shares in its own name and for its own account. Should an acquirer of shares refuse to make such a declaration, it will be entered as a shareholder without voting rights.
In addition, 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 it as a shareholder without voting rights. The acquirer must be notified of the deletion immediately.
The statutory restrictions on voting rights may be lifted by resolution at the Annual General Meeting, for which an absolute majority of valid votes cast would be required.

Statutory quorum requirements

The Annual General Meeting of Shareholders of Swisscom Ltd adopts its resolutions and holds its elections by absolute majority of valid votes cast. In addition to the specific quorum requirements under the Swiss Code of Obligations, the Articles of Incorporation require a two-thirds majority in the following cases:
> Introduction of restrictions on voting rights
> Conversion of registered shares to bearer shares and vice versa
> Changes to the above statutory quorum requirements

Convening the Annual General Meeting and setting the agenda

The Board of Directors must convene the Annual General Meeting at least 20 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.
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 Annul General Meeting, stating the agenda item and the proposal.

Representation at the Annual General Meeting

Shareholders may be represented at the Annual General Meeting by another shareholder with voting rights who has a written power of attorney. Shareholders may also be represented by the corporate proxy, an independent voting proxy, or a custody proxy (bank). Partnerships and legal entities may be represented by authorised signatories, while minors and wards may be represented by their legal representative even if such persons are not shareholders. Shareholders who send a proxy may issue instructions for each agenda item and also for motions not included in the invitation, stating whether they wish to vote for or against a motion or abstain. The corporate proxy only represents shareholders who approve the motions of the Board of Directors. Powers of attorney with instructions to vote otherwise will be passed on to the independent voting proxy, who approves the motions of the Board of Directors unless express instructions to the contrary are given.

Registrations in share register

Shareholders entered in the shareholder register with voting rights are entitled to vote at the Annual General Meeting. Up to and including fiscal 2006, the register closed on each occasion no later than three days prior to the Annual General Meeting. Shareholders who registered their voting rights in the share register prior to closing were entitled to vote. As in the prior year, the share register was not closed before the Annual General Meeting for fiscal 2008 held on April 21, 2009. Shareholders registered in the share register with voting rights by 4 p.m. on April 17, 2009 were entitled to vote.

7 Change of control and defensive measures

Duty to make an offer

The Telecommunications Enterprise Act (TEA) requires the Swiss Confederation to hold the capital and voting majority in Swisscom Ltd. A takeover bid within the meaning of the Federal Act on Stock Exchanges and Securities Trading (SESTA) would require an amendment to the TEA. As a result, there are no statutory rulings governing “opting out” or “opting up” (SESTA Art. 22).

Clause on change of control

For details of the clauses on change of control, please refer to the section Remuneration report on page 116.

Duration of the mandate and term of office of the auditor-in-charge.

Following the revised auditing obligations for legal entities under Swiss private law in effect since January 1, 2008, Swisscom Ltd as a public company is now required to undergo a so-called ordinary audit, which must be carried out by a state-supervised firm of auditors. The auditors appointed by the shareholders of the parent company are automatically responsible for auditing the consolidated financial statements. Consequently, there is no further need to appoint a special auditor for the consolidated financial statements.
The statutory auditors are appointed annually by the Annual General Meeting.
KPMG Switzerland has acted as the statutory and Group auditors of Swisscom Ltd since January 1, 2004 through its subsidiary KPMG Klynveld Peat Marwick Goerdeler SA, Gümligen-Berne (Switzerland), which is registered with the American audit supervisory authorities (PCAOB). Since Swisscom American Depositary Shares have been delisted from the New York Stock Exchange and Swisscom Ltd has deregistered from the American Securities and Exchange Commission (SEC), the audit no longer has to be carried out by the subsidiary registered with the PCAOB. Since the Annual General Meeting of April 22, 2008 the audit has been performed by KPMG AG, Gümligen-Berne, Switzerland. This change has had no effect on the performance of the audit. Hanspeter Stocker, the auditor-in-charge at KPMG who is responsible for the auditing mandate, has been in office since 2004. The lead auditor is rotated every seven years in accordance with Swiss law. KPMG AG is a licensed, state-supervised auditing company.

Auditors' remuneration and supplementary fees

Remuneration for the auditing services provided by KPMG AG in 2009 amounted to CHF 4.83 million (previous year: CHF 4.88 million). Remuneration for audit-related services amounted to CHF 0.52 million (previous year: CHF 1.41 million) and for non-audit services (tax advice and other advisory services) CHF 0.74 million (previous year: CHF 1.23 million).
The Audit Committee of the Board of Directors considers the following services in particular to be incompatible with the independence of the auditors and also reserves the right to exclude other services:

- Services giving rise to the risk that the auditors will audit their own work
- Bookkeeping and other services in connection with accounting or the financial statements
- Valuation and estimation services, fairness opinions or expert reports on the valuation of non-cash contributions
- Actuarial services
- Management tasks and personnel services
- Financial services
- Outsourcing of internal auditing
- Development and introduction of financial information systems

The statutory auditors are permitted to provide non-audit services in parallel, notably the provision of legal advice, but it must be ensured that the independence of the auditors is not at risk. Tax consultancy services are only permitted if this does not lead to a self-audit. In particular, the auditors may not advise or assist with the preparation of complex international structures for the purposes of tax optimisation which is to be assessed by the external auditors.

Supervision and controlling instruments vis-à-vis the auditors

The Audit Committee checks the qualifications, independence and performance of the statutory auditors on behalf of the Board of Directors, approves the integrated strategic audit plan of the auditors and proposes the appointment and discharge of auditors to be appointed or discharged by the Annual General Meeting. It defines the criteria for the annual approval of fees. The CFO reports quarterly and the auditors annually on current mandates being performed by the auditors, broken down into audit services, audit-related services and non-audit services. The Audit Committee is also responsible for observing the statutory rotation principle of the auditor-in-charge. The statutory auditors, represented by the auditor-in-charge and his representative, attend all meetings of the Audit Committee and report in detail on the performance and results of their activities. In particular they report half-yearly and yearly on the findings of their review. They submit a written report to the Board of Directors and the Audit Committee about the implementation and results of the half-yearly reviews and the final annual audit, as well as on their findings with regard to accounting and the internal control system. Finally, the chairman of the committee liaises closely with the auditor-in-charge and regularly reports to the Board of Directors.

9 Information policy

Swisscom pursues an active and open information policy vis-à-vis the general public and the financial markets and publishes consistent, comprehensive and transparent financial information on a quarterly basis.
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 regularly informed about its business through press releases and shareholder letters.

Results will be published on the following dates:

> First quarter: May 5, 2010
> Second quarter: August 4, 2010 (half-year results)
> Third quarter: November 10, 2010
> Fourth quarter: February 17, 2011 (annual results)

The Annual General Meeting will be held on:

> April 27, 2010

The interim reports, the half-year report and the annual report are available on the Swisscom website under Investor Relations (www.swisscom.ch/financialreports), or may be ordered directly from Swisscom. All press releases, presentations and the latest financial calendar are also available on the Swisscom website under Investor Relations.
Push and pull links for the distribution of ad hoc communications can be found under www.swisscom.ch/adhoc.

Remuneration report

Introduction

This remuneration report provides a summary of the remuneration system and compensation paid to members of the Board of Directors and Group Executive Board of Swisscom Ltd. The report will be presented to the Annual General Meeting for a consultative vote on April 27, 2010 .
The report is based on Art. 5 of the Corporate Governance Directive issued by the SIX Swiss Exchange. Swisscom also complies with the applicable standards of the Swiss Code of Best Practice for Corporate Governance including Annex 1 on the remuneration recommendations for members of the Board of Directors and the Executive Board. Remuneration and shareholdings in accordance with Arts 663b^{bis} and 663c Para. 3 of the Swiss Code of Obligations are also listed and commented on in the financial statements of Swisscom Ltd on pages 198 to 206.

General principles governing remuneration

Uniform remuneration principles exist across the Swisscom Group, although the dynamics of the labour market allow a certain degree of flexibility. Salaries at Swisscom are determined by four factors: position, individual performance, company performance and the labour market. This approach takes into consideration the interests of employees, investors and the company and is systematic, transparent and of long-term relevance.
Swisscom offers competitive salaries in order to attract and retain highly skilled and motivated specialist staff and managers and to bind them to the company on a longer-term basis. The variable performance-related component offers an additional incentive and focuses on overarching objectives such as customer loyalty. It motivates employees and top management to make a contribution to the long-term success of the company. The “Management Incentive Plan”, which is binding for all members of the Board of Directors and – with one exception – all members of the Group Executive Board, also enables direct financial participation in the medium-term performance of the Swisscom share. The programme is described in note 11 to the consolidated financial statements.

Decision-making powers

The decision-making powers are defined in the Organisational Regulations of the Board of Directors and the regulations for the Personnel and Organisation Committee and the Compensation Committee.

Personnel and salary policy, general terms and conditions of employment for members of the Group Executive Board and profit-sharing schemes

The Board of Directors approves the Group-wide personnel and salary policy as well as the general terms and conditions of employment for the members of the Group Executive Board. In both cases proposals are put forward by the Personnel and Organisation Committee. This committee then approves the profit-sharing schemes for Swisscom Ltd and the Group companies. For further information on the Personnel and Organisation Committee, please refer to the report on Corporate Governance on page 98.

Remuneration paid to members of the Board of Directors and the Group Executive Board

The Board of Directors defines the remuneration for each member of the Board of Directors and the CEO, as well as the total remuneration for the Group Executive Board, based on the remuneration regulations for the members of the Board of Directors, the directives approved by the Compensation Committee for the variable performance-related component for the members of the Group Executive Board and the preliminary guidance issued by the Compensation Committee. The Compensation Committee decides on the individual remuneration for the other members of the Group Executive Board at its own discretion within the framework of the overall remuneration defined by the Board of Directors.

Compensation Committee

The Compensation Committee is chaired by the Deputy Chairman of the Board of Directors, Richard Roy. The other members are the chairmen of the Finance Committee (Torsten G. Kreindl), the Personnel and Organisation Committee (Felix Rosenberg) and the Audit Committee (Othmar Vock). As Chairman of the Board of Directors, Anton Scherrer attends committee meetings but has no voting rights. All members are independent.
The committee met on two occasions in fiscal 2009. All members were present at the meetings, which lasted approximately two hours. The CEO and CPO (Chief Personnel Officer) regularly attend the meetings. They act in an advisory capacity unless the agenda items concern the Board of Directors or themselves. Minutes are kept of the meetings. The chairman submits a regular report on the activities of the committee to the Board of Directors.

Remuneration paid to the Board of Directors

General principles

The remuneration reflects the level of responsibility and scope of activities performed by each member of the Board of Directors. The remuneration, which has remained unchanged since 2002, is reviewed every December for the following year to ensure that it is still appropriate. The 2009 review was based on a comparative analysis conducted in November by Towers Perrin, a global consultancy firm specialising in executive pay. Listed companies on the Swiss Market Index excluding financial services were used as benchmarks. The review showed that both the basic salary as well as total remuneration were below the market average. In December 2009, however, the Board of Directors decided not to change the level of remuneration.

Remuneration

The compensation plan provides for basic emoluments for the Chairman of the Board of Directors of CHF 385,000, and of CHF 110,000 for the other Board members. Additional fees are also paid for specific duties (functional allowances). Each member of a Board Committee is entitled to compensation of CHF 10,000 net. In addition, the Vice-Chairman and the Chairmen of the Board committees are entitled to compensation of CHF 20,000 net. The representative of the Swiss Confederation receives an additional CHF 40,000 net for special duties related to his function. A meeting attendance allowance is also paid (whole day: CHF 750 / half-day: CHF 500). Out-of-pocket expenses are reimbursed on the basis of actual costs incurred. No significant non-cash benefits are paid.
The members of the Board of Directors are obliged to draw 25% of their basic salary plus their function-related allowance in the form of shares. Swisscom then increases the amount invested in shares by 50%. Two thirds of the remuneration (excluding meeting attendance fees) are thus made up of cash and one third shares. The shares allocated are calculated on the basis of the tax value – rounded up to whole numbers of shares – and are subject to a three-year blocking period. The shares allocated in April of the reporting year for the reporting year are declared at their market value on the purchase date (usually three weeks before allocation) or at the market value on the cut-off date of allocation if treasury shares are used. In April 2009, 2,119 shares were allocated to the members of the Board of Directors (previous year 1,845 shares) with a tax value of CHF 265 per share (previous year CHF 304). The market value was CHF 316 per share (previous year CHF 363).
The disclosure of non-cash benefits and expenses complies with fiscal law, such that neither non-cash benefits nor expenses are included in the reported remuneration.

The individual remuneration paid to the members of the Board of Directors for the financial years 2009 and 2008 is presented in the tables below, broken down into individual components:

2008, in CHF thousands	Base emoluments and functional allowances: Cash compensation	Base emoluments and functional allowances: Share-based compensation	Meeting attendance fees	Total 2008
Anton Scherrer	334	186	76	596
Fides P. Baldesberger	98	54	17	169
Hugo Gerber	98	54	17	169
Michel Gobet	98	54	18	170
Torsten G. Kreindl	114	63	20	197
Catherine Mühlemann	94	54	17	165
Felix Rosenberg	145	80	22	247
Richard Roy	114	63	18	195
Othmar Vock	113	63	20	196
Total compensation to members of the Board of Directors	**1,208**	**671**	**225**	**2,104**

2009, in CHF thousands	Base emoluments and functional allowances: Cash compensation	Base emoluments and functional allowances: Share-based compensation	Meeting attendance fees	Total 2009
Anton Scherrer	334	186	71	591
Fides P. Baldesberger [1]	30	13	5	48
Hugo Gerber [2]	98	54	18	170
Michel Gobet	98	54	16	168
Torsten G. Kreindl	114	63	20	197
Hansueli Loosli [3]	64 [4]	44	8	116
Catherine Mühlemann	98	54	17	169
Felix Rosenberg	145	81	22	248
Richard Roy	114	63	21	198
Othmar Vock	112	63	25	200
Total compensation to members of the Board of Directors	**1,207**	**675**	**223**	**2,105**

[1] Resigned as of April 21, 2009.
[2] In addition, a cash compensation of CHF 6,125 was paid as member of the Board of Directors of Worklink AG, in charge from April 1, 2009.
[3] Elected as of April 21, 2009.
[4] Cash compensation is paid to Coop.

Remuneration paid to the Group Executive Board

General principles

In line with Swisscom's remuneration policy, remuneration for the Group Executive Board consists of a basic salary component and a variable performance-related component as well as non-cash and additional benefits (notably, a company car and pension).
The Compensation Committee arranges an annual review of the remuneration paid to the members of the Group Executive Board using benchmarks. The comparative studies carried out by the renowned consultancy firms Towers Perrin (25 companies representing all sectors in Switzerland), Watson Wyatt (219 companies based in Switzerland) and Hewitt (33 European conglomerates), were again taken as benchmarks and on account of the many reference companies included in the studies, provided the basis for a representative comparison. When evaluating these benchmarks, factors such as sector, revenue, number of employees and location were taken into account. Overall the analysis revealed that

salaries for comparable management positions had risen by just under 8% on average over the last three years (2007 to 2009).
The Compensation Committee only reviews individual remuneration paid to members of the Group Executive Board every three years. The remuneration depends on the market rate for the position, the function and also takes into account individual performance. In the reporting year the basic salary of individual members of the Group Executive Board was revised slightly on January 1, 2009 to bring it into line with standard market salary levels.

Targets for the variable performance-related component

The incentive targets underlying the variable performance-related component are approved annually in December for the following business year by the Board of Directors following a proposal submitted by the Compensation Committee. The incentive targets set for the year under review are based on the Swisscom Group's budget figures for 2009.
Three target levels were defined in the year under review (Group, Fastweb, Segments/Group companies). All members of the Group Executive Board are measured against the Group targets and, depending on their position, against Fastweb's targets and/or targets relating to other Segments or Group companies for which they are responsible. The Group targets are made up of financial targets and residential and business customer targets in Switzerland, which are of central importance for development of corporate value over the long-term. Additional targets, which are tailored to the individual functions of the members of the Group Executive Board, are made up of financial indicators and some specific indicators. The following table shows the applicable target structure for the members of the Group Executive Board in the year under review, detailing the three target levels, the specific targets at each level and the weighting assigned to each level.

Target levels	Objectives	Weighting
Group	Net revenue EBITDA margin Operating free cash flow Customer targets	30–70%
Fastweb	Net revenue Operating free cash flow	30%
Segments / group companies	Net revenue EBITDA margin Operating free cash flow Specific targets	40–60%

Swisscom's target structure aims to strike a balance between financial and market performance, while taking into account the specific responsibilities of each member of the Group Executive Board.
Depending on their position, members of the Group Executive Board receive a variable performance-related component of between 33% and 100% of their basic salary if they meet their targets. The variable performance-related component paid depends on the degree to which targets have been met and is determined by the Compensation Committee. This ensures that any special factors, such as unscheduled company acquisitions or divestments, are taken into account. If targets are exceeded, additional remuneration up to a maximum of double the variable performance-related component figure may be paid.

Payment of the variable performance-related component

The variable performance-related component is always determined the following year once the consolidated financial statements are available, on the basis of the incentive targets fixed in the year under review and is paid in April of the following year. Apart from a 100% cash payment for a member of the Group Executive Board not bound by the share option scheme, and one member who retired at the end of August 2009, all the other members of the Group Executive Board will receive 75% of the variable performance-related component in cash and 25% in Swisscom shares. The shares are allocated on the basis of the tax value – rounded up to whole numbers of shares – and are subject to a three-year blocking period. The disclosed share-based remuneration for the year under review is equivalent to 25% of the variable performance-related component for 2009, increased by the factor 1.19 in order to take into account the difference between the market value and the tax value. The market value of the shares depends on the purchase date (usually three weeks before allocation) or the cut-off date if treasury shares are used. Shares for the year under review will be allocated in April 2010. A total of 3,254 shares with a tax value of CHF 265 and a market value of CHF 316 per share were allocated to members of the Group Executive Board in April 2009 for the 2008 financial year. In April 2008 2,184 shares with a tax value of CHF 304 and a market value of CHF 363 per share were allocated for the 2007 financial year.

Achievement of targets

In the year under review, the Group targets were slightly exceeded and the Fastweb targets were largely achieved. The other segment and Group company targets were slightly exceeded overall.

Total remuneration paid

The disclosure of non-cash benefits and expenses complies with fiscal law. The disclosed non-cash benefits therefore only include a share in a company car. The disclosed retirement benefits (expenses which give rise to or increase pension benefits) comprise all savings and risk contributions paid by the employer to the pension fund, including pro rata contributions to build up a fluctuation reserve.
The following table shows the total remuneration paid to members of the Group Executive Board for the financial years 2009 and 2008, broken down into individual components and including the highest amount paid to one member. The increase in remuneration paid to members of the Group Executive Board is primarily due to benefits paid to a departing Board member until the end of his notice period. The total remuneration paid to the CEO is on a par with the previous year.

in CHF thousands	Total Group Executive Board 2009	Total Group Executive Board 2008	Thereof Carsten Schloter 2009	Thereof Carsten Schloter 2008
Base salary paid in cash	5,474	5,593	770	770
Variable earnings-related compensation paid in cash	3,280	3,257	651	658
Non-cash compensation	80	68	15	7
Share-based compensation	1,079	1,126	258	261
Benefits paid following retirement from Group Executive Board	640	–	–	–
Retirement benefits	1,165	1,163	125	122
Total compensation of the members of the Group Executive Board	**11,718**	**11,207**	**1,819**	**1,818**

Clause on change of control

The employment contracts of the members of the Group Executive Board do not contain a clause on change of control and can be terminated subject to a twelve-month notice period.

Additional remuneration

The members of the Group Executive Board are not entitled to separate remuneration if they take on any directorships either within or outside the Swisscom Group. With the exception of Hugo Gerber for his role as director at Worklink AG, no additional remuneration was paid to members of the Board of Directors or the Group Executive Board in the year under review.

Remuneration for former members of the Board of Directors or Group Executive Board

In the year under review no remuneration was paid to former members of the Board of Directors or the Group Executive Board, nor to any parties related to these individuals.

Loans

In fiscal 2009 Swisscom Ltd granted no guarantees, loans, advances or credit facilities to former or current members of the Board of Directors or related parties, nor to former or current members of the Group Executive Board or related parties. There are also no receivables of any kind outstanding.

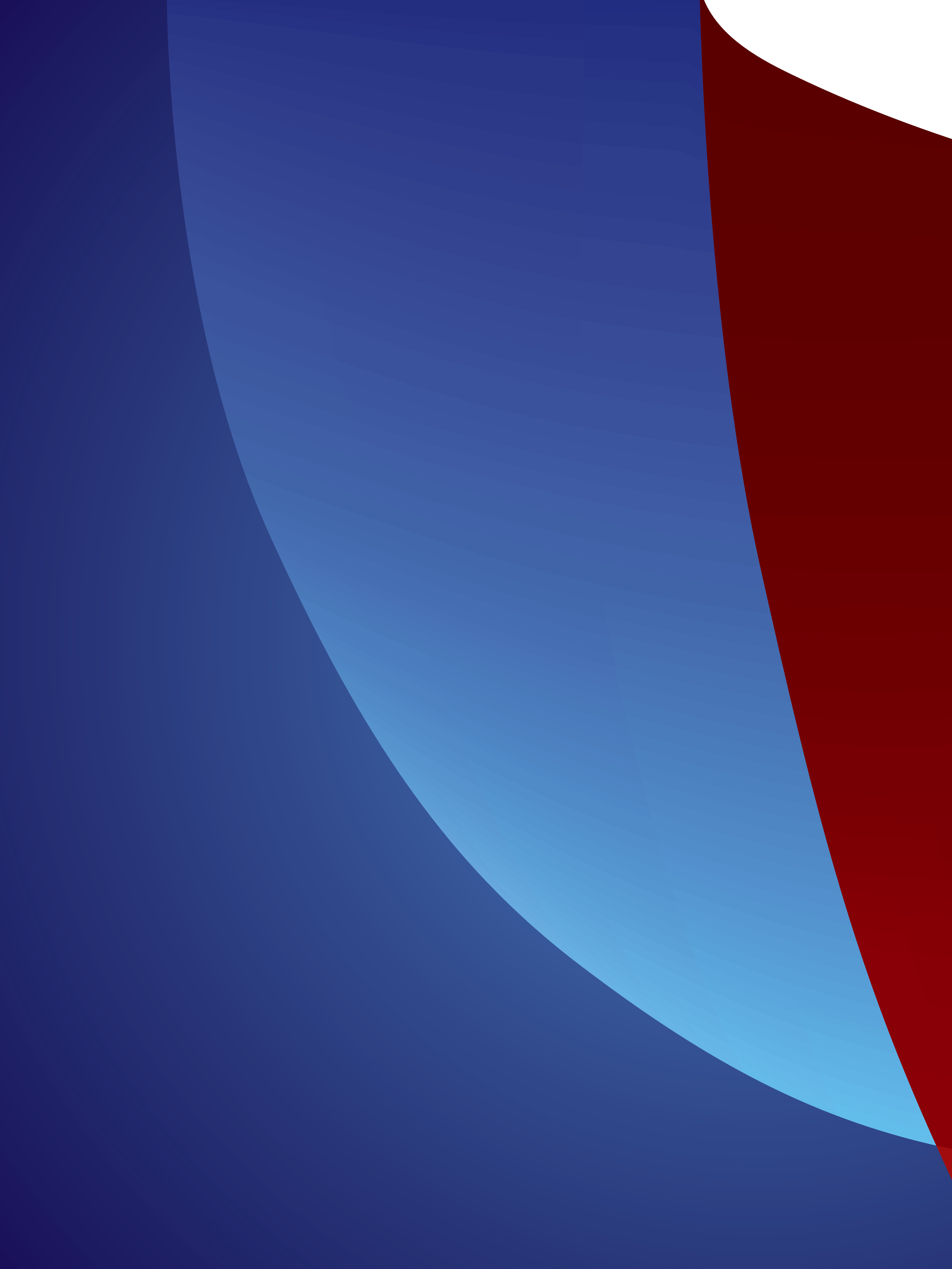
Management transactions

Since 1 July 2005 Swisscom Ltd has reported all transactions in Swisscom shares and options undertaken by members of the Board of Directors and the Group Executive Board to the SIX Swiss Exchange, stating the name and position of the person involved. Transactions exceeding a threshold value of CHF 100,000 in any calendar month for each person subject to the disclosure obligation are published anonymously by the SIX Swiss Exchange on its website. SIX Swiss Exchange does not publish any collective announcements of transactions below the threshold value of CHF 100,000 in any calendar month.
The number of blocked and non-blocked shares held by members of the Board of Directors and the Group Executive Board and related parties as at December 31, 2009 and 2008 is indicated in the table below:

Number	Shares 31.12.2009	Shares 31.12.2008
Anton Scherrer	1,695	1,108
Fides P. Baldesberger[1]	–	408
Hugo Gerber	451	281
Michel Gobet	818	648
Torsten G. Kreindl	514	316
Hansueli Loosli[2]	133	–
Catherine Mühlemann	441	271
Felix Rosenberg	2,017	1,762
Richard Roy	514	693
Othmar Vock	692	494
Total shares of the members of the Board of Directors	**7,275**	**5,981**
Carsten Schloter (CEO)	3,511	2,684
Ueli Dietiker	2,323	1,807
Eros Fregonas	817	265
Guido Garrone	–	–
Heinz Herren	426	226
Stefan Nünlist	443	314
Christian Petit	687	416
Günter Pfeiffer	475	306
Daniel Ritz	560	259
Jürg Rötheli[3]	–	750
Urs Schaeppi	1,034	728
Total shares of the members of the Group Executive Board	**10,276**	**7,755**

[1] Resigned as of April 21, 2009.
[2] Elected as of April 21, 2009.
[3] Resigned as of August 31, 2009.

No party subject to the disclosure obligation has more than 0.1% of the voting rights.



Financial Statements

- Consolidated financial statements
- Financial statements of Swisscom Ltd

Consolidated financial statements

Consolidated income statement

in CHF millions, except for per share amounts	Note	2009	2008
Net revenue	6,7	**12,001**	**12,198**
Goods and services purchased	8	(2,648)	(2,797)
Personnel expense	9,10,11	(2,577)	(2,466)
Other operating expense	12	(2,524)	(2,600)
Capitalized costs of self-constructed assets and other income	13	414	454
Operating income before depreciation and amortization (EBITDA)		**4,666**	**4,789**
Depreciation, amortization and impairment losses	23,24	(1,988)	(2,149)
Operating income (EBIT)		**2,678**	**2,640**
Financial income	14	144	143
Financial expense	14	(480)	(631)
Share of results of associated companies	25	43	47
Income before income taxes		**2,385**	**2,199**
Income tax expense	15	(460)	(448)
Net income		**1,925**	**1,751**
Share of net income attributable to equity holders of Swisscom Ltd		1,928	1,756
Share of net income attributable to minority interests		(3)	(5)
Earnings and diluted earnings per share (in CHF)	16	**37.22**	**33.90**

Consolidated statement of comprehensive income

in CHF millions	Note	2009	2008
Net income		**1,925**	**1,751**
Foreign currency translation adjustments of foreign subsidiaries	31	(13)	(793)
Cumulative foreign currency translation losses on foreign subsidiaries transferred to income statement	31	–	4
Change in fair value of available-for-sale financial assets	31	4	14
Gains and losses from available-for-sale financial assets transferred to income statement	31	(4)	(14)
Change in fair value of cash flow hedges	19,31	(6)	(168)
Fair value gains and losses of cash flow hedges transferred to income statement	31	101	6
Income tax expense	15	(6)	12
Total other comprehensive income		**76**	**(939)**
Comprehensive income		**2,001**	**812**
Share of comprehensive income attributable to equity holders of Swisscom Ltd		2,005	853
Share of comprehensive income attributable to minority interests		(4)	(41)

Consolidated balance sheet

in CHF millions	Note	31.12.2009	31.12.2008
Assets			
Cash and cash equivalents	17	532	958
Trade and other receivables	18	2,926	2,798
Other financial assets	19	178	170
Inventories	20	135	188
Current income tax assets	15	48	38
Other non-financial assets	21	329	334
Non-current assets held for sale	22	6	16
Total current assets		**4,154**	**4,502**
Property, plant and equipment	23	8,044	8,070
Goodwill and other intangible assets	24	8,979	8,915
Investments in associated companies	25	228	285
Other financial assets	19	424	853
Deferred tax assets	15	48	58
Defined benefit assets	10	38	–
Other non-financial assets	21	45	55
Total non-current assets		**17,806**	**18,236**
Total assets		**21,960**	**22,738**
Liabilities and equity			
Financial liabilities	26	1,270	216
Trade and other payables	27	2,314	2,186
Current income tax liabilities	15	219	163
Provisions	28	137	482
Other non-financial liabilities	30	701	619
Total current liabilities		**4,641**	**3,666**
Financial liabilities	26	8,740	11,576
Defined benefit obligations	10	351	428
Provisions	28	740	715
Deferred tax liabilities	15	523	407
Other non-financial liabilities	30	237	183
Total non-current liabilities		**10,591**	**13,309**
Total liabilities		**15,232**	**16,975**
Share capital	31	52	53
Capital reserves		370	370
Retained earnings		6,818	6,611
Treasury shares	31	(1)	(738)
Other reserves	31	(830)	(907)
Share of equity attributable to equity holders of Swisscom Ltd		**6,409**	**5,389**
Share of equity attributable to minority interests		319	374
Total equity		**6,728**	**5,763**
Total liabilities and equity		**21,960**	**22,738**

Consolidated statement of cash flows

in CHF millions	Note	2009	2008
Net income		1,925	1,751
Share of results of associated companies	25	(43)	(47)
Income tax expense	15	460	448
Depreciation, amortization and impairment losses	23,24	1,988	2,149
Expense for share-based compensation	11	2	6
Gain on sale of property, plant and equipment	13	(16)	(15)
Loss on disposal of property, plant and equipment	12	12	9
Financial income	14	(144)	(143)
Financial expense	14	480	631
Change in net operating assets and liabilities	34	16	(277)
Income taxes paid	15	(300)	(401)
Cash flow provided by operating activities		**4,380**	**4,111**
Capital expenditure for tangible and other intangible assets	23,24,34	(1,987)	(2,050)
Proceeds from sale of property, plant and equipment and other intangible assets		25	16
Proceeds from sale of non-current assets held for sale	22	6	10
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5	(47)	(47)
Proceeds from sale of subsidiaries, net of cash and cash equivalents sold	5	4	4
Acquisition of shares in associated companies	25	(1)	(4)
Proceeds from sales of shares in associated companies	25	–	2
Expenditures for other current financial assets		(22)	(218)
Proceeds from other current financial assets		71	359
Expenditures for other non-current financial assets		(50)	(3)
Proceeds from other non-current financial assets	19,26	812	13
Interest received		35	111
Dividends received	25	93	9
Cash flow used in investing activities		**(1,061)**	**(1,798)**
Issuance of financial liabilities	26	3,262	525
Repayment of financial liabilities	26	(5,225)	(1,240)
Interest paid		(258)	(436)
Dividends paid to equity holders of Swisscom Ltd	32	(984)	(1,036)
Dividends paid to minority interests		(55)	(12)
Acquisition of treasury shares for share-based compensation	11	(2)	(6)
Other cash flows from financing activities	34	(482)	(78)
Cash flow used in financing activities		**(3,744)**	**(2,283)**
(Net decrease) net increase in cash and cash equivalents		**(425)**	**30**
Cash and cash equivalents at January 1		958	957
Foreign currency translation adjustments in respect of cash and cash equivalents		(1)	(29)
Cash and cash equivalents at December 31		**532**	**958**

Consolidated statement of changes in equity

in CHF millions	Share capital	Capital reserves	Retained earnings	Treasury shares	Other reserves	Equity attributable to equity holders of Swisscom	Minority interests	Total equity
Balance at January 1, 2008	**57**	**370**	**7,364**	**(2,213)**	**(4)**	**5,574**	**430**	**6,004**
Net income	–	–	1,756	–	–	1,756	(5)	1,751
Other comprehensive income	–	–	–	–	(903)	(903)	(36)	(939)
Comprehensive income	**–**	**–**	**1,756**	**–**	**(903)**	**853**	**(41)**	**812**
Dividends paid	–	–	(1,036)	–	–	(1,036)	(12)	(1,048)
Share capital reduction	(4)	–	(1,471)	1,475	–	–	–	–
Acquisition of treasury shares for share-based compensation	–	–	–	(31)	–	(31)	–	(31)
Allocation of treasury shares for share-based compensation	–	–	(2)	31	–	29	–	29
Change in scope of consolidation	–	–	–	–	–	–	(3)	(3)
Balance at December 31, 2008	**53**	**370**	**6,611**	**(738)**	**(907)**	**5,389**	**374**	**5,763**
Net income	–	–	1,928	–	–	1,928	(3)	1,925
Other comprehensive income	–	–	–	–	77	77	(1)	76
Comprehensive income	**–**	**–**	**1,928**	**–**	**77**	**2,005**	**(4)**	**2,001**
Dividend payment	–	–	(984)	–	–	(984)	(55)	(1,039)
Share capital reduction	(1)	–	(737)	738	–	–	–	–
Acquisition of treasury shares for share-based compensation	–	–	–	(3)	–	(3)	–	(3)
Allocation of treasury shares for share-based compensation	–	–	–	2	–	2	–	2
Change in scope of consolidation	–	–	–	–	–	–	4	4
Balance at December 31, 2009	**52**	**370**	**6,818**	**(1)**	**(830)**	**6,409**	**319**	**6,728**

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

1 General information

The Swisscom Group (hereinafter referred to as "Swisscom") provides telecommunication services and is active primarily in Switzerland and Italy. A more detailed description of Swisscom's business activities is to be found in Notes 3.16 and 6. The consolidated financial statements of Swisscom as at December 31, 2009 comprise Swisscom Ltd, the parent company, and its subsidiaries as well as Swisscom's investments in associated companies. A table of the Group subsidiaries is set out in Note 41. Swisscom Ltd is a limited-liability company incorporated in Switzerland under a private statute and has its registered office in Ittigen (Berne). Its address is: Swisscom Ltd, Alte Tiefenaustrasse 6, 3048 Worblaufen. Swisscom Ltd is listed on the SIX Swiss Exchange. As of December 31, 2009, the Swiss Confederation ("Confederation"), as majority shareholder, held 56.9% of the voting rights and issued capital of Swisscom Ltd. 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 February 17, 2010. The consolidated financial statements must be approved at the Annual General Meeting of Shareholders of Swisscom Ltd to be held on April 27, 2010.

2 Basis of preparation

The consolidated financial statements of Swisscom have been drawn up in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as well as being in compliance with the provisions of Swiss law. The reporting period covers twelve months. The consolidated financial statements are presented in Swiss francs (CHF). Unless otherwise indicated, all amounts are stated in millions of Swiss francs. The balance sheet is classified according to maturities. Assets and liabilities due within one year are classified as current. Trade receivables and payables as well as inventories are presented as current items. Deferred tax assets and liabilities are presented as non-current. The income statement is classified based on the nature of expense. Assets have been valued based upon the historic acquisition or production cost convention, except where a standard or an interpretation requires a differing valuation method for individual balance sheet captions. Preparing the consolidated financial statements in accordance with the relevant provisions of IFRS requires management to make estimates. Furthermore, the application of uniform, Group-wide accounting policies requires assumptions to be made by management. Areas involving a higher degree of judgment or greater complexity, or areas where assumptions and estimates have a critical impact on the consolidated financial statements are disclosed in Note 4. Changes in the financial statement accounting policies are applied retroactively, unless the transitional provisions of any relevant standards or interpretations require prospective application or unless retroactive application is not practicable.

3 Summary of significant accounting policies

The following accounting policies were applied uniformly by Swisscom Ltd, as parent company, and its subsidiaries.

3.1 Consolidation

Subsidiary companies

Subsidiary companies are companies over which Swisscom Ltd has the effective ability of controlling their financial and operating policies. Control is generally presumed where Swisscom Ltd directly or indirectly holds the majority of the voting rights or potential voting rights of the company. Subsidiaries are included in consolidation from the date on which they are acquired and deconsolidated from the date of their disposal. Intercompany balances and transactions, income and expenses, shareholdings and dividends as well as unrealized gains and losses are fully eliminated. Unrealized losses may be an indication of impairment in the value of an asset which has been transferred within the Group and requires an impairment test to be undertaken. Minority interests in subsidiary companies are reported within equity separately from that attributable to the shareholders of Swisscom Ltd. The minority share in net income or loss is shown in the consolidated income statement as a component of the consolidated net income or loss. The balance sheet date for all consolidated subsidiaries is December 31. There are no significant restrictions on the transfer of funds from the subsidiaries to the parent company.

Purchases and disposals of minority interests in subsidiaries
Acquisitions of minority interests in consolidated subsidiaries are accounted for using the purchase method. If the costs of acquisition are higher than the equivalent share of the carrying amount, the difference is recognized as goodwill. Assets and liabilities are not remeasured at their fair values, but continue to be accounted for at their original carrying amounts. Should minority interests in consolidated subsidiaries be disposed of without surrendering control, the difference between the proceeds from disposal and the corresponding carrying amount, including goodwill, is recorded as a gain or loss in the income statement.
Sales rights of owners of minority interests are classified as financial liabilities.

Investments in associated companies
Shareholdings in associated companies 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. Under the equity method, investments in associated companies are initially recognized at their purchase cost at the date of acquisition. Purchase cost comprises the share of net assets acquired and any goodwill arising. In subsequent accounting periods, the carrying amount of the investment is adjusted by the share of profits and losses less the share of dividends received. Unrealized gains and losses from transactions with associated companies are eliminated on a pro-rata basis.

3.2 Foreign currency translation

Foreign currency transactions which are not denominated in the functional currency are translated into the functional currency using the exchange rates 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 recognized in the income statement. The consolidated financial statements are presented in Swiss francs. Assets and liabilities of foreign operations 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 are not taken to income but recorded directly in equity. Upon sale of a foreign Group company, the cumulative foreign exchange differences previously included in the foreign currency translation reserve under equity are taken to income as part of the gain or loss on disposal. The exchange rates of significance to the consolidated financial statements were:

	Closing rate		Average rate	
Currency	31.12.2009	31.12.2008	2009	2008
1 EUR	1.48	1.49	1.51	1.58
1 GBP	1.67	1.56	1.70	1.98
1 USD	1.03	1.07	1.08	1.08

3.3 Cash and cash equivalents

Cash and cash equivalents include cash on hand, sight balances and time deposits with financial institutions with original terms of three months or less. This definition is also applied for the cash flow statement. Cash and cash equivalents are accounted for at amortized cost.

3.4 Trade and other receivables

Trade and other receivables are measured at amortized cost less impairment losses. All impairment losses are recorded through the use of valuation allowance accounts. All realized losses lead to the derecognition of the related receivable. All receivables sold subject to factoring and which do not qualify for derecognition remain in the Group's consolidated financial statements even if they have been sold from a legal point of view. These receivables sold are therefore recognized under assets and financial liabilities in the same amount.

3.5 Other financial assets

Other financial assets are classified either as "at fair value through profit or loss", "loans and receivables", "held-to-maturity" or "available-for-sale". The classification depends on the purpose for which the financial asset was acquired. Management determines the classification of financial assets at the time of acquisition and reviews the classification as of each balance sheet date. Trade date accounting is applied for routine purchases and sales of financial assets. Financial assets are initially recognized at their fair values, including directly related transaction costs. Transaction costs relating to financial assets at fair value through profit or loss are expensed immediately upon acquisition. Financial assets are partially or fully derecognized if Swisscom's rights to the cash flows arising therefrom have either expired or were transferred and Swisscom is neither exposed to any risks arising from these assets nor has any entitlement to income from them.

Financial assets at fair value through profit or loss
Financial assets valued at fair value through profit or loss are either held for trading purposes or are classified as such upon initial recording. They are measured at their fair value. Any gains or losses resulting from subsequent remeasurement are taken to income. Swisscom classifies only derivative financial instruments in this category.

Financial assets held-to-maturity
Held-to-maturity financial assets are fixed-term financial assets for which Swisscom has the ability and intention to hold to maturity. After their initial recognition at amortized cost, financial assets are accounted for using the effective interest method less provisions for impairment. Foreign exchange gains and losses are taken to income. Financial assets arising from lease and leaseback transactions are reported under held-to-maturity financial assets.

Loans and receivables
After their initial recognition at amortized cost, loans and receivables are measured using the effective interest method. Foreign exchange gains and losses are taken to income. The caption "loans and receivables" primarily reflects term deposits with original maturities exceeding three months which Swisscom places directly, or through an agent, with the borrower.

Available-for-sale financial assets
All other financial assets are classified as available-for-sale financial assets. Available-for-sale financial assets are accounted for at fair value and all unrealized changes in fair value are recorded in equity. Foreign exchange gains and losses on available-for-sale debt instruments are recognized in the income statement. When available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains and losses that had been recognized in equity are reclassified from equity and recorded as financial income or expense. If the fair value of an unlisted equity instrument cannot be reliably determined, the instruments are accounted for at cost less provisions for impairment.

3.6 Inventories

Inventories are valued at the lower of purchase or production cost and net realizable value. The purchase or production cost of inventories includes all costs of acquisition and manufacture as well as other costs incurred in order to bring the inventories to their present location and condition as intended by management. The purchase or production cost of inventories is determined by using the weighted average cost formula. Write-downs are raised for inventories that are difficult to sell. Unsalable inventories are fully written off.

3.7 Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and amortization. In addition to the purchase 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 estimated costs for dismantling and restoration of the site. The manufacturing costs of self-constructed assets include directly attributable costs as well as indirect costs of material, manufacture and administration. Borrowing costs are capitalized insofar as they can be allocated directly to the acquisition or production of a qualifying asset. Costs of replacement, renewal or renovation of property, plant and equipment are capitalized as replacement investments if a future economic benefit is probable and the purchase or manufacturing costs can be measured reliably. The carrying amount of the parts replaced is derecognized. Maintenance costs and repairs which are not to be capitalized are expensed. Depreciation and amortization is calculated using the straight-line method with the exception of land, which is not depreciated. The estimated useful lives for the main categories of property, plant and equipment are:

Category	Years
Buildings and leasehold improvements	10 to 40
Cables	20 to 30
Ducts	40
Transmission and switching equipment	4 to 15
Other technical installations	3 to 15
Other installations	3 to 15

When significant parts of an item of property, plant and equipment comprise individual components with differing useful lives, each component is depreciated or amortized separately. The estimated useful lives and residual values are reviewed at least annually as of the balance sheet date and, if necessary, adjusted. In 2009, the useful life of cables was changed. See Note 23. Leasehold improvements and installations in leased premises are amortized on a straight-line basis over the shorter of their estimated useful lives and the remaining minimum lease term. The carrying amount of an item of property, plant and equipment is written off on 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 calculated as the difference between the disposal proceeds and the carrying amount of the item of property, plant and equipment. They are taken to income and recorded as other income or other operating expenses.

3.8 Intangible assets

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of acquisition comprises the purchase consideration and directly attributable transactions costs. The purchase consideration includes the amount of cash paid as well as the fair value of the assets given up, liabilities incurred or assumed as well as own equity instruments ceded. At the time of acquisition, all identifiable assets and liabilities that satisfy the recognition criteria are recorded at their fair values. The difference between the cost of acquisition and the fair value of the identifiable assets and liabilities acquired is accounted for as goodwill after taking account of any minority interests. Any negative difference, after further review, is expensed directly. Goodwill acquired in connection with a business combination is recorded under intangible assets. The goodwill is not amortized but reviewed for impairment at least annually. When an entity is disposed of, the carrying amount of the goodwill is derecognized and recorded as a component of the gain or loss on disposal.

Research and development costs

Research costs are not capitalized but expensed as incurred. Development costs are capitalized under intangible assets only if they can be identified as an intangible asset that will generate future economic benefits and the costs of this asset can be determined reliably. Costs of further development are only capitalized if the original level of performance is increased. Development costs which do not satisfy the requirements for capitalization are expensed directly. Capitalized development costs are amortized using the straight-line method over the estimated useful lives of the related assets.

Other intangible assets

Mobile phone licenses, software and other intangible assets are recorded at purchase or manufacturing cost less accumulated amortization. Intangible assets resulting from business combinations, such as brands and customer relationships, are recorded at fair value less accumulated amortization. Amortization of mobile phone licenses is based on the term of the contract and begins as soon as the related network is operational, unless other information is at hand which would suggest the need to modify the useful life.

Useful lives of intangible assets

Systematic amortization is computed using the straight-line method based on the following estimated useful lives:

Category	Years
Software internally generated and purchased	3 to 7
Customer relationsships	7 to 11
Brands	5 to 10
Other intangible assets	3 to 12

The estimated useful lives are reviewed at least once annually as of the balance sheet date and, if necessary, adjusted.

3.9 Non-current assets held for sale and discontinued operations

A discontinued operation is a component of an entity that has been sold or is classified as being held for sale and represents a separate major line of business or geographical area of operations or a subsidiary acquired exclusively with the intention of resale. The classification as a discontinued operation is made upon disposal or at an earlier date if the operation satisfies the criteria for classification as being held for sale. A non-current asset or a disposal group is classified as held for sale if its carrying amount will be recovered mainly through a sales transaction and not through continued use. Non-current assets or disposal groups that are held for sale are reported in the balance sheet separately under current assets and liabilities. The assets or asset groups are valued at the lower of their carrying amount and fair value less costs of disposal and any impairment losses arising resulting from the initial classification are recorded in the income statement. Assets classified as held for sale and disposal groups are no longer depreciated and amortized.

3.10 Impairments

Impairments of financial assets

As of each balance sheet date, the carrying amount of those financial assets for which changes in fair value are not recognized in the income statement are reviewed for any objective indications of impairment in value. An impairment loss is recognized where there is objective evidence of impairment, such as where the borrower is in bankruptcy, in default or other significant financial difficulties. The impairment of a financial asset which is recorded at amortized cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Available-for-sale financial assets whose fair value is below their acquisition cost for a prolonged period or to a significant degree are considered to be impaired. In the event of impairment, the losses are reclassified out of equity and recognized as financial expense. As of each balance sheet date, significant financial assets are individually reviewed for impairment. Trade receivables are regrouped on the basis of similar credit risk characteristics and reviewed on a collective basis for impairment in value; where applicable, an allowance is raised. In determining the anticipated future cash flows of the portfolio, historic default rates are taken into account in addition to the contractually agreed payment conditions. Impairment losses on trade and other receivables are recognized as other operating expenses. Impairment losses on other financial assets are recorded as financial expense. In the event of impairment in the value of available-for-sale financial assets, the cumulative losses which had been previously recognized in equity are reclassified from equity and expensed.

If, at a subsequent balance sheet date, the fair value objectively increases as a result of events occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed in an equivalent amount. The reversal of impairment losses for financial assets accounted for at amortized cost is recognized in the income statement. In the case of equity instruments classified as available-for-sale, the recovery in value is recognized directly in equity.

Impairments of goodwill
For the purposes of the impairment test, goodwill is allocated to cash-generating units. The impairment test is performed in the fourth quarter after completion of business planning. If there is any indication during the year that goodwill may be impaired, the cash-generating unit is tested for impairment at this time. An impairment loss is recorded if the recoverable amount of a cash-generating unit is lower than its equivalent carrying amount.
The recoverable amount is the higher of the fair value less costs to sell and the value in use.
The method used to test impairment is described in Note 24. Any impairment loss recognized in prior periods for goodwill may not be reversed in subsequent periods.

Impairments of property, plant and equipment and other intangible assets
If indications exist that the value of an asset may be possibly impaired, the recoverable amount of the asset is determined. If the recoverable amount of an asset, which is the higher of the fair value less cost to sell and the value in use, is less than its carrying amount, the carrying amount is reduced to the recoverable amount.

3.11 Leases

A lease is treated as a finance lease when substantially all of the risks and rewards incidental to ownership of an asset are transferred. The asset is initially recorded at the lower of its fair value and the present value of the minimum lease payments and is amortized over the shorter of the asset's useful life and the lease term. The interest component of the lease payments is recorded as interest expense over the lease term using the effective interest method. Leases for land and buildings are recorded separately if the lease payments can be reliably allocated accordingly. Gains on sale-and-leaseback transactions are deferred and released on a straight-line basis over the lease term as other income. Losses on sale-and-leaseback transactions are recognized immediately. Lease arrangements which do not transfer all the significant risks and rewards of ownership are classified as operating leases. Payments are recorded in the income statement using the straight-line method over the lease period. Gains and losses on sale-and-leaseback transactions are recorded directly in the income statement.

3.12 Financial liabilities

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

3.13 Trade and other payables

Trade and other payables are recorded at amortized cost.

3.14 Provisions

Provisions are recognized when Swisscom has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of funds will be required to settle the obligation and the amount of the obligation can be estimated reliably. The amount recognized as a provision is the best possible estimate of the amount required to settle the present obligation. Provisions are discounted if the effect is material.

Provisions for termination benefits
Costs relating to the implementation of personnel downsizing programmes are expensed in the period when management commits itself to a plan, it is probable that a liability has been incurred and the amount thereof can be reliably estimated. A liability is recorded only when implementation of the pro-

gramme has commenced or the persons affected have been advised in sufficient detail as to the main terms of the downsizing programme. A public announcement and/or communication to personnel organizations are deemed to be equivalent to commencing the implementation of the programme.

Provisions for dismantling and restoration costs

Swisscom is legally obligated in Switzerland to dismantle transmitter stations located on land belonging to third parties after decommissioning and to restore the land to its original state. The costs of dismantling these stations are capitalized as part of the acquisition costs of the transmitter stations and are amortized over their useful lives. The provisions are recorded at the present value of the aggregate future costs and are reported under long-term provisions. Whenever the provision is adjusted, the present value of the changes in the liability are either added to or deducted from the cost of the related capitalized asset. The amount deducted from the cost of the related capitalized asset shall not exceed its carrying amount. Any excess is taken directly to income.

3.15 Treasury shares

Treasury shares held by Swisscom are recorded as a deduction from equity. Gains or losses on the disposal of treasury shares are also recorded as a movement in equity within retained earnings.

3.16 Net revenue

General

Net revenue is measured at the fair value of the consideration received excluding value-added taxes, price reductions, quantity discounts and other reductions in sales proceeds. Revenues are recognized when it is probable that a future benefit from the transaction will accrue to Swisscom and the amount can be reliably estimated. When Swisscom acts as principal, revenues are recorded gross. However, when, from an economic point of view, Swisscom acts only as a broker or agent, revenues are reported net of related costs. In multi-component contracts, revenue shall be determined and reported separately for each identifiable component part. Total consideration for a multi-component contract is distributed over the various component parts on a pro-rata basis. If the fair value of services still to be provided can be measured reliably but not the fair value of the services already rendered, the value of the services already rendered is calculated using the residual-value method.

Services by segment

Residential Customers

The segment "Residential Customers" comprises mainly connection fees for broadband services, fixed-network and mobile phone subscriptions as well as national and international telephone and data traffic for residential customers. The segment "Residential Customers" also includes value-added services, TV offerings, the sale of terminal equipment and the operation of a directories database.

Small and Medium-Sized Enterprises

The segment "Small and Medium-Sized Enterprises" primarily comprises connection fees for broadband services, fixed-network and mobile phone subscriptions as well as national and international telephone and data traffic for small and medium-sized enterprises.

Corporate Business

The "Corporate Business" segment primarily comprises complete communication solutions for business customers. The product offerings in the field of business ICT infrastructure cover everything from individual products through to complete solutions.

Wholesale

"Wholesale" comprises mainly the use of Swisscom fixed and mobile networks by other telecommunication service providers and the use of third-party networks by Swisscom. It also consists of 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 local loop for other telecommunication service providers.

Networks
"Networks" encompass primarily the planning, operation and maintenance of Swisscom's network infrastructure and related IT systems, both for fixed and mobile phone networks. It also includes support functions for Swisscom Switzerland in the fields of finances, human resources and strategy.

Fastweb
"Fastweb" is the second-largest provider of broadband services in Italy. Their product portfolio comprises language, data, Internet and IP-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 (virtual network operator). It also provides comprehensive network services and customized solutions.

Other operating segments
The "other operating segments" mainly comprise Swisscom IT Services, Swisscom Participations and Hospitality Services. Swisscom IT Services is a provider of IT services. Its core business encompasses the integration and operation of complex IT infrastructures. Swisscom Participations comprise principally Swisscom Broadcast AG, Swisscom Immobilien AG, cablex AG, Billag AG, Alphapay AG and Curabill AG as well as the Sicap Group. Swisscom Broadcast AG is the leading provider of radio services, multi-platform services for customers in the media world and emergency radio in Switzerland. Billag AG collects radio and TV license fees on behalf of the Swiss Confederation. Cablex AG operates in the field of construction and maintenance of fixed and mobile networks in Switzerland, focusing on the field of telecommunication. Alphapay AG and Curabill AG are collection agencies specialized in claims management for third parties. The Sicap Group develops and operates mobile radio applications for GSM operators. Hospitality Services offers Internet-based services to guests and customers in the hotel and congress sector in Europe and North America.

Revenue generated from services

Fixed networks
Fixed network services encompass primarily connection fees to residential and corporate customers, national and international telephony traffic for residential and business customers, the use of Swisscom's fixed network by other telecommunication service providers, payphone services, operator services and prepaid calling cards. The segment also includes leased lines, the sale of terminal equipment and operates a directories database. Installation and connection fees are deferred and released to income over the minimum term of the contract on a straight-line basis. If no minimum contract term has been agreed, the revenue will be recorded on the date of installation or connection. Revenue from telephony activities is recorded at the time the calls are made. Revenue from the sale of prepaid call cards is deferred and released to income as and when actual minutes are used or when the cards expire. Revenue from leased lines is recorded evenly over the duration of the contract. Revenue from the sale of equipment is recorded at the time of delivery.

Mobile
Mobile services encompass principally domestic and international mobile phone traffic for calls made by Swisscom customers in Switzerland or abroad and roaming by foreign operators whose customers use Swisscom's networks. It also includes value-added services, data traffic as well as the sale of mobile handsets. Connection fees are deferred and released to income over the minimum term of the contract on a straight-line basis. If no minimum contract term has been agreed, revenue will be recognized on the date of connection. Revenue from mobile telephony is recorded on the basis of the actual minutes used. Roaming services are recorded as revenue on the basis of the minutes used or the agreed contractual rates, at the time the services were used. The gross amount is recorded. Value-added services such as text or multimedia news, as well as the sale of mobile handsets, are recorded at the time the service is provided.

Broadband
Internet services include the range of broadband and narrowband Internet access lines offered to residential and corporate customers as well as broadband Internet access lines for wholesale customers. Revenues in connection with the provision of these services are deferred and released to income over the minimum contract term on a straight-line basis. If no minimum contract term has been agreed, the revenue will be recognized on the date of installation or connection.

IP-TV

In the TV sector, revenue is generated from the range of IP-TV services and Video-on-Demand offered for residential and corporate customers. Revenue from TV services contains non-recurring installation and connection charges and recurring subscription fees. Installation and connection fees related to installation are deferred and released to income over the minimum contract term on a straight-line basis. If no minimum contract length has been agreed upon, the revenue is recorded on the date of installation or connection.

Communication and IT solutions

Services in the field of communication and IT solutions primarily include consultancy services as well as the implementation and maintenance and operation of communication infrastructures. Furthermore, they include applications and services as well as the integration, operation and maintenance of data networks and outsourcing services. Revenues from customer-specific production contracts are accounted for using the percentage-of-completion method which is based on the ratio of costs incurred to-date to the estimated total costs. Revenue for long-term outsourcing contracts is recorded based on the volume of services provided to the customer. Start-up and integration costs of new outsourcing transactions are capitalized as other assets and amortized over the duration of the contract. Revenue from maintenance is recorded evenly over the term of the maintenance contracts.

3.17 Subscriber acquisition and loyalty-programme costs

Swisscom pays commissions to dealers for the acquisition and retention of Swisscom customers. The commission payable is dependent on the type of subscription. Subscriber acquisition and loyalty-programme costs are expensed immediately.

3.18 Share-based payments

The cost of shares issued to employees, members of the Group Executive Board and of the Board of Directors is equal to the excess of the fair value of the shares at the date of issuance over the issue price. The related costs are recorded as personnel expense in the period in which the entitlement arose.

3.19 Post-employment benefits

Defined benefit obligations and the related pension expense are determined on an actuarial basis using the projected unit credit method. This reflects the number of years of service completed by employees through the date of valuation and the assumptions made concerning future salary growth. The latest actuarial valuation was undertaken using data as at October 31, 2009 with a roll-forward of the plan assets to December 31, 2009. Current pension entitlements are charged to income in the period in which they arise. The effects of changes in actuarial assumptions are amortized evenly over the assumed average remaining period of service of the participating employees. The share of actuarial gains and losses to be recorded is defined as the excess of the cumulative unrecorded actuarial gains and losses as of the previous year's balance sheet date over the greater of 10% of the present value of the defined benefit obligations or 10% of the fair value of plan assets. Past-service cost, attributable to pension plan amendments, is recorded as an expense, or a reduction of expense, on a straight-line basis over the average period until the benefits become vested. To the extent the benefits vest immediately, the related costs are expensed immediately.

3.20 Capitalized costs of self-constructed assets and other income

The costs of capitalized self-constructed assets which are only expensed in future periods are recorded in the income statement as other operating income as an offsetting position to the corresponding amount included in operating expenses. Other income is recorded when the inflow of proceeds or of other economic benefits is probable.

3.21 Financial income and financial expense

Financial income encompasses primarily interest income, dividend income, gains from the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss as well as gains from hedging transactions recorded in the income statement. Interest income is recognized in the income statement using the effective interest method. Dividend income is recognized on the date that the right to receive payment arises. Financial expense primarily includes interest expense, adjustments to the present value of provisions, changes in the fair value of financial assets at fair value through profit or loss, impairments in value of other financial assets as well as losses on hedging transactions which are recorded in the income statement. Interest expense is recognized in the income statement using the effective interest method. Foreign exchange gains and losses are reported on a net basis.

3.22 Income taxes

Income taxes include all current and deferred taxes which are based on income. Taxes which are not based on income such as taxes on real estate and capital are recorded as other operating expenses. Deferred taxes are computed using the liability method whereby deferred tax is recorded on all temporary differences. Temporary differences arise between the value of an asset or liability reported for tax purposes and its carrying amount in the financial statements and which will reverse in future periods. Deferred tax assets and liabilities are determined using the tax rates that are expected to apply when the temporary difference reverses. Deferred tax assets are only recognized 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 recorded if the distribution of profits is to be made in the foreseeable future. Current and/or deferred tax assets and liabilities are offset when they relate to the same taxing authority and taxable entity.

3.23 Derivative financial instruments

Derivative financial instruments are initially recorded at fair value and subsequently re measured at their fair value. The method of recording the fluctuations in fair value is dependent on the underlying transaction and the intention with regards thereto upon purchase or issuance of this underlying transaction. On the date a derivative contract is entered into, management designates the purpose of the hedge: 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 recognized in the income statement, along with any changes in fair value of the hedged assets or liabilities. Changes in the fair value of derivative financial instruments that were designated as "cash flow hedges" are recognized in the hedging reserve as part of equity. If the recognition of a non-financial asset or non-financial liability results from an anticipated future transaction, the cumulative revaluation gains and losses are reclassified from equity and included in the acquisition cost of the asset or liability. If a hedge of a future transaction results later in the recording of a financial asset or financial liability, the amount included in equity shall be transferred to the income statement in the same period in which the financial asset or financial liability impacts the results. Otherwise, amounts recorded in equity are recognized in the income statement as revenue or expense in the same period by analogy with the intended or agreed future transaction. Changes in the fair value of derivative financial instruments that are not designated as hedging instruments are taken immediately to income. At the inception of each transaction, Swisscom documents the relationship between the derivative financial instruments and the underlying transactions, as well as its risk management objective and strategy with regard to hedge transactions. This process includes linking all derivative hedging instruments to corresponding assets and liabilities or to intended future transactions. Swisscom also documents its assessment of whether the derivative financial instruments that are used to hedge transactions are highly effective in neutralizing changes in values of the underlying transaction or of future cash flows.

3.24 Fair value

The fair value is defined as the amount for which an asset could be exchanged, or a liability or financial instrument settled, between knowledgeable, willing and unrelated business partners. The fair value is determined based on stock exchange quotations or by using recognized valuation technique such as the discounting of estimated future cash flows. If the Notes to the consolidated financial statements do not specify otherwise, the fair values at the time of drawing up the balance sheet correspond approximately to the carrying amounts reported in the balance sheet.

3.25 New and amended standards and interpretations

Amended International Financial Reporting Standards and Interpretations which are to be applied for the first time in the accounting period

- IFRS 7 (revised) "Financial Instruments: Disclosures" The changes in IFRS 7 concern the disclosures regarding the determination of fair values as well as liquidity risk. The disclosures regarding the determination of fair values have been amended to include a breakdown in tabular form for each class of financial instrument on the basis of a three-level fair-value hierarchy. Furthermore, disclosures of liquidity risk have been clarified and expanded. In this connection, disclosures of maturities analyzed separately by non-derivative and derivative financial liabilities are required and the information on related qualitative liquidity-risk management has been amended. Companies are not required to make comparative disclosures in the initial year of application.
- IFRS 8 "Operating Segments" was applied early by Swisscom as from January 1, 2008 onwards.
- The amended Standard IAS 1 "Presentation of Financial Statements" requires changes in the presentation of the statement of comprehensive income as well as supplementary disclosures as to the components of other comprehensive income. In addition, changes in equity resulting from transactions with stakeholders and other changes in equity are to be disclosed separately. In addition, a balance sheet at the beginning of the comparative period is to be presented if comparative figures were restated retroactively or reclassifications made. Furthermore, the amended Standard provides for new improved designations for financial statement components which do not have any binding character.
- IAS 23 (amended) "Borrowing Costs" requires companies to capitalize borrowing costs insofar as they can be allocated directly to the acquisition or production of a qualifying asset. The option of expensing borrowing costs directly in the period they were incurred thus is no longer available. The amended Standard is to be applied prospectively from January 1, 2009 onwards. In 2009, borrowing costs aggregating CHF 15 million were capitalized in property, plant and equipment. The impact on income tax expense for 2009 amounted to CHF 3 million. Accordingly, net income increased by CHF 12 million and earnings and undiluted earnings per share by CHF 0.23.

In addition, the following changes to existing International Financial Reporting Standards (IFRS) and Interpretations were applied but which have no impact on the consolidated financial statements of Swisscom:

- IFRS 1 (amended) "First-Time Adoption of IFRS" and IAS 27 (amended) "Consolidated and Separate Financial Statements"
- IFRS 2 (amended) "Share-based Payment"
- IAS 32 (amended) "Financial Instruments: Presentation" and IAS 1 (amended) "Presentation of Financial Statements"
- IFRIC 9 (amended) "Reassessment of Embedded Derivatives" and IAS 39 (amended) "Financial Instruments: Recognition and Measurement"
- IFRIC 13 "Customer Loyalty Programmes"
- IFRIC 15 "Agreements for the Construction of Real Estate"
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
- IFRIC 18 "Transfers of Assets from Customers"
- "Improvements to IFRSs"

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

The following Standards and Interpretations published up to the end of 2009 are mandatory for accounting periods beginning on or after January 1, 2010 or later:

- IFRS 1 (amended) "First-Time Adoption of International Financial Reporting Standards" (valid as from January 1, 2010) includes, for companies adopting IFRS for the first time, further exemptions from the generally mandatory retrospective application of all Standards and Interpretations in force as of the balance sheet date as of which the initial IFRS financial statements are drawn up. The amendment has no impact on the financial statement as Swisscom is not applying International Financial Reporting Standards for the first time.
- IFRS 2 (amended) "Share-based Payment" (valid as from January 1, 2010) involves a change in the scope of application and a modification of certain definitions. Swisscom anticipates no impact on its financial statements from applying these changes.
- IFRS 3 (amended) "Business Combinations" (valid as from July 1, 2009) contains several significant changes in the previous presentation and valuation practice in relation to business combinations. For financial statement purposes, Swisscom will adopt the changes of IFRS 3 (amended) for those business combinations occurring subsequent to January 1, 2010.
- IFRS 9 "Financial Instruments" (valid as from January 1, 2013): IFRS 9 replaces the currently valid IAS 39 "Financial Instruments: Recognition and Measurement" and contains changes in the current presentation and valuation practice in relation to financial assets. Swisscom will review its financial statements with a view to implementing this new Standard.
- IAS 24 (amended) "Related-Party Disclosures" (valid as from January 1, 2011) contains changes to the definition of a related enterprise and related individual as well as a simplification of the disclosure provisions of entities or individuals connected to governments. Swisscom will review its financial statements with a view to implementing this Standard.
- IAS 27 (amended) "Consolidated and Separate Financial Statements" (valid as from July 1, 2009) requires changes to the previous presentation and valuation practice relating to disposals of shares as well as acquisitions of minority shares. Swisscom will apply the changes to IAS 27 (amended) in its financial statements for accounting periods beginning on January 1, 2010.
- IAS 32 (amended) "Financial Instruments: Presentation" (valid as from February 1, 2010): IAS 32 stipulates that certain subscription right such as options and warrants in foreign currency with the issuer to whose equity instruments these rights relate, are no longer to be reported as liabilities but as shareholders' equity. Swisscom anticipates no impact on its financial statements from the application of this amended Standard.
- IAS 39 (amended) "Financial Instruments: Recognition and Measurement" (valid as from July 1, 2009): IAS 39 contains supplementary principles of application in the areas of designating inflation risks as a hedged item as well as the designation of a one-sided risk in a hedged item. Swisscom anticipates no impact on the financial statements in applying this amended Standard.
- IFRIC 14 (amended) "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (valid as from January 1, 2011): the amendment concerns those cases where a company is subject to minimum funding requirements and makes advance contribution payments in order to settle these minimum funding commitments. The amendment permits the recording of the benefit from such advance payments as an asset. Swisscom anticipates no impact on its financial statements from the application of this amended Interpretation.
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" (valid as from July 1, 2009): IFRIC 17 regulates topics such as how a company shall value other assets which it transfers to stakeholders as a means of settlement for dividend distributions. Swisscom anticipates no impact on its financial statements from the implementation of this interpretation.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (valid as from July 1, 2010): the Interpretation clarifies the requirements to be met when a financial liability is extinguished through issuance of equity shares or other equity instruments. Swisscom anticipates no impact on its financial statements from the implementation of this Interpretation.
- "Improvements to IFRSs" (valid as from July 1, 2009 respectively January 1, 2010): "The improvements to IFRS" cover smaller changes to various IFRS Standards. Swisscom anticipates no impact on its financial statements in applying these changes.

4 Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements is dependent upon estimates and assumptions made in applying the accounting policies for which management can exercise a certain degree of judgment. In applying the relevant accounting policies to the consolidated financial statements, assumptions and estimates must be made about the future that may have a critical influence on the amount and presentation of assets and liabilities, revenues and expenses as well as the informational disclosures in the Notes. The estimates used in drawing up the consolidated financial statements and valuations are based on empirical values and other factors which are deemed appropriate in the given circumstances. The following estimates used and assumptions made in applying the accounting policies have a critical influence on the consolidated financial statements.

Goodwill

As of December 31, 2009, the carrying amount of goodwill from acquisitions totalled CHF 6,664 million. The recoverability of goodwill is tested for impairment annually during the fourth quarter or earlier if an indication of impairment exists. The value of goodwill is primarily dependent upon projected cash flows, the discount rate (WACC) and long-term growth rate. The significant assumptions are disclosed in Note 24. Changes to the assumptions may result in an impairment loss in the following year.

Post-employment benefits

The defined benefit obligations are calculated on the basis of various financial and demographic assumptions. The key assumptions for valuing these obligations are the discount rate, future salary and pension increases as well as the expected return on plan assets. As of December 31, 2009, the underfunding amounted to CHF 830 million, whereby only CHF 313 million were recorded as a liability in the consolidated balance sheet (CHF 38 million as receivable and CHF 351 million as liability). A reduction in the discount rate of 0.5% would result in an increase in the obligation of CHF 547 million. An increase in average future salary increases of 0.5% would lead to an increase in obligations of CHF 65 million. A reduction in the anticipated return of 0.5% would result in an increase in annual pension costs of CHF 34 million. See Note 10.

Provisions for dismantling and restoration costs

Provisions are raised for costs incurred in connection with dismantling and restoring mobile telephone and broadcasting stations of Swisscom Broadcast. As of December 31, 2009, the carrying amount of these provisions totalled CHF 439 million. This provision is primarily based on estimates of future costs for dismantling and restoration and the timing of the dismantling. An increase in the estimated costs by 10% would result in an increase in the provision of CHF 33 million. A postponement of the date of dismantling by 10 years would lead to a decrease in the provision of CHF 48 million. See Note 28.

Provisions for interconnection and other access services of Swisscom Switzerland pursuant to the revised Federal Telecommunications Act (FMG)

Various proceedings are in course in connection with the setting of prices for interconnection and other access services. Swisscom has raised provisions on the basis of its own estimate of the expected financial outcome thereof. As of December 31, 2009, the provisions for interconnection and other access services aggregated CHF 251 million. Further developments in the proceedings or a decision by the competent court may result in a revised assessment of the financial consequences in subsequent years, thereby necessitating an increase or decrease of the recorded provision. See Note 28.

Proceedings before the Competition Commission (ComCo)

The Competition Commission (ComCo) is currently conducting various proceedings against Swisscom. The individual proceedings are described in Note 29. In the event that Swisscom is deemed to have violated Antitrust Law, ComCo is entitled to impose sanctions. On the basis of a legal opinion, Swisscom considers it unlikely that ComCo will impose direct sanctions. Accordingly, no provisions were recognized in the 2009 consolidated financial statements in connection with these proceedings. Further developments in the proceedings may result in a revised assessment of the financial consequences in subsequent years and lead to the need to record provisions.

Allowances for doubtful receivables

Allowances for doubtful receivables are recorded in order to cover foreseeable losses arising from a customer's insolvency. As of December 31, 2009, the carrying amount of allowances for trade and other receivables totalled CHF 251 million. In determining the amount of the allowance, several factors are considered. These include the ageing of receivables, the current financial soundness of the customer and the historical experience with receivable losses. The actual level of receivable losses may be higher than the amount recognized if the actual financial situation of the customers is worse than originally expected. See Note 18.

Deferred taxes

The recognition of deferred tax assets and liabilities is based on the judgment of management. Deferred tax assets on tax loss carry-forwards are only recognized if it is probable that they can be used. Whether or not they can be used depends on whether taxable profits can be achieved which can be offset against the available tax loss carry-forwards. In order to assess the probability of their future use, estimates must be made of various factors such as future profitability. If the actual amounts differ from the estimates, this can lead to a change in the assessment of recoverability of the deferred tax assets. On December 31, 2009, deferred tax assets recognized amounted to CHF 308 million. See Note 15.

Useful lives of property, plant and equipment

As of December 31, 2009, the carrying amount of property, plant and equipment totalled CHF 8,044 million. In assessing the useful life of an item of property, plant and equipment, the expected use of the asset by the company, the expected physical wear and tear, technological developments as well as past experience with comparable assets are considered. The assessment of useful lives is based upon the judgment of management. A change in the useful lives may impact the future level of depreciation and amortization recorded. See Notes 3.7 and 23.

Cash-generating units

Management applies judgment in defining the cash-generating units of Swisscom and allocating goodwill thereto. Events such as business combinations, disposals of business sections or the reorganization of business segments may have an impact on the composition of cash-generating units and the allocation of goodwill thereto. The reallocation of goodwill to cash-generating units is made on the basis of a relative value approach. Management uses various assumptions and estimates in determining the relative value approach. See Notes 3.10 and 24.

5 Changes in scope of consolidation

Business combinations in 2009

Payments totalling CHF 47 million were made in 2009 for the acquisition of Group companies. Of this amount, CHF 11 million is for deferred consideration payments for business combinations in prior years. The newly acquired companies in 2009 are viewed each as non-significant acquisitions and they are thus disclosed on an aggregate basis in the financial statements. On June 30, 2009, Swisscom IT Services completed the acquisition of 60% of the share capital of Sourcag AG which provides standardized back office services in the fields of security settlements and payments for banks. On June 30, 2009, Swisscom IT Services acquired the entire capital of Resource AG. Resource AG plans, develops and implements SAP-based IT solutions both for small and medium-sized companies as well as for large corporations. On October 31, 2009, Swisscom acquired the entire capital of Weco Inkasso AG which is active in the field of loss certificate and receivable collection services of banks. Weco Inkasso AG was merged with Alphapay AG following the acquisition. The aggregate allocation of acquisition costs to the net assets may be analyzed as follows:

in CHF millions	Pre-acquisition carrying amount	Adjustments	Post-acquisition carrying amount
Cash and cash equivalents	9	–	9
Trade and other receivables	7	–	7
Other financial assets	10	–	10
Property, plant and equipment	2	–	2
Other intangible assets	–	26	26
Deferred tax assets	2	–	2
Other current and non-current assets	2	–	2
Financial liabilities	(2)	–	(2)
Trade and other payables	(11)	–	(11)
Defined benefit obligations	(10)	–	(10)
Deferred tax liabilities	–	(6)	(6)
Other current and non-current liabilities	(4)	–	(4)
Identifiable assets and liabilities	**5**	**20**	**25**
Share of equity attributable to minority interests			(4)
Goodwill			36
Acquisition costs			**57**
Cash and cash equivalents acquired			(9)
Deferred payment of purchase price			(12)
Cash outflow			**36**

The principal reasons for the recognition of goodwill are the anticipated additional future market shares, qualifying services, processes and systems as well as synergies arising from the merger of Weco Inkasso AG with Alphapay AG. The consolidated financial statements of 2009 reflect additional net revenues of CHF 28 million and net loss of CHF 2 million as a result of these business acquisitions. On the assumption that the subsidiaries acquired in 2009 had been included in consolidation as from January 1, 2009, pro-forma net revenues of CHF 12,043 million and a pro-forma net income of CHF 1,929 million would have been reported.

Business combinations in 2008

In 2008, payments aggregating CHF 47 million were made for the acquisition of Group companies. This amount is made up of CHF 12 million for deferred purchase price payments for business combinations in prior years and CHF 35 million for the companies acquired in 2008. The newly acquired companies in 2008 are viewed as non-significant acquisitions and thus reported on an aggregate basis. On January 1, 2008, Swisscom Directories acquired from PubliGroup a 100% stake in local.ch AG, a regional search engine in Switzerland. On June 23, 2008, Swisscom Switzerland completed the acquisition of 100% of the outstanding shares in Webcall GmbH. Webcall operates in the field of Microsoft-based unified communications solutions. At the end of March 2008, Swisscom Switzerland signed a contract with The Phone House AG for the acquisition of their branch network in Switzerland. The acquisition was completed on July 1, 2008 following the consent of the Competition Commission (ComCo) given on June 3, 2008. At the end of 2008, Swisscom acquired all the shares in coComment

B.V. Holding. coComment offers web services which enable the management of commentaries on the Internet, such as blogs. The aggregated allocation of the costs of acquisition to the net assets is as follows:

in CHF millions	Pre-acquisition carrying amount	Adjustments	Post-acquisition carrying amount
Trade and other receivables	1	–	1
Other intangible assets	1	7	8
Deferred tax assets	2	–	2
Financial liabilities	(12)	–	(12)
Trade and other payables	(5)	–	(5)
Defined benefit obligations	(1)	–	(1)
Identifiable assets and liabilities	**(14)**	**7**	**(7)**
Share of equity attributable to minority interests			3
Goodwill			39
Acquisition costs/cash outflow			**35**

Goodwill relates mainly to the additional expected market shares and the qualified permanent workforce. The effects of the acquisitions on net revenue and net income in 2008 are not material.

Disposal of subsidiaries in 2008 and 2009

As a result of exiting the broadband business in Eastern Europe, Swisscom Central & Eastern Europe disposed of various companies in 2008 and 2009. On September 1, 2008, Swisscom sold all its shares in Minick Holding AG to the German company Net Mobile AG. The purchase price was paid in equity instruments of Net Mobile AG. An impairment loss on goodwill of CHF 7 million resulted from the transaction.
The aggregated carrying amounts of the net assets sold and minority holdings as well as the aggregated net cash received from the sales of subsidiaries in 2008 and 2009 are presented in the table below:

in CHF millions	2009	2008
Cash and cash equivalents	–	4
Trade and other receivables	–	7
Property, plant and equipment	10	4
Goodwill an other intangible assets	1	4
Deferred tax assets	–	2
Other current and non-current assets	6	1
Trade and other payables	(2)	(10)
Other current and non-current liabilities	–	(1)
Total net assets sold	**15**	**11**
Sales price	**13**	**17**
Deferred payment of purchase price	(9)	–
Purchase price settled in equity instruments	–	(9)
Cash and cash equivalents sold	–	(4)
Cash inflow	**4**	**4**

Operating segments requiring to be reported are determined on the basis of a management approach. In accordance therewith, external segment reporting reflects the internal organizational and management structure used within the Group as well as internal financial reporting to the chief operating division maker. In the case of Swisscom, the chief operating decision maker is the Board of Directors of Swisscom Ltd Reporting is divided into the segments "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business", "Wholesale" and "Networks" which are regrouped under "Swisscom Switzerland", and "Fastweb" and "Other Operating Segments". In addition, unallocated costs are reported separately under "Group Headquarters".

In segmental reporting, the business divisions of Swisscom Switzerland are reported as individual segments. The support functions of finances, human resources and strategy of Swisscom Switzerland are embedded in the division "Networks". Reported revenues and segment results correspond to the internal reporting system. No network costs are recharged for the financial management of customer segments. The results of the customer segments Residential Customers, Small and Medium-Sized Enterprises, Corporate Business and Wholesale thus report their contribution margins prior to network costs. Network costs are planned, monitored and controlled by the business division Networks. The business division Networks is managed as a cost centre. For this reason, no revenue is credited to the Networks division within segmental reporting. The segment results of Networks consist of operating expenses and depreciation and amortization less capitalized self-constructed assets and other income. The aggregate segment results of Swisscom Switzerland are equal to the operating results (EBIT) of Swisscom Switzerland. Fastweb is the second-largest fixed-network operator and leading provider of IP-based services in Italy and is reported in the consolidated financial statements as a separate segment. The financial reporting of Fastweb to the Board of Directors of Swisscom is handled a single unit. "Other Operating Segments" mainly comprise the operating segments Swisscom IT Services, Swisscom Participations and Hospitality Services. Swisscom IT Services comprises the Group subsidiaries Swisscom IT Services AG, Comit AG, Resource AG and Sourcag AG. Swisscom Participations comprises Swisscom Broadcast AG, Swisscom Immobilien AG, Cablex AG, Billag AG, Alphapay AG and Curabill AG, Sicap Group as well as the Minick Group until its disposal in September 2008. "Group Headquarters" which includes unallocated cost, comprises principally the Group central divisions of Swisscom and the employment company Worklink.

The services offered by each operating segment are described in Note 3.16. The segment results of the segments "Fastweb" and "Other Operating Segments" correspond to the operating result (EBIT) of these units. The latter reflects the net revenues from external customers and other segments less segment expenses and depreciation, amortization and impairment losses on property, plant and equipment and intangible assets. Segment expenses include the costs of materials and services, personnel costs and other operating costs less capitalized self-constructed assets and other income. Group Headquarters charges no management fees for its financial management services; similarly, the segment Networks recharges no network costs to other segments. Other inter-segmental services are recharged at market prices. Unrealized gains and losses may arise as a result of recharging services and sales of assets between the segments. These are eliminated and are reported in the segment information in the column "Elimination". As of January 1, 2009, various organizational units were transferred within the business segments Swisscom Switzerland as well as Swisscom IT Services and the business segment Networks. Principally, these relate to the transfer of field services from the segment "Residential Customers" to the segments "Corporate Business" and "Networks" as well as the transfer of an IT department of Swisscom IT Services to the segment "Networks". The prior year's comparatives were restated accordingly. Segment assets include all operating assets which are allocated to an operating segment and required for its operations. Segment assets comprise principally receivables, inventories, property, plant and equipment and intangible assets. Capital expenditures by segment include additions to property, plant and equipment and other intangible assets.

31.12.2009, in CHF millions	Swisscom Switzerland	Fastweb	Other operating segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	8,378	2,783	839	1	–	12,001
Net revenue with other segments	75	10	888	5	(978)	–
Net revenue	**8,453**	**2,793**	**1,727**	**6**	**(978)**	**12,001**
Segment result	**2,713**	**18**	**115**	**(169)**	**1**	**2,678**
Financial income and financial expense, net	–	–	–	–	–	(336)
Share of results of associated companies	–	–	–	–	–	43
Income before income taxes	**–**	**–**	**–**	**–**	**–**	**2,385**
Income tax expense	–	–	–	–	–	(460)
Net income	**–**	**–**	**–**	**–**	**–**	**1,925**
Segment assets	11,002	7,788	1,782	898	(1,012)	20,458
Associated companies	214	–	11	3	–	228
Assets held for sale	–	–	6	–	–	6
Unallocated assets	–	–	–	–	–	1,268
Total assets	**11,216**	**7,788**	**1,799**	**901**	**(1,012)**	**21,960**
Capital expenditure in property, plant & equipment and other intangible assets	1,219	657	121	2	(12)	1,987
Depreciation and amortization	962	813	205	9	(15)	1,974
Impairment losses	–	–	14	–	–	14
Gain (loss) on disposal of property, plant and equipment, net	(8)	–	12	–	–	4
Share of results of associated companies	42	–	(1)	2	–	43

31.12.2009, in CHF millions	Residential Customers	Small & Medium-Sized Enterprises	Corporate Business	Whole-sale	Networks	Elimi-nation	Total Swisscom Switzer-land
Net revenue from external customers	4,722	1,101	1,678	877	–	–	8,378
Net revenue with other segments	291	55	147	568	–	(986)	75
Net revenue	**5,013**	**1,156**	**1,825**	**1,445**	**–**	**(986)**	**8,453**
Segment result	**2,814**	**847**	**901**	**477**	**(2,327)**	**1**	**2,713**
Segment assets	3,425	826	1,247	628	4,884	(8)	11,002
Associated companies	157	–	–	56	1	–	214
Total assets	**3,582**	**826**	**1,247**	**684**	**4,885**	**(8)**	**11,216**
Capital expenditure in property, plant & equipment and other intangible assets	131	9	79	–	1,000	–	1,219
Depreciation and amortization	94	3	50	–	817	(2)	962
Gain (loss) on disposal of property, plant and equipment, net	–	–	1	–	(9)	–	(8)
Share of results of associated companies	15	–	–	26	1	–	42

31.12.2008, in CHF millions, restated	Swisscom Switzerland	Fastweb	Other operating segments	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	8,596	2,698	903	1	–	12,198
Net revenue with other segments	85	–	931	5	(1,021)	–
Net revenue	**8,681**	**2,698**	**1,834**	**6**	**(1,021)**	**12,198**
Segment result	**2,740**	**37**	**49**	**(185)**	**(1)**	**2,640**
Financial income and financial expense, net	–	–	–	–	–	(488)
Share of results of associated companies	–	–	–	–	–	47
Income before income taxes	**–**	**–**	**–**	**–**	**–**	**2,199**
Income tax expense	–	–	–	–	–	(448)
Net income	**–**	**–**	**–**	**–**	**–**	**1,751**
Segment assets	10,810	7,827	1,829	471	(577)	20,360
Associated companies	267	–	12	6	–	285
Assets held for sale	–	–	16	–	–	16
Unallocated assets	–	–	–	–	–	2,077
Total assets	**11,077**	**7,827**	**1,857**	**477**	**(577)**	**22,738**
Capital expenditure in property, plant & equipment and other intangible assets	1,171	691	191	10	(13)	2,050
Depreciation and amortization	1,024	827	232	9	(15)	2,077
Impairment losses	4	–	68	–	–	72
Gain (loss) on disposal of property, plant and equipment, net	(3)	–	9	–	–	6
Share of results of associated companies	45	1	–	1	–	47

31.12.2008, in CHF millions, restated	Residential Customers	Small- & Medium-Size Enterprises	Corporate Business	Whole-sale	Networks	Elimi-nation	Total Swisscom Switzer-land
Net revenue from external customers	4,774	1,097	1,750	975	–	–	8,596
Net revenue with other segments	342	57	156	693	–	(1,163)	85
Net revenue	**5,116**	**1,154**	**1,906**	**1,668**	**–**	**(1,163)**	**8,681**
Segment result	**2,897**	**815**	**901**	**603**	**(2,478)**	**2**	**2,740**
Segment assets	3,490	829	1,256	464	4,774	(3)	10,810
Associated companies	189	–	–	78	–	–	267
Total assets	**3,679**	**829**	**1,256**	**542**	**4,774**	**(3)**	**11,077**
Capital expenditure in property, plant & equipment and other intangible assets	162	7	78	–	923	1	1,171
Depreciation and amortization	65	1	41	–	920	(3)	1,024
Impairment losses	–	–	1	–	3	–	4
Gain (loss) on disposal of property, plant and equipment, net	–	–	1	–	(4)	–	(3)
Share of results of associated companies	23	–	–	22	–	–	45

Disclosures by geographical regions

Swisscom's operations are conducted mainly in Switzerland, where it provides a comprehensive range of telecommunication services. Business activities abroad mainly relate to Fastweb and Hospitality Services. Fastweb primarily provides fixed-network and IP-based services in Italy. Hospitality Services is a provider of broadband and Internet-based solutions for hotel guests in virtually all of Europe and the USA. Net revenues and assets are classified according to regions. Net revenues and assets are allocated according to the registered office of the Group company in question.

	2009		2008	
in CHF millions	Net revenue	Assets	Net revenue	Assets
Switzerland	9,119	12,677	9,384	12,670
Italy	2,791	7,790	2,707	7,830
Other countries in Europe	78	209	94	167
Other countries	13	16	13	14
Unallocated	–	1,268	–	2,057
Total	**12,001**	**21,960**	**12,198**	**22,738**

Disclosures by products and services

in CHF millions	2009	2008
Mobile telephony	3,780	3,808
Fixed network	6,715	6,766
Other	1,505	1,623
Unallocated	1	1
Total net revenue	**12,001**	**12,198**

The products and services offered by each operating segment are described in Note 3.16.

Significant customers

Swisscom has a large number of customers. There are no material relationships with individual customers.

7 Net revenue

in CHF millions	2009	2008
Net revenue from services	11,131	11,598
Net revenue from sale of merchandise	864	591
Net revenue from assignment of use of intangible assets	6	9
Total net revenue	**12,001**	**12,198**

Further information on Swisscom's business activities is set out in Notes 3.16 and 6.

8 Goods and services purchased

in CHF millions	2009	2008
Raw material and supplies	22	44
Services purchased	380	399
Customer premises equipment and merchandise	789	775
National traffic fees	298	327
International traffic fees	397	470
Traffic fees of foreign subsidiaries	762	782
Total goods and services purchased	**2,648**	**2,797**

9 Personnel expense

in CHF millions	2009	2008
Salary and wage costs	2,049	1,999
Social security expenses	232	225
Expense of defined benefit plans. See Note 10.	163	104
Expense of defined contribution plans. See Note 10.	13	16
Expense of share-based compensation. See Note 11.	2	6
Salary and wage costs of the employment company Worklink	20	29
Termination benefits	30	3
Other personnel expense	68	84
Total personnel expense	**2,577**	**2,466**

Termination benefits programmes

Swisscom supports the personnel affected by downsizing mainly through two programmes which are part of the social plans: the outplacement programme and the employment company Worklink AG. In the outplacement programme, participating employees are assisted through further education and in finding alternative employment within or outside Swisscom. The length of the outplacement programme depends on age, length of service and the applicable social plan. In 2009, Swisscom incurred expenses of CHF 8 million in connection with this programme (prior year: CHF 7 million). The cost of the outplacement programme relates only to the costs for those employees who are expected to leave Swisscom after the outplacement programme. Depending on the relevant social plan, age and length of service, certain employees affected by downsizing may transfer to Worklink AG after participating in the outplacement programme. In accordance with the terms of the social plan, a majority of participants may remain in the employment company Worklink AG until the age of 60, after which early retirement follows. The employment company Worklink AG hires out participating employees to third parties on a temporary basis. The employees receive an average of 70% of the last salary before transferring to the outplacement programme. The total wages for Worklink participants in 2009 aggregated CHF 20 million (prior year: CHF 29 million).

Defined benefit plans

Swisscom has a defined benefit plan for employees in Switzerland named “comPlan”. Further defined benefit obligations exist for “Altrentner PUBLICA” and for Fastweb employees. Expenses of defined benefit plans totalled CHF 163 million (prior year: CHF 104 million).

comPlan

The majority of Swisscom’s employees are insured for the risks of old age, death and disability by its own pension plan, comPlan. The comPlan pension plan has the legal form of a foundation. Retirement benefits are determined as a function of the individual retirement savings accounts (accumulated retirement savings) at the time of retirement. The standard retirement age is 65. The annual pension is calculated by multiplying the accumulated retirement savings at the date of retirement by a conversion rate laid down in the rules of the foundation. If an employee retires at the normal retirement age of 65, the savings are converted into a retirement pension at a rate of 6.8%. Employees qualify for early retirement at the earliest on their 58th birthday, whereby the rate of conversion is reduced in line with the longer pension expectancy and lower retirement savings. Employees may choose to take their entire pension or part thereof in the form of a capital payment. The regular employer contributions include risk contributions of 3% and contributions in the form of credits to individual retirement savings of 5% to 13% of the insured salary, depending on age. In addition, Swisscom also pays additional contributions of 3.0% of the insured salary from 2006 to 2010 in order to constitute reserves for fluctuations in the value of plan assets. These additional contributions aggregate approx. CHF 50 million per annum.

Retired employees of PUBLICA

Former employees of Swisscom and the predecessor organization PTT Telecom who retired before January 1, 1999 are insured with the Swiss Federal pension plan PUBLICA. Swisscom bears no risks in connection with the pensioners remaining in the PUBLICA plan, but, in accordance with a contract with the Confederation, is obligated to fund legally guaranteed pension increases, if these cannot be funded by PUBLICA’s own freely available funds. Swisscom also pays contributions towards a proportionate share of administration charges. As of January 1, 2005, new legislation was introduced to abolish the previously guaranteed annual pension increases. Swisscom may decide annually whether to grant extraordinary pension increases, if the pensions cannot be increased out of PUBLICA’s own reserves. Any extraordinary pension increases must be funded by Swisscom through payment of sufficient covering funds. In order to evaluate the effective commitment, it is assumed that Swisscom will finance pension increases of 0.1% per annum on a long-term average. The defined benefit obligations for future pension payments, including pension increases and administrative costs, are CHF 2,722 million gross (prior year: CHF 2,822 million). Of this, obligations for pension increases and administrative costs amount to CHF 35 million (prior year: CHF 37 million). Since Swisscom bears neither investment nor demographic risks (in particular longevity risks), only the defined benefit commitments for future pension increases and administrative costs are recorded. However, the gross commitments of CHF 2,722 million are used as a basis to determine the corridor for amortizing the actuarial gains or losses. At December 31, 2009, included in the PUBLICA’s pension obligations are unrecognized actuarial gains of CHF 274 million (prior year: CHF 272 million). These are outside the corridor of 10%. The difference of CHF 2 million was taken to income immediately.

Fastweb

Employees of the Italian subsidiary Fastweb have acquired future pension benefits up to the end of 2006. These benefits are recorded in the balance sheet as defined benefit obligations.

Pension cost

The cost of defined benefit plans may be analyzed as follows:

in CHF millions	Funded pension plans	Non-funded pension plans	2009	Funded pension plans	Non-funded pension plans	2008
Current service cost	135	–	135	168	–	168
Interest cost on defined benefit obligations	250	1	251	244	7	251
Expected returns on plan assets	(245)	–	(245)	(311)	–	(311)
Amortization of retroactive plan amendments	(4)	–	(4)	(4)	–	(4)
Amortization of actuarial losses	19	–	19	–	–	–
Employment termination benefits	7	–	7	–	–	–
Total pension cost from defined benefit plans	**162**	**1**	**163**	**97**	**7**	**104**

Expenses in 2009 for defined contribution plans aggregated CHF 13 million (prior year: CHF 16 million).

Status of pension plans

The comPlan's pension plan assets and obligations over the year have changed as follows:

in CHF millions	Funded pension plans	Non-funded pension plans	2009	Funded pension plans	Non-funded pension plans	2008
Defined benefit obligations						
Balance at January 1	**7,044**	**66**	**7,110**	**7,537**	**178**	**7,715**
Current service cost	135	–	135	168	–	168
Interest cost on defined benefit obligations	250	1	251	244	7	251
Plan participants' contributions	138	–	138	134	–	134
Retirement benefits paid	(364)	(3)	(367)	(337)	(3)	(340)
Actuarial (gains) losses	295	(2)	293	(705)	(116)	(821)
Additions from acquisition of subsidiaries	73	–	73	4	–	4
Disposals from sale of subsidiaries	–	–	–	(1)	–	(1)
Employment termination benefits	7	–	7	–	–	–
Balance at December 31	**7,578**	**62**	**7,640**	**7,044**	**66**	**7,110**
Plan assets						
Balance at January 1	**6,065**	**–**	**6,065**	**6,863**	**–**	**6,863**
Expected returns on plan assets	245	–	245	311	–	311
Employer contributions	285	–	285	291	–	291
Plan participants' contributions	138	–	138	134	–	134
Retirement benefits paid	(364)	–	(364)	(337)	–	(337)
Actuarial gains (losses)	378	–	378	(1,200)	–	(1,200)
Additions from acquisition of subsidiaries	63	–	63	3	–	3
Balance at December 31	**6,810**	**–**	**6,810**	**6,065**	**–**	**6,065**
Net defined benefit obligations						
Net obligations at December 31	**768**	**62**	**830**	**979**	**66**	**1,045**
Unrecognized actuarial gains (losses)	(788)	274	(514)	(890)	272	(618)
Unrecognized costs of retroactive improvements in benefits	(3)	–	(3)	1	–	1
Net defined benefit obligations recorded in balance sheet at December 31	**(23)**	**336**	**313**	**90**	**338**	**428**

Movements in recorded defined benefit obligations may be analyzed as follows:

in CHF millions	Funded pension plans	Non-funded pension plans	2009	Funded pension plans	Non-funded pension plans	2008
Balance at January 1	**90**	**338**	**428**	**283**	**335**	**618**
Pension cost, net	162	1	163	97	7	104
Employer contributions and benefits paid	(285)	(3)	(288)	(291)	(4)	(295)
Additions from acquisition of subsidiaries	10	–	10	1	–	1
Balance at December 31	**(23)**	**336**	**313**	**90**	**338**	**428**
thereof defined benefit assets	(38)	–	(38)	–	–	–
thereof defined benefit obligations	15	336	351	90	338	428

As yet unrecognized actuarial losses of comPlan in 2009 of net CHF 786 million exceeded the present value of the defined benefit obligations by more than 10%. The excess amount of CHF 36 million will be recognized on a straight-line basis as pension cost over the average remaining working lives of the employees of 10 years. In 2010, Swisscom expects to pay regular employer contributions of CHF 281 million into the pension plans. This includes the contributions of CHF 50 million in order to constitute reserves for fluctuations in plan asset values. The plan assets include shares of Swisscom Ltd with a fair value of CHF 5.1 million (prior year: CHF 3.8 million). The effective return on plan assets was a loss of CHF 623 million (prior year: loss of CHF 889 million). The analysis of the comPlan's pension assets by investment categories and investment strategy is as follows:

Category	Investment strategy	31.12.2009	31.12.2008
Third-party debt instruments	56.0%	58.4%	67.9%
Equity instruments	26.0%	25.5%	18.4%
Real estate	8.0%	6.9%	5.3%
Cash and cash equivalents and other investments	10.0%	9.2%	8.4%
Total plan assets	**100.0%**	**100.0%**	**100.0%**

Actuarial assumptions

	2009		2008	
Assumptions	Funded pension plans	Non-funded pension plans	Funded pension plans	Non-funded pension plans
Discount rate at December 31	3.46%	3.56%	3.61%	3.71%
Rate of increase in compensation levels	2.24%	4.50%	2.24%	3.00%
Long-term rate of return on plan assets	3.98%	–	4.50%	–
Pension increases	0.10%	0.10%	0.10%	0.10%
Life expectancy at age of 65 – men (number of years)	18.71	18.71	18.62	18.62
Life expectancy at age of 65 – women (number of years)	21.72	21.72	21.62	21.62

Additional disclosures on the defined benefit obligations and plan assets

The table below presents the carrying amounts of the recorded defined benefit obligations and plan assets as well as experience adjustments made during the current year and the past four years:

in CHF millions	2009	2008	2007	2006	2005
Defined benefit obligations	(7,640)	(7,110)	(7,715)	(8,342)	(7,991)
Plan assets	6,810	6,065	6,863	6,745	6,264
Underfunding	**(830)**	**(1,045)**	**(852)**	**(1,597)**	**(1,727)**
Experience adjustments on defined benefit obligations	24	(7)	(9)	15	22
Experience adjustments on defined benefit obligations	378	(1,200)	(272)	72	469

11 Share-based payments

in CHF millions	2009	2008
Expense of Management Incentive Plan (MIP)	2	4
Expense of share-purchase plan TopShare	–	4
Adjustments from prior years	–	(2)
Total expense of share-based compensation	**2**	**6**

Swisscom offers the members of the Group Executive Board and the Board of Directors share-based payments in the form of the equity-share purchase plan “Management Incentive Plan”. Furthermore, in the prior year, senior executives could participate additionally in the Management Incentive Plan. In the prior year, participation in the equity-share purchase plan “TopShare” was offered to the remaining employees.

Management Incentive Plan

The Management Incentive Plan is an equity-share plan for members of the Group Executive Board and Board of Directors. A part of the emoluments and variable earnings-related compensation of the Members of the Board of Directors and Group Executive Board, respectively, is settled in the form of Swisscom shares. The shares are allocated based on their tax values. The level of the earnings-related compensation and the number of shares allocated are determined in the subsequent business year after the financial statements are finalized. The shares allocated to the members of the Group Executive Board are based on the variable earnings-related compensation of the prior year as reported. The difference between the market value and the tax value of the allocated shares is recorded as personnel expense. The tax value per share amounts to CHF 265 (prior year: CHF 304). The shares are subject to a blocking period of three years from the grant date. The shares are vested immediately upon delivery.
For the 2007 accounting period, the other senior executives were able to participate in the Management Incentive Plan on a voluntary basis. The shares were allocated during 2008. They were able to invest 25% of their earnings-related compensation. Swisscom augmented the amount invested by 30%. The cost of share-based compensation for senior executives equates the difference between the amount invested and the market value of the shares allocated.

Year of allocation 2009	Number of allocated shares	Market price in CHF	Expense in CHF millions
Members of the Board of Directors	2,119	316	0.7
Members of the Group Executive Board	3,254	316	1.1
Total	**5,373**	**316**	**1.8**

Year of allocation 2008	Number of allocated shares	Market price in CHF	Invested amount in CHF	Expense in CHF millions
Members of the Board of Directors	1,845	363	–	0.7
Members of the Group Executive Board	2,184	363	–	0.8
Other executives	24,011	363	261	2.4
Total	**28,040**	**363**	**–**	**3.9**

Share-purchase plan TopShare

In the preceding year, a voluntary share-purchase plan was offered to all employees, except senior executives, members of the Executive Board and of the Board of Directors. Employees could purchase up to ten shares at a preferential price below the stock-market price. 6,124 employees participated in this equity-share purchase plan. The shares purchased are subject to a one-year retention period from the date of allocation, after which time they can be freely sold. The shares are vested immediately upon delivery. The difference between the market value and the preferential price paid by employees was recorded under personnel expense. The number of shares allocated, their market and sales price, the number of shares allocated as well as the expense recorded for the equity-share plan TopShare may be analyzed as follows:

Year of allocation	Number of allocated shares	Market price in CHF	Issue price in CHF	Expense in CHF millions
2008	57,289	363	290	4.2

12 Other operating expense

in CHF millions	2009	2008
Rental expense	381	355
Repair and maintenance expense	260	296
Loss on disposal of property, plant and equipment	12	9
Energy costs	112	98
Information technology cost	187	181
Advertising and selling expenses	199	213
Dealer commissions	400	443
Consultancy expenses and freelance employees	222	256
Allowances for receivables	138	152
General and administrative expenses	211	211
Miscellaneous operating expenses	402	386
Total other operating expense	**2,524**	**2,600**

13 Capitalized costs of self-constructed assets and other income

in CHF millions	2009	2008
Capitalized self-constructed assets	278	269
Gain on sale of property, plant and equipment	16	15
Income from employment company Worklink (personnel hire)	12	9
Compensation payment from Telecom Italia in connection with proceedings about unfair solicitation of customers	30	48
Miscellaneous income	78	113
Total capitalized self-constructed assets and other income	**414**	**454**

Capitalized costs of self-constructed assets include personnel costs for the production of technical installations, the creation of network infrastructures and the development of software for internal use. In the second quarter of 2008, Fastweb recorded a non-recurring amount each of EUR 30 million (CHF 48 million) resulting from a compensation payment from Telecom Italia. A further compensation in the amount of EUR 20 million (CHF 30 million) was made in the second quarter of 2009. These compensation payments resulted from a settlement between Fastweb and Telecom Italia in connection with legal proceedings concerning the unfair solicitation of customers.

14 Financial income and financial expense

in CHF millions	2009	2008
Interest income	48	113
Interest on provisions for interconnection proceedings of Swisscom (Switzerland) Ltd	–	14
Dilution gain in connection with associated companies	44	–
Foreign exchange gains	14	–
Capitalized borrowing costs	15	–
Other financial income	23	16
Total financial income	**144**	**143**
Interest expense	(316)	(434)
Present-value adjustments on provisions	(22)	(12)
Costs for termination of hedges	(96)	–
Recognition of provisions for cross-border lease agreements	–	(126)
Foreign exchange losses	–	(8)
Other financial expense	(46)	(51)
Total financial expense	**(480)**	**(631)**
Financial income and financial expense, net	**(336)**	**(488)**

The associated company Belgacom International Carrier Services undertook a share-capital increase in 2009. Swisscom did not participate in this capital increase. As a result of this, a profit on dilution of CHF 44 million was recorded as financial income. See Note 25. In the second half of 2009, hedging relationships designated as cash flow hedges were terminated in connection with the early repayment of bank indebtedness. The cumulative revaluation losses aggregating CHF 96 million were transferred out of other reserves within equity and recorded under financial expense in the income statement. See Note 33. In 2009, as a result of the early termination of various cross-border lease agreements, previously unrecorded financial liabilities were recorded for the first time as bank loans. The revaluation difference from the initial recording of CHF 16 million was reported as other financial income. See Note 26.
In the second quarter of 2008, Swisscom recorded a provision of CHF 126 million in connection with the early termination of cross-border lease agreements. See Note 26. In 2008, ComCom issued rulings concerning the setting of prices for interconnection services. As a result of these rulings, provisions

for interest of CHF 23 million could be released in 2008. The release of interest for the interconnection proceedings was recorded in provisions under the sub-caption present-value adjustments. See Note 28. Net interest expense is as follows:

in CHF millions	2009	2008
Interest income on cash and cash equivalents	2	13
Interest income on held-to-maturity financial assets	20	67
Interest income on other financial assets	26	33
Total interest income	**48**	**113**
Interest expense on bank loans, debenture bonds and private placements	(249)	(312)
Interest expense on financial liabilities from cross-border lease agreements	(26)	(79)
Interest expense on finance lease liabilities	(31)	(32)
Interest expense on other financial liabilities	(10)	(11)
Total interest expense	**(316)**	**(434)**
Net interest expense	**(268)**	**(321)**

15 Income taxes

in CHF millions	2009	2008
Current income tax expense	342	318
Adjustments of current income tax expense of prior years	(3)	25
Deferred tax expense	121	105
Total income tax expense recognized in income statement	**460**	**448**

In addition, an income tax expense of CHF 6 million was recorded directly in other comprehensive income (prior year: CHF 12 million) as follows:

in CHF millions	2009	2008
Change in fair value of available-for-sale financial assets	(1)	(1)
Gains and losses from available-for-sale financial assets transferred to income statement	1	1
Change in fair value of cash flow hedges	–	12
Fair value losses of cash flow hedges transferred to income statement	(6)	–
Total income tax expense recognized in other comprehensive income	**(6)**	**12**

The applicable income tax rate for the purposes of the following analysis of income tax expense is the weighted average income tax rate calculated on the basis of the operating companies of the Group in Switzerland. The applicable income tax rate is 20.9% (prior year: 21.1%). The decrease in the applicable income tax rate is due to lower tax rates in several Swiss cantons.

in CHF millions	2009	2008
Income before income taxes	2,385	2,199
Applicable income tax rate	20.9%	21.1%
Income tax expense at the applicable income tax rate	**498**	**464**
Reconciliation to reported income tax expense		
Effect of share of results of associated companies	(9)	(7)
Effect of tax rate changes on deferred taxes	8	(3)
Effect of use of different income tax rates in Switzerland	(12)	15
Effect of use of different income tax rates in foreign countries	13	(21)
Effect of non-recognition of tax loss carry-forwards	7	28
Effect of recognition and offset of income loss carry-forwards not recognized in prior years	(7)	(33)
Effect of deferred tax assets written off	2	22
Effect of impairment of goodwill	–	4
Effect of exclusively tax-deductible expenses	(20)	(70)
Effect of non-taxable income and non-deductible expenses	(17)	24
Effect of income tax of prior periods	(3)	25
Total income tax expense	**460**	**448**
Effective income tax rate	19.3%	20.4%

Movements in current tax assets and liabilities may be analyzed as follows:

in CHF millions	2009	2008
Balance at January 1	**125**	**191**
Recognized in income statement	339	343
Recognized in other comprehensive income	6	(10)
Income taxes paid	(300)	(401)
Foreign currency translation adjustments	1	2
Balance at December 31	**171**	**125**
thereof current income tax assets	48	38
thereof current income tax liabilities	(219)	(163)

Recorded deferred tax assets and liabilities may be analyzed as follows:

	31.12.2009			31.12.2008		
in CHF millions	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Trade and other receivables	29	–	29	37	–	37
Property, plant and equipment	–	(205)	(205)	–	(163)	(163)
Intangible assets	–	(530)	(530)	–	(564)	(564)
Defined benefit obligations	6	–	6	39	–	39
Tax loss carry-forwards	250	–	250	313	–	313
Other	23	(48)	(25)	23	(34)	(11)
Total tax assets (tax liabilities)	**308**	**(783)**	**(475)**	**412**	**(761)**	**(349)**
thereof deferred tax assets			48			58
thereof deferred tax liabilities			(523)			(407)

Deferred tax assets and liabilities have changed as follows:

in CHF millions	Balance at 31.12.2008	Recognized in income statement	Change in scope of consolidation	Foreign currency translation adjustments	Balance at 31.12.2009
Trade and other receivables	37	(8)	–	–	29
Property, plant and equipment	(163)	(42)	–	–	(205)
Intangible assets	(564)	40	(6)	–	(530)
Defined benefit obligations	39	(35)	2	–	6
Tax loss carry-forwards	313	(63)	–	–	250
Other	(11)	(13)	–	(1)	(25)
Total	**(349)**	**(121)**	**(4)**	**(1)**	**(475)**

in CHF millions	Balance at 31.12.2007	Recognized in income statement	Recognized in other comprehensive income	Foreign currency translation adjustments	Balance at 31.12.2008
Trade and other receivables	53	(11)	–	(5)	37
Property, plant and equipment	(109)	(25)	–	(29)	(163)
Intangible assets	(610)	(13)	–	59	(564)
Defined benefit obligations	71	(41)	–	9	39
Tax loss carry-forwards	382	(34)	–	(35)	313
Other	(34)	19	2	2	(11)
Total	**(247)**	**(105)**	**2**	**1**	**(349)**

Deferred tax assets relating to unused tax loss carry-forwards and deductible temporary differences are recognized if it is probable that they can be offset against future taxable profits or existing temporary differences. At December 31, 2009, various subsidiaries recognized deferred tax assets on tax loss carry-forwards and other temporary differences totaling CHF 308 million (prior year: CHF 412 million) since it was foreseeable that tax loss carry-forwards and other temporary differences could be offset against future taxable profits. In addition, tax loss carry-forwards and other temporary differences of CHF 9 million (prior year: CHF 37 million) were recognized by subsidiaries reporting a loss in 2008 or 2009. On the basis of the approved business plans of these subsidiaries, Swisscom considers it probable that the tax loss carry-forwards and temporary differences can be offset against future taxable profits. Tax loss carry-forwards and other temporary differences for which no deferred tax assets were recorded amounted to:

in CHF millions	31.12.2009	31.12.2008
Expiring within 1 year	47	44
Expiring within 1 to 2 years	17	58
Expiring within 2 to 3 years	56	29
Expiring within 3 to 4 years	47	63
Expiring within 4 to 5 years	47	79
Expiring within 5 to 6 years	63	202
Expiring within 6 to 7 years	8	179
Expiring without limitation	108	136
Total unrecognized tax loss carry-forwards	**393**	**790**

Fastweb accounted for CHF 46 million of the tax loss carry-forwards not recognized as of December 31, 2009 (prior year: CHF 98 million). No deferred tax liabilities were recorded on the undistributed earnings of subsidiaries as of December 31, 2008 and 2009.

16 Earnings per share

Undiluted earnings per share are calculated by dividing net income attributable to shareholders of Swisscom Ltd by the weighted average number of shares outstanding. Treasury shares are not included in the amount of outstanding shares.

in CHF millions, except where indicated	2009	2008
Share of net income attributable to equity holders of Swisscom Ltd	1,928	1,756
Weighted average number of shares outstanding (number)	51,799,521	51,792,567
Earnings and diluted earnings per share (in CHF)	**37.22**	**33.90**

Swisscom has no share options and share subscription rights outstanding which could lead to a dilution of earnings per share.

17 Cash and cash equivalents

in CHF millions	31.12.2009	31.12.2008
Cash and sight balances	496	743
Term deposits	36	215
Total cash and cash equivalents	**532**	**958**

The average interest rate on term deposits in CHF was 0.32% (prior year: 2.18%) and in EUR 0.89% (prior year: 4.19%). The average maturity of term deposits in CHF was 27 days (prior year: 22 days) and in EUR 41 days (prior year: 29 days).

18 Trade and other receivables

in CHF millions	31.12.2009	31.12.2008
Billed revenue	2,645	2,588
Accrued revenue	471	373
Allowances	(251)	(225)
Total trade receivables, net	**2,865**	**2,736**
Receivables from collection activities	23	24
Receivables from construction contracts	26	33
Other receivables	27	19
Allowances	(15)	(14)
Total other receivables, net	**61**	**62**
Total trade and other receivables	**2,926**	**2,798**

All trade and other receivables are due within one year. Trade receivables are the object of active credit-risk management which focuses on the assessment of country risk, on going review of credit risks and the monitoring of receivables. Credit-risk concentrations are minimized due to Swisscom's large number of customers and their geographical spread. Risks are monitored by country and by class of counterparty. The geographical distribution of trade receivables is as follows:

in CHF millions	31.12.2009	31.12.2008
Switzerland	1,958	1,922
Italy	1,143	1,023
Other countries	15	16
Total billed and accrued revenue	**3,116**	**2,961**
Switzerland	(54)	(58)
Italy	(196)	(165)
Other countries	(1)	(2)
Total allowance for receivables	**(251)**	**(225)**
Total trade receivables, net	**2,865**	**2,736**

Analysis of maturity and allowances

The due dates of trade receivables as well as the related allowances are set out below:

	31.12.2009		31.12.2008	
in CHF millions	Gross amount	Allowance	Gross amount	Allowance
Not overdue	2,092	55	2,081	38
Past due up to 3 months	545	20	412	9
Past due 4 to 6 months	122	11	127	9
Past due 7 to 12 months	130	32	105	17
Past due over 1 year	227	133	236	152
Total	**3,116**	**251**	**2,961**	**225**

The table below presents the changes in allowances on trade and other receivables.

in CHF millions	Trade receivables	Other receivables
Balance at December 31, 2007	**311**	**16**
Additions to allowances	168	–
Write-off of irrecoverable receivables subject to allowance	(205)	–
Write-off of irrecoverable receivables subject to allowance	(28)	(2)
Change in scope of consolidation	(21)	–
Balance at December 31, 2008	**225**	**14**
Additions to allowances	152	1
Write-off of irrecoverable receivables subject to allowance	(110)	–
Write-off of irrecoverable receivables subject to allowance	(13)	–
Change in scope of consolidation	(2)	–
Foreign currency translation adjustments	(1)	–
Balance at December 31, 2009	**251**	**15**

Construction contracts

Information on uncompleted construction contracts as of the balance sheet date is as follows:

in CHF millions	2009	2008
Contract costs of current projects	60	127
Recognized gains less losses	8	13
Contract costs including share of gains and losses, net	**68**	**140**
Less progress billings	(46)	(113)
Total net receivables from construction contracts	**22**	**27**
thereof receivables from construction contracts	26	33
thereof liabilities from construction contracts	(4)	(6)
Advance payments received	17	12

Net revenue of CHF 235 million was recorded on construction contracts in 2009 (prior year: CHF 140 million).

19 Other financial assets

in CHF millions	Loans and receivables	Held-to-maturity	Available-for-sale	Derivative financial instruments	Total
Balance at December 31, 2007	**172**	**862**	**16**	**18**	**1,068**
Additions	152	67	158	–	377
Disposals	(144)	(69)	(161)	–	(374)
Impairment losses	(4)	–	–		(4)
Change in fair value recognized in equity	–	–	14	(14)	–
Change in fair value recognized in income statement	–	–	–	8	8
Foreign currency translation adjustments recognized in income statement	–	(52)	–	–	(52)
Balance at December 31, 2008	**176**	**808**	**27**	**12**	**1,023**
Additions	495	–	7	–	502
Disposals	(93)	(803)	(12)	–	(908)
Change in scope of consolidation	10	–	–	–	10
Change in fair value recognized in equity	–	–	4	(12)	(8)
Foreign currency translation adjustments recognized in income statement	(20)	3	–	–	(17)
Balance at December 31, 2009	**568**	**8**	**26**	**–**	**602**
Less current portion	(171)	–	(7)	–	(178)
Total other non-current financial assets	**397**	**8**	**19**	**–**	**424**

Loans and receivables

Included are term deposits as at December 31, 2009 totalling CHF 104 million (prior year: CHF 143 million). Furthermore, previously unrecorded financial assets of USD 356 million (CHF 367 million) resulting from the early termination of various cross-border lease agreements were recorded for the first time as loans and receivables. As of December 31, 2009, financial assets aggregating CHF 263 million (prior year: CHF 139 million) pledged to secure liabilities were not freely available.

Held-to-maturity financial assets

During the first half of 2009, several cross-border lease agreements were terminated prematurely. As a result of the termination, financial assets were disposed of which had been previously recorded as held-to-maturity financial assets. The remaining investments are not reclassified since the early termination of various cross-border lease agreements was not under control of Swisscom. On December 31, 2008 and 2009, held-to-maturity financial assets consist solely of financial assets from cross-border lease agreements. See Note 26.

Available-for-sale financial assets

Available-for-sale financial assets primarily include financial investments in equity instruments. As a general rule, shares not quoted on stock exchanges are recorded at cost since their fair value cannot be reliably determined. On December 31, 2009, the carrying amount of investments in shares recorded at cost totalled CHF 22 million (prior year: CHF 14 million).

Derivative financial instruments

As at December 31, 2009, Swisscom had no derivative financial instruments with a positive market value (prior year: CHF 12 million). Derivative financial instruments reported in the prior year comprise cross currency interest rate swaps, interest rate swaps and forward exchange contracts. See Note 33.

20 Inventories

in CHF millions	31.12.2009	31.12.2008
Raw material and supplies	4	12
Customer premises equipment and merchandise	142	195
Finished and semi-finished goods	2	2
Total inventories, gross	**148**	**209**
Allowances on inventories	(13)	(21)
Total inventories, net	**135**	**188**

Goods amounting to CHF 811 million (prior year: CHF 797 million) were recorded under the cost of goods and services purchased.

21 Other non-financial assets

in CHF millions	31.12.2009	31.12.2008
Prepaid expenses	147	92
Value-added taxes receivable	116	110
Advances made	12	70
Miscellaneous assets	54	62
Total other current non-financial liabilities	**329**	**334**
Prepaid expenses	22	37
Miscellaneous assets	23	18
Total other non-current non-financial assets	**45**	**55**

Value-added tax receivables of Fastweb amounting to CHF 100 million are pledged as security for bank loans (prior year: CHF 83 million).

22 Non-current assets held for sale

Non-current assets held for sale include real estate from the segment "Other operating segments" of CHF 6 million (prior year: CHF 16 million) which is expected to be sold within the next twelve months. In 2009, non-current assets held for sale were sold for a total of CHF 6 million (prior year: CHF 10 million). A gain of CHF 3 million resulting from the disposals (prior year: CHF 7 million) was recorded under the caption capitalized self-constructed assets and other income. Real estate with a carrying amount of CHF 8 million (prior year: CHF 5 million) classified as non-current assets held for sale could not be sold as planned in 2009 and therefore was reclassified to property, plant and equipment. Depreciation and amortization of the reclassified real estate amounted to CHF 1 million (prior year: CHF 1 million).

23 Property, plant and equipment

in CHF millions	Land, buildings and leasehold improvements	Technical installations	Other installations	Advances made and assets under construction	Total
At cost					
Balance at December 31, 2008	**2,797**	**22,623**	**2,903**	**319**	**28,642**
Additions	7	977	155	300	1,439
Disposals	(18)	(518)	(182)	–	(718)
Additions from acquisition of subsidiaries	–	–	2	–	2
Disposals from sale of subsidiaries	–	(27)	(1)	–	(28)
Adjustment to dismantlement and restoration costs	–	(6)	–	–	(6)
Reclassification to non-current assets held for sale	7	–	–	–	7
Other reclassifications	4	184	95	(319)	(36)
Foreign currency translation adjustments	–	(8)	–	-	(8)
Balance at December 31, 2009	**2,797**	**23,225**	**2,972**	**300**	**29,294**
Accumulated depreciation and impairment losses					
Balance at December 31, 2008	**2,050**	**16,615**	**1,907**	**–**	**20,572**
Depreciation	28	1,125	271	–	1,424
Impairment losses	–	10	4	–	14
Disposals	(9)	(511)	(174)	–	(694)
Reclassification to non-current assets held for sale	1	–	–	–	1
Other reclassifications	1	(24)	(20)	–	(43)
Disposals from sale of subsidiaries	–	(17)	(1)	–	(18)
Foreign currency translation adjustments	–	(6)	–	–	(6)
Balance at December 31, 2009	**2,071**	**17,192**	**1,987**	**–**	**21,250**
Net carrying amount					
Net carrying amount at December 31, 2009	**726**	**6,033**	**985**	**300**	**8,044**

in CHF millions	Land, buildings and leasehold improvements	Technical installations	Other installations	Advances made and assets under construction	Total
At cost					
Balance at December 31, 2007	**2,814**	**22,424**	**2,869**	**369**	**28,476**
Additions	11	1,043	190	303	1,547
Disposals	(14)	(849)	(245)	–	(1,108)
Disposals from sale of subsidiaries	–	(6)	(4)	–	(10)
Adjustment to dismantlement and restoration costs	–	90	–	–	90
Reclassification to non-current assets held for sale	(3)	(3)	–	–	(6)
Other reclassifications	(1)	253	95	(347)	–
Foreign currency translation adjustments	(10)	(329)	(2)	(6)	(347)
Balance at December 31, 2008	**2,797**	**22,623**	**2,903**	**319**	**28,642**
Accumulated depreciation and impairment losses					
Balance at December 31, 2007	**2,036**	**16,298**	**1,827**	**–**	**20,161**
Depreciation	32	1,189	299	–	1,520
Impairment losses	1	37	5	–	43
Disposals	(11)	(850)	(232)	–	(1,093)
Reclassification to non-current assets held for sale	(1)	(1)	–	–	(2)
Other reclassifications	(6)	(4)	10	–	–
Disposals from sale of subsidiaries	–	(3)	(3)	–	(6)
Foreign currency translation adjustments	(1)	(51)	1	–	(51)
Balance at December 31, 2008	**2,050**	**16,615**	**1,907**	**–**	**20,572**
Net carrying amount					
Net carrying amount at December 31, 2008	**747**	**6,008**	**996**	**319**	**8,070**
Net carrying amount at December 31, 2007	**778**	**6,126**	**1,042**	**369**	**8,315**

As a result of a regulatory ruling of the Federal Communications Commission (ComCom) of October 9, 2008 concerning interconnection prices, the useful lives of cables were reviewed in the first quarter of 2009. Swisscom previously had applied a useful life of 15 to 20 years for cables. As a result of the review and based on an economic viewpoint, the useful life of copper cables was adjusted from 15 years to 20 to 30 years and those of optical fiber cables from 15 to 20 years. In compliance with IAS 8, the change was applied prospectively from January 1, 2009 onwards. The impact on depreciation and amortization for the whole of 2009 aggregated some CHF 100 million.
Impairment losses on property, plant and equipment result from changes in estimated future cash flows anticipated from the use and possible disposal of these items of property, plant and equipment. In 2009, impairments on property, plant and equipment amounted to CHF 14 million (prior year: CHF 43 million). In 2009, borrowing costs amounting to CHF 15 million were capitalized. The average interest rate used for the capitalization of borrowing costs was 2.6%. As of December 31, 2009, real estate with a carrying amount of CHF 5 million (prior year: CHF 12 million) was pledged to secure mortgages. As of December 31, 2009, the carrying amount of property, plant and equipment acquired under financial leases amounted to CHF 444 million (prior year: CHF 469 million). For further information on the adjustments to the costs of dismantling and restoration. See Note 28.

24 Goodwill and other intangible assets

in CHF millions	Goodwill	Internally generated software	Customer relationships	Brands	Other intangible assets	Total
At cost						
Balance at December 31, 2008	**6,644**	**469**	**1,287**	**333**	**1,610**	**10,343**
Additions	–	177	–	–	394	571
Disposals	–	(29)	–	–	(138)	(167)
Purchase price adjustments	(2)	–	–	–	–	(2)
Reclassifications	–	250	6	–	(220)	36
Additions from acquisition of subsidiaries	36	–	19	–	7	62
Disposals from sale of subsidiaries	–	–	(3)	–	(10)	(13)
Foreign currency translation adjustments	(3)	–	(2)	(1)	(4)	(10)
Balance at December 31, 2009	**6,675**	**867**	**1,307**	**332**	**1,639**	**10,820**
Accumulated amortization and impairment losses						
Balance at December 31, 2008	**11**	**335**	**253**	**57**	**772**	**1,428**
Amortization	–	142	151	34	223	550
Disposals	–	(29)	–	–	(133)	(162)
Reclassifications	–	86	6	–	(49)	43
Disposals from sale of subsidiaries	–	–	(3)	–	(9)	(12)
Foreign currency translation adjustments	–	–	(1)	(1)	(4)	(6)
Balance at December 31, 2009	**11**	**534**	**406**	**90**	**800**	**1,841**
Net carrying amount						
Net carrying amount at December 31, 2009	**6,664**	**333**	**901**	**242**	**839**	**8,979**

in CHF millions	Goodwill	Internally generated software	Customer relationships	Brands	Other intangible assets	Total
At cost						
Balance at December 31, 2007	**6,961**	**406**	**1,430**	**370**	**1,277**	**10,444**
Additions	–	59	–	–	460	519
Disposals	(13)	(27)	–	–	(33)	(73)
Purchase price adjustments	(2)	–	–	–	–	(2)
Reclassifications	–	31	–	–	(31)	–
Additions from acquisition of subsidiaries	39	4	–	–	4	47
Disposals from sale of subsidiaries	(36)	–	–	–	(14)	(50)
Foreign currency translation adjustments	(305)	(4)	(143)	(37)	(53)	(542)
Balance at December 31, 2008	**6,644**	**469**	**1,287**	**333**	**1,610**	**10,343**
Accumulated amortization and impairment losses						
Balance at December 31, 2007	**41**	**296**	**108**	**25**	**539**	**1,009**
Amortization	–	70	162	36	289	557
Impairment losses	19	–	4	–	6	29
Disposals	(13)	(27)	–	–	(32)	(72)
Reclassifications	–	(2)	–	–	2	–
Disposals from sale of subsidiaries	(36)	–	–	–	(10)	(46)
Foreign currency translation adjustments	–	(2)	(21)	(4)	(22)	(49)
Balance at December 31, 2008	**11**	**335**	**253**	**57**	**772**	**1,428**
Net carrying amount						
Net carrying amount at December 31, 2008	**6,633**	**134**	**1,034**	**276**	**838**	**8,915**
Net carrying amount at December 31, 2007	**6,920**	**110**	**1,322**	**345**	**738**	**9,435**

As of December 31, 2009, other intangible assets included advance payments made in the amount of CHF 154 million (prior year: CHF 285 million). As of December 31, 2009, accumulated impairment losses on goodwill of CHF 11 million were recorded which resulted from the goodwill impairment test at Sicap as of December 31, 2008. As a result of a worse than expected business performance, the value in use of CHF 6 million in the prior accounting period was CHF 15 million lower than the carrying amount of Sicap. As a result, an impairment loss of CHF 11 million was recorded on the goodwill of Sicap.
On September 1, 2008, Swisscom sold all its shares in Minick Holding AG to the German company Net Mobile AG. A loss on goodwill of CHF 7 million resulted from the transaction. Goodwill from the acquisition of associated companies is disclosed under investments in associated companies.

Impairment test on goodwill

Goodwill is allocated to the cash-generating units of Swisscom according to their business activities. Goodwill acquired in a business combination is allocated to each cash-generating unit that is expected to benefit from the synergies of the business combination. The allocation of the goodwill to the cash-generating units is as follows:

in CHF millions	31.12.2009	31.12.2008
Residential Customers	2,501	2,461
Small & Medium-Sized Enterprises	656	645
Corporate Business	728	716
Wholesale	45	45
Cash-generating units of Swisscom Switzerland	**3,930**	**3,867**
Fastweb	2,623	2,627
Other cash-generating units	111	139
Total goodwill	**6,664**	**6,633**

Apart from goodwill, there are no recorded intangible assets with indefinite useful lives. Goodwill was tested for impairment in the fourth quarter 2009 after the business planning had been completed. The recoverable amount of a cash-generating unit is determined based on its value in use, using the discounted cash flow (DCF) method. The projected cash flows are arrived at on the basis of the business plans approved by management covering a three-year period in general. Free cash flows beyond the detailed planning period are extrapolated using a constant growth rate. The growth rates applied are the growth rates normally assumed for the country or market. The key assumptions underlying the calculations are as follows:

Disclosures in %	WACC pre-tax	WACC post-tax	Long-term growth rate
Cash-generating units of Swisscom Switzerland	6.3 to 6.9	4.8 to 5.5	–1.2 to 0
Fastweb	9.77	7.38	1.0
Other cash-generating units	8.0 to 12.3	6.5 to 10.4	1 to 1.5

The application of pre- or post-tax discount rates (WACC pre-tax and WACC post-tax) both results in the same value in use. The discount rates used take into consideration the specific risks relating to the cash-generating unit under consideration. The projected cash flows and management assumptions are corroborated by external sources of information. The approach taken and assumptions made for the impairment test at Swisscom Switzerland and Fastweb are presented below:

Swisscom Switzerland

The cash-generating units of Swisscom Switzerland are the operating segments "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business" and "Wholesale". The impairment test of goodwill is conducted on these cash-generating units. The recoverable amount was determined based on the value in use using the discounted cash flow (DCF) method. The forecast of future cash flows was based upon the three-year business plan approved by management. Free cash flows beyond the detailed planning period were extrapolated using a negative long-term growth rate of –1.2% to 0%. The recoverable amount at all cash-generating units, based on their value in use, was higher than the carrying amount relevant for the impairment test. Swisscom is of the opinion that no reasonably expected changes in key assumptions made would cause the carrying amount of the cash-generating units to exceed the recoverable amount.

Fastweb

The impairment test of Fastweb was based on the five-year business plan prepared by management. The business plan takes into consideration historical empirical values and management's expectations regarding market developments. Key assumptions, on which the projection of cash flows is based, include growth in revenue and the discount rate. The values in the business plan for 2014 are considered to be a reliable basis for calculating the terminal value. The post-tax discount rate (WACC post-tax) is 7.38%, and the corresponding pre-tax discount rate (WACC pre-tax) is 9.77%. The terminal value of free cash flows after the detailed planning period was projected using a constant growth rate of 1.0%. The growth rate used represents the growth rates normally assumed for the country and market, which are based on past experiences and forecasts, corroborated by external sources of information. The growth rate applied does not exceed the long-term average growth rate for the country or the market in which the entity operates. As of the valuation date, the impairment test did not indicate any impairment of goodwill. The recoverable amount exceeds the carrying amount by EUR 982 million or CHF 1,485 million. The discount rate and the projected growth in revenue have a significant influence on the sensitivity of the impairment test. For the detailed five-year planning period, an average annual growth in revenue of 6.5% was projected. If the average annual growth in revenue were to decline by 1.1% assuming a constant cash flow margin, the recoverable amount would equal its carrying amount. If the post-tax discount rate increased from 7.38% to 8.66%, the value in use would equal the carrying amount.

25 Investments in associated companies

in CHF millions	2009	2008
Balance at January 1	**285**	**257**
Additions	1	4
Disposals	(35)	(5)
Dividends	(110)	(9)
Share of net results	43	47
Dilution gain	44	–
Foreign currency translation adjustments	–	(9)
Balance at December 31	**228**	**285**

The most significant participations classified as associated companies are PubliDirect, Cinetrade, and Belgacom International Carrier Services.
In the fourth quarter of 2009, Belgacom International Carrier Services resolved to reduce its share capital and distribute a dividend, both of which will be paid in 2010. The share of Swisscom of these payments aggregates CHF 49 million (share-capital reduction of CHF 32 million; dividend CHF 17 million). At the end of November 2009, the share capital of Belgacom International Carrier Services was increased by 25%. Swisscom did not participate in this capital increase. As a result, the shareholding of Swisscom in Belgacom International Carrier Services declined from 28% to 22.4%. As a consequence, a profit on dilution of CHF 44 million was recorded as financial income.
In 2008, Swisscom acquired a 100% share in local.ch AG from the associated company, PubliDirect. Swisscom also acquired the remaining shares in coComment B.V. in 2008. The 33% shareholding in Rai Click S.p.A. was also sold in 2008.

Dividends received totalled CHF 110 million (prior year: CHF 9 million) and are attributable mainly to the dividends paid by PubliDirect and Belgacom International Carrier Services (prior year: PubliDirect). The following table provides selected summarized key financial data of the associated companies:

in CHF millions	2009	2008
Income statement		
Net revenue	2,205	2,068
Operating expense	(2,052)	(1,935)
Operating income	153	133
Net income	**121**	**117**
Balance sheet at December 31		
Current assets	995	1,131
Non-current assets	416	186
Current liabilities	(954)	(761)
Non-current liabilities	(20)	(27)
Equity	**437**	**529**

26 Financial liabilities

in CHF millions	31.12.2009	31.12.2008
Bank loans	8	–
Debenture bonds	423	–
Private placements	337	–
Financial liabilities from cross-border lease agreements	9	9
Finance lease liabilities	17	9
Other interest-bearing financial liabilities	426	147
Deferred payment of purchase price of business combinations	5	12
Derivative financial instruments. See Note 33.	44	39
Other non-interest-bearing financial liabilities	1	–
Total current financial liabilities	**1,270**	**216**
Bank loans	2,562	6,140
Debenture bonds	4,378	2,032
Private placements	1,186	1,339
Financial liabilities from cross-border lease agreements	6	1,087
Finance lease liabilities	469	493
Other interest-bearing financial liabilities	9	25
Deferred payment of purchase price of business combinations	10	3
Derivative financial instruments. See Note 33.	108	457
Other non-interest-bearing financial liabilities	12	–
Total non-current financial liabilities	**8,740**	**11,576**
Total financial liabilities	**10,010**	**11,792**

Maturities and terms of interest-bearing financial liabilities

The maturities and terms of the interest-bearing financial liabilities are as follows:

in CHF millions	Currency	Effective interest rate	Due within	31.12.2009 Par value	31.12.2009 Carrying amount	31.12.2008 Par value	31.12.2008 Carrying amount
Bank loans	CHF	2.08%	2011	2,200	2,199	6,150	6,140
Bank loans	USD	4.39%	2013–2028	300	371	–	–
Debenture bonds	CHF	3.46%	2010–2018	4,750	4,801	2,000	2,032
Private placements	CHF	1.13%	2016–2019	800	775	600	590
Private placements	EUR	1.05%	2010–2014	742	748	743	749
Financial liabilities from cross-border lease agreements	USD	5.69%	2010–2014	15	15	1,088	1,096
Finance lease liabilities	CHF	6.68%	2011–2063	485	486	503	502
Other interest-bearing financial liabilities	CHF EUR	0.2–3%	2010–2014	431	435	172	172
Total				**9,723**	**9,830**	**11,256**	**11,281**

Bank loans

On December 31, 2009, the carrying amount of bank loans amounted to CHF 2,570 million (prior year: CHF 6,140 million). Of this amount, CHF 2,199 million matures in 2011, CHF 233 million in 2013 and CHF 148 million in 2028. As of December 31, 2009, CHF 1,100 million of the non-current bank loans were hedged by interest rate swaps and designated as cash flow hedges for hedge accounting purposes. The duration of the hedges is identical to the maturities of the respective hedged bank loans. As a result of the early repayment of bank loans in 2009, interest rate swaps covering hedged items of a total of CHF 1,635 million were closed out. The cumulative revaluation losses of CHF 96 million were transferred out of other reserves under equity and recorded as other financial expense in the income statement. Furthermore, interest rate swaps designated for hedge accounting purposes relating to underlying positions of a total of CHF 200 million were terminated in 2009. The cumulative revaluation loss of CHF 7 million was left in the other reserves under equity and will be amortized in the statement of income over the remaining duration of the underlying positions.
Transaction costs relating to the outstanding bank loans in CHF of CHF 1 million (prior year: CHF 11 million) were capitalized as of December 31, 2009. The transaction costs are recorded in the income statement over the terms of the bank loans using the effective interest method. The bank loans 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. In 2009, as a result of the early termination of various cross-border lease agreements, previously unrecognized financial liabilities of USD 317 million (CHF 326 million) were recorded for the first time as bank loans. Furthermore, a financial liability of USD 44 million (CHF 45 million) previously reported as a financial liability arising from cross-border lease agreements was now recorded as a bank loan as a result of the termination of the related agreement.

Debenture bonds

On April 8, 2009, Swisscom issued debenture bonds in a total amount of CHF 1,250 million. The coupon rate is 3.50% with the repayment period ending in 2014. A further bond issue in a total amount of CHF 1,500 million was placed on September 14, 2009. The coupon rate is 3.25% with the repayment period ending in 2018. In the prior accounting period, Swisscom issued a debenture bond for a value of CHF 500 million with a term of 7 years bearing interest at 4.0%. In 2007, Swisscom placed debenture bonds on the Swiss capital market for a value of CHF 1,500 million. The first tranche was issued on July 19, 2007. The issue amounted to CHF 550 million, bearing interest at 3.50% and a term of 6 years, and CHF 350 million, with a term of 10 years and an interest rate of 3.75%. The second tranche was issued up on October 22, 2007 and was for CHF 350 million bearing interest at 3.25% and a term of 3 years, and a CHF 250 million top-up of the 10-year debenture issued in July with an interest rate of 3.75%. The investors are entitled to sell the debentures back to Swisscom if a shareholder other than the Swiss Confederation gains a majority share in Swisscom and at the same time, the Company's rating falls below BBB–/Baa3.

Private placements

On December 30, 2009, Swisscom received financing of CHF 200 million with a term of 6 years in the form of a private placement. The investors are entitled to resell the private placement to Swisscom if the Swiss Confederation permanently abandons its majority shareholding in Swisscom. In 2007, Swisscom raised financing in the amounts of CHF 600 million and EUR 500 million through private placements. The swiss franc denominated placements are made up of tranches with terms of 10, 11 and 12 years. The private placement denominated in euros is divided into 6 tranches with terms of 3, 6 and 7 years. For each term, one tranche bears a fixed rate of interest and one a variable rate. The entire euro placement was swapped into variable swiss franc financing through currency swaps. The swap of the interest-bearing euro financing into variable swiss franc financing was designated as a fair value hedge. In connection with the euro-denominated private placement, transactions costs of EUR 1 million were capitalized as of December 31, 2009 (prior year: EUR 1 million). The transaction costs will be released to income over the term of the private placement, using the effective interest method. The investors in the euro-denominated private placements are entitled to sell the euro private placements back to Swisscom if the Swiss Confederation's shareholding in Swisscom falls below 35% and at the same time, the company's rating falls below BBB–/Baa3. The swiss franc-denominated private placements of CHF 600 million 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.

Financial liabilities from cross-border lease agreements

Between 1996 and 2002, Swisscom entered into various cross-border lease agreements, under the terms of which parts of its fixed 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 and the conclusion of several payment undertaking agreements. The financial assets were irrevocably deposited with a trust. The payment undertaking agreements were entered into with financial institutions of a high credit rating. In accordance with Interpretation SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease", these financial investments and payment undertaking agreements and the liabilities in the same amount are offset and not recorded in the balance sheet. In the first half of 2008, Swisscom entered into an agreement for the early termination of three quarters of the volume of the cross-border leases. The consummation of the termination agreements by the parties was subject to regulatory approval. As a result of the termination of the agreements, a provision of CHF 126 million was recorded in the second quarter of 2008 which was charged to financial expense. Through the assumption of financial investments arising from these termination agreements in the second half of 2008, the provision was increased by CHF 132 million as of December 31, 2008 without income effect. In earlier years and in compliance with SIC 27, the pre-tax income arising from the conclusion of the terminated transactions of an aggregate CHF 227 million (CHF 293 million for the entire transactions) was recorded as financial income at the time the transactions were entered into. Following receipt of regulatory approval, the early termination of the contracts could be consummated in the second quarter of 2009. Furthermore, previously unrecognized financial assets aggregating USD 356 million (CHF 367 million) and financial liabilities of USD 317 million (CHF 326 million) were recognized for the first time. The revaluation difference of CHF 16 million from initial recording was reported as financial income.
In addition, further cross-border lease agreements were terminated and repaid in 2009. At December 31, 2009, the financial liabilities including accrued interest arising from cross-border lease agreements aggregated USD 274 million (CHF 282 million) and assets USD 267 million (CHF 275 million), respectively. Of this amount and in compliance with SIC 27, USD 259 million (CHF 267 million) were not

recorded in the balance sheet. Of the recorded financial liabilities, CHF 15 million (prior year: CHF 1,097 million) were secured by financial assets of CHF 8 million (prior year: CHF 808 million). Future minimum payments under the cross-border lease agreements are due as follows:

in CHF millions	31.12.2009	31.12.2008
Within 1 year	10	15
Within 1 to 2 years	2	106
Within 2 to 3 years	–	95
Within 3 to 4 years	3	50
Within 4 to 5 years	2	100
After 5 years	–	2,259
Total future minimum lease payments	**17**	**2,625**
Less future finance costs	(2)	(1,537)
Total present value of financial liabilities from cross-border lease agreements	**15**	**1,088**
Fair-value adjustments	–	8
Total financial liabilities from cross-border lease agreements	**15**	**1,096**
Less current portion	(9)	(9)
Total non-current financial liabilities from cross-border lease agreements	**6**	**1,087**

Liabilities arising from finance leases

In addition to the cross-border lease agreements described above, Swisscom concluded two agreements in 2001 for the sale of real estate. At the same time, Swisscom entered into long-term agreements to lease back part of the real estate sold which, in part, qualify as finance leases. The gain of CHF 127 million realized on the sale of those properties and classified as being subject to finance leases has been deferred and will be released to income over the individual lease terms as other income. In 2009, CHF 3 million (prior year: CHF 2 million) of the deferred gain was released. The minimum lease payments relating to these leaseback agreements are included in the table below. The remaining real estate has been leased back under operating leases over periods ranging from 5 to 20 years. See Note 35. In 2009, contingent rental payments of CHF 4 million (prior year: CHF 3 million) were recorded as rental expense. Future minimum lease payments and financial liabilities aggregated:

in CHF millions	31.12.2009	31.12.2008
Within 1 year	47	45
Within 1 to 2 years	43	48
Within 2 to 3 years	49	45
Within 3 to 4 years	34	49
Within 4 to 5 years	32	30
After 5 years	1,221	1,258
Total future minimum lease payments	**1,426**	**1,475**
Less future finance costs	(940)	(972)
Total present value of finance lease liabilities	**486**	**503**
Accrued interest expense	–	(1)
Total finance lease liabilities	**486**	**502**
Less current portion	(17)	(9)
Total non-current finance lease liabilities	**469**	**493**

The future payments of the liabilities arising under finance leases, expressed in terms of their present value, as of December 31, 2008 and 2009 were as follows:

in CHF millions	31.12.2009	31.12.2008
Within 1 year	17	14
Within 1 to 2 years	12	17
Within 2 to 3 years	20	15
Within 3 to 4 years	5	20
Within 4 to 5 years	4	5
After 5 years	428	432
Total present value of finance lease liabilities	**486**	**503**

Other financial liabilities

Other financial liabilities as of December 31, 2009 include money-market borrowings with a carrying value of CHF 300 million (prior year: none). The money-market borrowings have terms of less than 30 days. Swisscom uses this instrument for short-term liquidity management purposes. In addition, as of December 31, 2009, Swisscom had unused lines of credit of CHF 1,050 million. Furthermore, other financial liabilities as of December 31, 2009 include debts of CHF 108 million (prior year: CHF 89 million) which are secured by real estate with a carrying amount of CHF 5 million (prior year: CHF 12 million) and value-added tax receivables with a carrying amount of CHF 100 million (prior year: CHF 83 million).

27 Trade and other payables

in CHF millions	31.12.2009	31.12.2008
Supplier invoices received	1,402	1,378
Goods and services received not yet invoiced	576	489
Total trade payables	**1,978**	**1,867**
Liabilities from collection activities	24	20
Liabilities from construction contracts	4	6
Miscellaneous liabilities	308	293
Total other liabilities	**336**	**319**
Total trade and other payables	**2,314**	**2,186**

28 Provisions

in CHF millions	Termination benefits	Dismantlement and restoration costs	Regulatory proceedings	Cross-border lease agreements	Other	Total
Balance at December 31, 2007	**34**	**343**	**413**	**–**	**254**	**1,044**
Additions to provisions	20	83	56	258	62	479
Present-value adjustments	–	10	(14)	–	2	(2)
Release of unused provisions	(16)	(1)	(52)	–	(97)	(166)
Use of provisions	(16)	–	(90)	–	(44)	(150)
Foreign currency translation adjustments	–	–	(1)	–	(7)	(8)
Balance at December 31, 2008	**22**	**435**	**312**	**258**	**170**	**1,197**
Additions to provisions	33	2	53	–	69	157
Present-value adjustments	–	14	6	–	2	22
Release of unused provisions	(5)	(12)	(7)	–	(40)	(64)
Use of provisions	(15)	–	(113)	(258)	(49)	(435)
Balance at December 31, 2009	**35**	**439**	**251**	**–**	**152**	**877**
Less current portion	(35)	–	(18)	–	(84)	(137)
Total non-current provisions	**–**	**439**	**233**	**–**	**68**	**740**

Provisions for termination benefits

Provisions for termination benefits comprise the costs for the programmes defined in the social plans of 2001 and 2006. For further information see Note 9.

Provisions for dismantling and restoration costs

The provisions for dismantling and restoration costs relate to the dismantling of mobile phone and broadcasting stations of Swisscom Broadcast and the restoration to its original state of the land owned by third parties on which the transmitters are located. The provisions are computed by reference to estimates of future dismantling costs and are discounted using an average interest rate of 3.28% (prior year: 3.34%). The effect of using different interest rates amounted to CHF 2 million (prior year: CHF 9 million). In 2008, dismantling and restoration costs for the broadcasting stations of Swisscom Broadcast were reappraised on the basis of an external expert opinion. Provisions were increased by CHF 92 million as a result of this reappraisal. In 2009, adjustments aggregating CHF 2 million (prior year: CHF 90 million) were recorded under the dismantling costs capitalized as part of property, plant and equipment and CHF 1 million (prior year: CHF 7 million) was recognized in the income statement. The non-current portion of the provisions is expected to be settled subsequent to 2020.

Provisions for regulatory proceedings

Provisions have been recorded for proceedings currently before the regulatory authorities in connection with interconnection and other access services in accordance with the revised Swiss Federal Telecommunications Act (FMG). The current legal proceedings concern the subsidiaries Swisscom (Switzerland) Ltd and Fastweb S.p.A.

Provisions for interconnection and other access services pursuant to the revised Swiss Federal Telecommunications Law (FMG)

Swisscom provides interconnection services and other services to other telecommunication service providers in Switzerland. Interconnection regulates the joint hook-up of Swisscom's networks and those of other telecommunication service providers. Since 2000, Swisscom charges its interconnection prices in accordance with the cost-accounting method of long-run incremental costs (LRIC) prescribed in the Ordinance on Telecommunication Services (FDV). The amended Telecommunications Act (FMG) and its implementing ordinances obligate Swisscom, from April 1, 2007 onwards, to offer further access services to the other providers of telecommunication services at prices which – with

the exception of charges for subscriber connections over fixed landlines – are also computed in accordance with the LRIC cost-accounting method prescribed in the Ordinance on Telecommunication Services (FDV).
Since 2000, several telecommunication service providers have filed petitions with the Federal Communications Commission (ComCom) for the reduction of the interconnection prices charged to them by Swisscom. As a result of various rulings and decisions, the interconnection prices for the years 2000 to 2008 were fixed in a legally binding manner and the payments for these years were made in 2009. As a consequence of the decision of the Federal Court of April 21, 2006, the risk exists that those telecommunication service providers having accepted the charges will demand retroactively a reduction in their interconnection prices from Swisscom. In 2006, provisions were therefore raised to cover this risk of claim. With its ruling of October 9, 2008, ComCom took note of the fact that, by virtue of law, the price rulings are valid retroactively for all telecommunication service providers (retrospective third-party clause). Swisscom has lodged an appeal with the Federal Administrative Court in connection with rulings containing the retrospective third-party clause. During the current year, three telecommunication service providers filed corresponding access petitions with ComCom for a reduction in interconnection prices charged to them by Swisscom for 2009. With its ruling of December 2, 2009, ComCom set the prices for access to cable ducts for 2007 and 2008. ComCom reduced the prices for the joint use of cable ducts by some 50%.
Proceedings are still pending with ComCom in respect of other access services pursuant to the revised Federal Telecommunications Act. Following a reappraisal of the outcome of these proceedings, provisions of CHF 30 million were established in the fourth quarter of 2009.
Swisscom has set up provisions for any applicable amounts which may be ordered to be refunded to the petitioners by ComCom for interconnection and other access services. As of December 31, 2009, the provisions for the proceedings concerning interconnection and access services of Swisscom (Switzerland) Ltd totalled CHF 251 million. Payments made in 2009 amounted to CHF 93 million. Payment of the remaining claims is dependent of the timing of the corresponding legally binding rulings and decisions.

Provisions for interconnection – Fastweb

Fastweb provides interconnection services for other telecommunications companies, in particular Telecom Italia. Telecom Italia has taken legal action concerning the prices for interconnection services invoiced by Fastweb for the period up to August 4, 2006. Fastweb has recorded a provision of around 50% of the difference between the invoiced amount and the prices demanded by Telecom Italia in the amount of EUR 60 million. The decision is pending. In December 2007, the Italian regulatory authorities (AGCOM) issued a ruling on prices of interconnection services by Fastweb for the period from August 4, 2006 to June 30, 2007. On the basis of this decision, the provision for interconnection services prior to August 4, 2006 was reappraised and EUR 26 million (CHF 42 million) thereof were released. In June 2008, an agreement with Telecom Italia could be reached. As a result of this agreement, provisions again were reappraised and an amount thereof of EUR 11 million (CHF 18 million) was released. Provisions as of December 31, 2008 of EUR 11 million (CHF 16 million) were used in 2009 to settle the outstanding liabilities.

Provisions arising from cross-border lease agreements

In the prior year, Swisscom raised provisions of CHF 258 million for costs in connection with the early termination of three quarters of the volume of cross-border leases. The consummation of the early contract termination and the compensation payment of CHF 258 million took place in the second quarter of 2009. See Note 26.

Other provisions

Other provisions include provisions for environmental risks and contractual risks, as well as provisions for insurance claims. The non-current portion of the provisions will most likely be settled between 2011 and 2014.

Proceedings before the Competition Commission

The Competition Commission (ComCo) is currently investigating a number of companies in the Swisscom Group which are described below. If it is proven that Swisscom has violated Antitrust Law, ComCo is entitled to impose sanctions. The latter depends on the length and severity and nature of the violation and may amount to up to 10% of the revenue generated by the company in question in the relevant markets in Switzerland over the last three financial years.

Investigation concerning mobile phone termination fees

In October 2002, the Competition Commission (ComCo) initiated an investigation in accordance with Antitrust Law against Swisscom in connection with termination fees in the mobile phone market. In several proposed rulings issued to Swisscom, the Secretariat of ComCo was of the opinion that Swisscom has a dominant market position for the termination of mobile phone traffic in its network and has violated Swiss Antitrust Law by demanding disproportionately high termination fees compared with its competitors. It has therefore proposed to the Competition Commission that sanctions of CHF 489 million be imposed on Swisscom. The proposed sanctions relate to the period from April 1, 2004 (date on which the revised Swiss Antitrust Law entered into effect) through May 31, 2005 (when Swisscom lowered its mobile termination prices from CHF 0.335 to CHF 0.20). Swisscom contests the view that it holds a dominant market position and is of the opinion that its tariffs are not abusive. Prior to lowering its termination fees on June 1, 2005, Swisscom's fees were approximately 10% lower than those charged by its competitors. In addition, as Swisscom has a higher volume of outgoing calls than the other mobile phone providers, Swisscom makes net payments to its competitors.

On February 5, 2007, ComCo issued a ruling. They came to the conclusion that Swisscom is dominant in the market and has abused this position in violation of Swiss Antitrust Law by demanding unreasonably high termination fees from other mobile phone providers and particularly end consumers during the period from April 1, 2004 to May 31, 2005. The reasoning was in essence identical to that of the previous proposed rulings of the Secretariat. As a result of this allegedly unlawful behaviour, ComCo has imposed a sanction of CHF 333 million. The development in prices subsequent to June 1, 2005 is the object of a further investigation. In connection with the repurchase of the 25%-share in Swisscom Mobile AG from Vodafone, it was agreed that, in the event of a sanction, 25% of the sanction may be claimed back from Vodafone. Swisscom refutes the accusation that it has abused its dominant market position as well as the sanction and has challenged the ruling in the Federal Administrative Court on March 19, 2007. On the basis of a legal opinion, Swisscom comes to the conclusion that, from today's perspective, it is unlikely that sanctions will be imposed by the court of last instance and has therefore recorded no provision in the consolidated financial statements as at December 31, 2008 and 2009. In the event of a binding decision on abuse, civil claims could be asserted against Swisscom. Swisscom considers it unlikely that such civil claims could be enforced.

Investigation into the relationship of ADSL wholesale prices to retail prices

On October 20, 2005, ComCo launched an investigation into Swisscom Ltd and Swisscom (Switzerland) Ltd ComCo alleged abuse of a dominant market position. The object of the investigation is the question whether Swisscom set the prices for ADSL pre-services in favour of Internet service providers at such a high level that no scope remains for an adequate profit margin in relation to the end-customer prices charged by Swisscom itself (price squeezing). Swisscom contests the allegation that it has a market-dominant position and refutes the accusation of price squeezing since it is of the opinion that the prices for its ADSL pre-services leave their ADSL competitors enough room for a reasonable profit margin. On November 12, 2008, the ComCo Secretariat provided Swisscom with its proposed ruling for comment which imposes sanctions on the grounds that Swisscom has abused their market-dominant position in ADSL services. The proposal to ComCo foresees a monetary sanction of approximately CHF 237 million. On February 12, 2009, the Federal Administrative Court ruled that Swisscom must offer bitstream access to other telecommunication service providers (FDA). With its decision of November 5, 2009, ComCo sanctioned Swisscom for abuse of a market-dominant position in the case of ADSL services and levied a fine of CHF 220 million. Although in the proceedings regarding bitstreaming the question of the market-dominant position in the wholesale market for broadband services was affirmed, Swisscom rejects the accusation of price squeezing and of abusive conduct. Swisscom is of the opinion that the prices for its ADSL pre-services leave their ADSL competitors enough scope for a reasonable profit margin. Swisscom has appealed against the ruling with the Federal Administrative Court on December 7, 2009. On the basis of a legal opinion, Swisscom concludes that, from the present-day perspective, it is not probable that a court of final appeal will levy sanctions, and thus has raised no provisions in the consolidated financial statements as of December 31, 2008 and 2009. In the event of a binding decision on abuse, claims could be asserted against Swisscom under civil law. Swisscom considers it unlikely that such civil claims could be enforced.

Regulatory proceedings

Other access services in accordance with the revised Swiss Federal Telecommunications Act (FMG)

Swisscom provides interconnection and other access services for other telecommunication service providers in Switzerland in accordance with the revised Swiss Federal Telecommunications Law. Proceedings concerning other access services in accordance with the revised Swiss Federal Telecommunications Act are pending with ComCom.

30 Other non-financial liabilities

in CHF millions	31.12.2009	31.12.2008
Deferred revenue	381	337
Value-added taxes payable	112	86
Advance payments received	71	47
Miscellaneous current non-financial liabilities	137	149
Total other current non-financial liabilities	**701**	**619**
Deferred gain on sale and leaseback of real estate	108	111
Other non-current non-financial liabilities	129	72
Total other non-current non-financial liabilities	**237**	**183**

Deferred revenues mainly comprise deferred payments for prepaid cards and prepaid subscription fees. The release of the deferred gain from the sale and leaseback of real estate over the lease term is recorded in the income statement in the caption capitalized self-constructed assets and other income. See Note 13.

Share capital and treasury shares

As of December 31, 2009, the number of shares issued totalled 51,801,943 (prior year: 53,441,000). The reduction in share capital is a result of a resolution of the Annual General Meeting of Shareholders on April 21, 2009 to cancel one third of the shares which were acquired within the framework of the 2006 share buy-back programme. The capital reduction of 1,639,057 to 51,801,943 shares was completed in July 2009. In accordance with the resolution of the Annual General Meeting of April 22, 2008, two thirds or 3,277,561 shares purchased within the framework of the 2006 share buy-back programme were cancelled in July 2008. All shares have a par value of CHF 1 and are fully paid. Each share entitles the holder to one vote. Shares of a market value of an aggregate CHF 2 million (prior year: CHF 29 million) were allocated for share-based compensation plans. See Note 11. The holdings of treasury shares changed as follows:

	Number	Average price in CHF	in CHF millions
Balance at December 31, 2007	**4,916,711**	**450**	**2,213**
Share capital reduction	(3,277,561)	450	(1,475)
Purchases on the market	85,679	363	31
Allocated for share-based compensation	(85,329)	363	(31)
Balance at December 31, 2008	**1,639,500**	**450**	**738**
Share capital reduction	(1,639,057)	450	(738)
Purchases on the market	8,762	322	3
Allocated for share-based compensation	(5,373)	316	(2)
Balance at December 31, 2009	**3,832**	**331**	**1**

After deducting 3,832 treasury shares (prior year: 1,639,500), the balance of shares outstanding as at December 31, 2009 totalled 51,798,111 (prior year: 51,801,500 shares).

Other reserves

in CHF millions	Hedging reserve	Fair-value reserve	Cumulative foreign currency translation adjustments	Total other reserves
Balance at December 31, 2007	**(8)**	**–**	**4**	**(4)**
Foreign currency translation adjustments	–	–	(757)	(757)
Cumulative foreign currency translation losses on foreign subsidiaries transferred to income statement	–	–	4	4
Change in fair value of available-for-sale financial assets	–	14	–	14
Gains and losses from available-for-sale financial assets transferred to income statement	–	(14)	–	(14)
Change in fair value of cash flow hedges	(168)	–	–	(168)
Ineffective portion of cash flow hedges transferred to income statement	6	–	–	6
Income tax expense	12	–	–	12
Balance at December 31, 2008	**(158)**	**–**	**(749)**	**(907)**
Foreign currency translation adjustments	–	–	(12)	(12)
Change in fair value of available-for-sale financial assets	–	4	–	4
Gains and losses from available-for-sale financial assets transferred to income statement	–	(4)	–	(4)
Change in fair value of cash flow hedges	(6)	–	–	(6)
Fair value losses of cash flow hedges transferred to income statement	101	–	–	101
Income tax expense	(6)	–	–	(6)
Balance at December 31, 2009	**(69)**	**–**	**(761)**	**(830)**

The hedging reserves comprise the changes in the fair value of hedging instruments which were designated as cash flow hedges. Under the fair value reserves are reflected the changes in the fair value of available-for-sale financial assets. Reserves arising from cumulative foreign currency translation adjustments comprise the differences from the foreign currency translation of the financial statements of subsidiaries and associated companies from the functional currency into Swiss francs. On December 31, 2009, cumulative foreign currency translation losses at Fastweb amounted to CHF 745 million (prior year: CHF 736 million).

32 Dividends

Distributable reserves are determined based on equity as reported in the statutory financial statements of the parent company, Swisscom Ltd and not on the equity as reported in the consolidated financial statements. At December 31, 2009, Swisscom Ltd's distributable reserves amounted to CHF 3,921 million. The dividend is proposed by the Board of Directors and approved by the Annual General Meeting of Shareholders. The dividend proposed for the 2009 financial year is not recorded as a liability in these consolidated financial statements. Treasury shares are not entitled to a dividend. Swisscom paid the following dividends in 2008 and 2009:

in CHF millions, except where indicated	2009	2008
Number of registered shares eligible for dividend (in thousands of shares)	51.801	51.801
Ordinary dividend per share (in CHF)	19.00	18.00
Extraordinary dividend per share (in CHF)	–	2.00
Dividends paid	**984**	**1,036**

The Board of Directors proposes to the Annual Shareholders' Meeting to be held on April 27, 2010 the payment of an ordinary dividend of CHF 20 per share in respect of the 2009 financial year thus equating a total dividend distribution of CHF 1,036 million. The dividend payment is foreseen on May 4, 2010.

33 Financial risk management and supplementary disclosures regarding financial instruments

Swisscom is exposed to a variety of financial risks resulting from its operating and financial activities. The most significant financial risks arise from changes of foreign exchange rates, interest rates as well as credit ratings and the ability of counterparties to meet their payment obligations. A further risk is the ability to ensure adequate liquidity. Swisscom's financial risk management is conducted in accordance with established guidelines with the aim of limiting potential adverse effects on the financial situation of Swisscom. In particular, these guidelines contain risk limits for approved financial instruments and also specify risk monitoring processes. The guidelines prohibit the use of derivative financial instruments for purposes of speculation. Financial risk management, with the exception of credit-risk management from business operations, is undertaken by the central Treasury Department. It identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The implemented risk management process also requires routine reports on the development of financial risks.

Market value risks

Foreign exchange risks

Swisscom is exposed to foreign exchange risks; these can impact the Group's financial results and consolidated equity. Foreign exchange risks which have an impact on cash flows (transaction risks) are partially hedged. However, foreign exchange risks with an impact on equity (translation risks) are generally not hedged. The aim of Swisscom's foreign exchange risk management policy is to limit the volatility of planned cash flows. The primary focus of foreign currency risk management activities of Swisscom is on hedging transactions in order to reduce the risk arising from payment flows and monetary positions held in foreign currencies. As of December 31, 2009, Swisscom did not hedge foreign currency translation risks using financial instruments. Swisscom employs forward exchange contracts and currency options to hedge transaction risks. Swisscom has hedged its long-term payment obligations from debt financing in EUR as well as from financial investments and liabilities in USD. The following currency risks and hedging transactions for foreign currencies existed as of December 31, 2009:

December 31, 2009, in CHF millions	EUR	USD	Other
Cash and cash equivalents	5	2	–
Trade and other receivables	9	10	38
Other financial assets	2	389	–
Financial liabilities	(835)	(408)	–
Trade and other payables	(20)	(21)	(49)
Gross exposure at carrying amounts	**(839)**	**(28)**	**(11)**
Gross forecasted cash flows exposure in the next 12 months	(398)	(319)	–
Total gross exposure	**(1,237)**	**(347)**	**(11)**
Forward currency contracts	163	32	–
Currency swaps	742	48	–
Hedges	**905**	**80**	**–**
Net exposure	**(332)**	**(267)**	**(11)**

The following currency risks and hedging transactions for foreign currencies existed as of December 31, 2008:

December 31, 2008, in CHF millions	EUR	USD	Other
Cash and cash equivalents	8	4	–
Trade and other receivables	11	3	1
Other financial assets	15	808	–
Financial liabilities	(838)	(1,315)	–
Trade and other payables	(56)	(115)	(38)
Gross exposure at carrying amounts	**(860)**	**(615)**	**(37)**
Gross forecasted cash flows exposure in the next 12 months	(595)	(500)	–
Total gross exposure	**(1,455)**	**(1,115)**	**(37)**
Forward currency contracts	208	55	–
Currency swaps	100	320	–
Currency options	74	–	–
Currency swaps	743	281	–
Hedges	**1,125**	**656**	**–**
Net exposure	**(330)**	**(459)**	**(37)**

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 12 months. This analysis assumes that all other variables, in particular the interest rate level, remain constant.

in CHF millions	31.12.2009	31.12.2008
Income impact on balance sheet items		
EUR volatility of 5.25% (prior year 9.2%)	44	79
USD volatility 12.85% (prior year 17.95%)	4	110
Hedges for balance sheet items		
EUR volatility of 5.25% (prior year 9.2%)	(39)	(68)
USD volatility 12.85% (prior year 17.95%)	(6)	(50)
Planned cash flows		
EUR volatility of 5.25% (prior year 9.2%)	21	55
USD volatility 12.85% (prior year 17.95%)	41	90
Hedges for future cash flows		
EUR volatility of 5.25% (prior year 9.2%)	(9)	(35)
USD volatility 12.85% (prior year 17.95%)	(4)	(64)

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

Interest rate risks

Interest rate risks arise from fluctuations in interest rates which could have a negative impact on the financial position of Swisscom. Fluctuations in interest rates can result in changes in interest income and expense as well as the market value of certain financial assets, liabilities, and hedging instruments. Swisscom actively manages interest rate risks. The principal aim of Swisscom's interest rate risk management is to limit the volatility of planned cash flows. Swisscom employs interest rate swaps and options to hedge its interest rate risk. Structure of interest-bearing financial instruments:

in CHF millions	31.12.2009	31.12.2008
Fixed interest-bearing financial liabilities	6,195	4,054
Variable interest-bearing financial liabilities	3,528	7,182
Total interest-bearing financial liabilities	**9,723**	**11,236**
Fixed interest-bearing financial assets	(300)	(807)
Variable interest-bearing financial assets	(734)	(1,126)
Total interest-bearing financial assets	**(1,034)**	**(1,933)**
Total interest-bearing financial assets and liabilities, net	**8,689**	**9,303**
Variable interest-bearing	2,794	6,056
Fixed through interest rate swaps	(1,148)	(3,024)
Variable through interest rate swaps	113	113
Variable interest-bearing, net	**1,759**	**3,145**
Fixed interest-bearing	5,895	3,247
Fixed through interest rate swaps	1,148	3,024
Variable through interest rate swaps	(113)	(113)
Fixed interest-bearing, net	**6,930**	**6,158**
Total interest-bearing financial assets and liabilities, net	**8,689**	**9,303**

Sensitivity analysis

The following sensitivity analysis shows the effects on the income statement and equity if CHF interest rates move by 100 base points.

	Income statement		Equity	
in CHF millions	Increase 100 base points	Decrease 100 base points	Increase 100 base points	Decrease 100 base points
December 31, 2009				
Variable financing	(28)	28	–	–
Interest rate swaps	13	(13)	20	(19)
Cash flow sensitivity, net	**(15)**	**15**	**20**	**(19)**
December 31, 2008				
Variable financing	(61)	61	–	–
Interest rate swaps	29	(29)	94	(98)
Cash flow sensitivity, net	**(32)**	**32**	**94**	**(98)**

Credit risks

Credit risks from operating activities

Swisscom is exposed to credit risks arising from its operating activities. Swisscom has no significant concentrations of credit risk. The Group has policies in place to ensure that products and services are only sold to creditworthy customers. Furthermore, outstanding accounts are continually monitored as part of its operating activities. Credit risks are taken into account through individual and general allowances. In addition, the danger of risk concentrations is minimized by the large number of customers. As regards financial assets that are neither impaired nor in default as of the balance sheet date, there are no indications that the debtors will not be capable of meeting their payment obligations. Further information on financial assets is set out in Notes 17, 18 and 19.

Credit risks from financial transactions

Swisscom is exposed to the risk of counterparty default through the use of derivative financial instruments and financial investments. In business rules governing derivative financial instruments and financial investments, requirements to be fulfilled by counterparties are defined. Furthermore, individual limits by counterparty have also been set. These limits and counterparty credit assessments are reviewed regularly. Swisscom signs netting agreements issued by ISDA (International Swaps and Derivatives Association) with the respective counterparties in order to control the risk inherent in derivative transactions. The carrying amount of financial assets corresponds to the credit risk and may be analyzed as follows:

in CHF millions	Note	31.12.2009	31.12.2008
Cash and cash equivalents	17	532	958
Trade and other receivables	18	2,926	2,798
Loans and receivables	19	568	176
Held-to-maturity financial assets	19	8	808
Derivative financial instruments	19	–	12
Total carrying amount of financial assets		**4,034**	**4,752**

The carrying amounts of cash and cash equivalents and other financial assets and the related Standard & Poor's ratings of the counterparties may be summarized as follows:

in CHF millions	31.12.2009	31.12.2008
AA+	–	41
AA	26	–
AA–	469	95
A+	99	345
A	38	209
A–	185	24
Without rating, with government guarantee	181	365
Without rating	110	875
Total	**1,108**	**1,954**

In the prior year, non-rated holdings include financial investments from cross-border lease agreements totalling CHF 808 million. See Note 19.

Liquidity risk

Prudent liquidity management includes the holding of adequate reserves of cash and cash equivalents and marketable securities as well as the provision of adequate financing. Swisscom has processes and policies in place that guarantee sufficient liquidity in order to settle current and future obligations. In addition, Swisscom had confirmed unused lines of credit totaling CHF 1,050 million (prior year: CHF 500 million) as of the balance sheet date. The contractual maturities of financial liabilities including estimated interest payments are as follows:

December 31, 2009, in CHF millions	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
Non-derivative financial liabilities						
Bank loans	2,570	2,475	11	2,220	18	226
Debenture bonds	4,801	5,799	516	155	2,245	2,883
Private placements	1,523	1,691	371	35	479	806
Financial liabilities from cross-border lease agreements	15	17	10	2	5	–
Finance lease liabilities	486	1,426	47	43	115	1,221
Other interest-bearing financial liabilities	435	435	425	4	5	1
Other non-interest-bearing financial liabilities	28	28	6	13	9	–
Trade and other payables	2,314	2,314	2,314	–	–	–
Derivative financial liabilities						
Derivative financial instruments	152	160	68	32	60	–
Total	**12,324**	**14,345**	**3,768**	**2,504**	**2,936**	**5,137**

December 31, 2008, in CHF millions	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
Non-derivative financial liabilities						
Bank loans	6,140	6,266	37	36	6,193	–
Debenture bonds	2,032	2,463	73	423	737	1,230
Private placements	1,339	1,574	50	385	268	871
Financial liabilities from cross-border lease agreements	1,096	2,625	15	106	245	2,259
Finance lease liabilities	502	1,475	45	48	124	1,258
Other interest-bearing financial liabilities	172	175	146	22	5	2
Other non-interest-bearing financial liabilities	15	27	12	13	2	–
Trade and other payables	2,186	2,186	2,186	–	–	–
Derivative financial liabilities						
Derivative financial instruments	496	428	89	96	110	133
Total	**13,978**	**17,219**	**2,653**	**1,129**	**7,684**	**5,753**

Asset/liability categories and fair value of financial instruments

The carrying amounts and fair values of financial assets and liabilities may be allocated to the asset/liability categories as follows:

December 31, 2009, in CHF millions	Carrying amount					
	Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit or loss	Financial liabilities	Fair value
Cash and cash equivalents	532	–	–	–	–	532
Trade and other receivables	2,926	–	–	–	–	2,926
Other financial assets						
Term deposits with maturities over 90 days	103	–	–	–	–	103
Other loans and receivables	465	–	–	–	–	451
Held-to-maturity financial assets	–	8	–	–	–	9
Available-for-sale financial assets	–	–	26	–	–	23
Total financial assets	**4,026**	**8**	**26**	**–**	**–**	**4,044**
Bank loans	–	–	–	–	2,570	2,575
Debenture bonds	–	–	–	–	4,801	5,080
Private placements	–	–	–	–	1,523	1,588
Financial liabilities from cross-border lease agreements	–	–	–	–	15	16
Finance lease liabilities	–	–	–	–	486	841
Other interest-bearing financial liabilities	–	–	–	–	435	435
Other non-interest-bearing financial liabilities	–	–	–	–	13	13
Deferred payment of purchase price of business combinations	–	–	–	–	15	15
Derivative financial instruments	–	–	–	152	–	152
Trade and other payables	–	–	–	–	2,314	2,314
Total financial liabilities	**–**	**–**	**–**	**152**	**12,172**	**13,029**

December 31, 2008, in CHF millions	Carrying amount: Loans and receivables	Carrying amount: Held-to-maturity	Carrying amount: Available-for-sale	Carrying amount: At fair value through profit or loss	Carrying amount: Financial liabilities	Fair value
Cash and cash equivalents	958	–	–	–	–	958
Trade and other receivables	2,798	–	–	–	–	2,798
Other financial assets						
Term deposits with maturities over 90 days	144	–	–	–	–	144
Other loans and receivables	32	–	–	–	–	32
Held-to-maturity financial assets	–	808	–	–	–	1,508
Available-for-sale financial assets	–	–	27	–	–	27
Derivative financial instruments	–	–	–	12	–	12
Total financial assets	**3,932**	**808**	**27**	**12**	**–**	**5,479**
Bank loans	–	–	–	–	6,140	6,188
Debenture bonds	–	–	–	–	2,032	2,091
Private placements	–	–	–	–	1,339	1,385
Financial liabilities from cross-border lease agreements	–	–	–	–	1,096	1,849
Finance lease liabilities	–	–	–	–	502	885
Other interest-bearing financial liabilities	–	–	–	–	172	172
Deferred payment of purchase price of business combinations	–	–	–	–	15	15
Derivative financial instruments	–	–	–	496	–	496
Trade and other payables	–	–	–	–	2,186	2,186
Total financial liabilities	**–**	**–**	**–**	**496**	**13,482**	**15,267**

Fair value hierarchy as of December 31, 2009

The fair value hierarchy has the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices that are observable for assets and liabilities, either directly or indirectly
- Level 3: inputs that are not based on observable market data

in CHF millions	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	–	–	4	**4**
Derivative financial liabilities	–	152	–	**152**

In addition, available-for-sale financial assets as of December 31, 2009 with a carrying amount of CHF 22 million were accounted for at cost. The level-3 assets consist of investments in various investment funds. The fair value was arrived at using a valuation model. In 2009, there were no reclassifications between the various levels.

Estimation of fair values

The carrying amounts of trade receivables and payables and other receivables and payables are a reasonable estimate of their fair value because of their short-term maturities. The carrying amounts of cash and cash equivalents and loans receivable correspond to the fair values. The fair value of available-for-sale financial assets is based on quoted stock exchange prices or equates their purchase cost. The fair values of other non-current financial assets and financial investments arising from cross-border lease agreements are computed on the basis of the maturing future payments discounted at market interest rates. The fair value of interest-bearing financial liabilities is estimated on the basis of the maturing future payments discounted at market interest rates. The fair value of finance lease obligations is estimated on the basis of the maturing future payments discounted at market rates. The fair value of publicly traded derivative financial instruments as well as investments held for trading or for sale is based on quoted stock exchange prices as of the balance sheet date. Interest rate swaps are discounted at market interest rates. Forward foreign exchange contracts are valued by reference to foreign exchange forward rates as of the balance sheet date. The fair value of foreign currency options is determined using option pricing models.

Asset/liability categories and results of financial instruments

The results for each asset/liability category may be analyzed as follows:

December 31, 2009, in CHF millions	Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedging transactions
Interest income (interest expense)	28	20	–	(3)	(308)	(5)
Change in fair value	–	–	–	(19)	–	–
Foreign currency translation adjustments	(20)	3	–	28	(20)	–
Gains and losses transferred from equity	–	–	4	–	–	(96)
Net result recognized in income statement	**8**	**23**	**4**	**6**	**(328)**	**(101)**
Change in fair value	–	–	4	–	–	(6)
Gains and losses transferred to income statement	–	–	(4)	–	–	101
Net result recognized in other comprehensive income	**–**	**–**	**–**	**–**	**–**	**95**
Total net result by asset/liability category	**8**	**23**	**4**	**6**	**(328)**	**(6)**

December 31, 2008, in CHF millions	Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedging transactions
Interest income (interest expense)	42	67	–	4	(434)	–
Impairment losses	(4)	–	–	–	–	–
Change in fair value	–	–	–	6	156	(94)
Foreign currency translation adjustments	–	(52)	–	(34)	(11)	4
Gains and losses transferred from equity	–	–	14	–	–	(6)
Net result recognized in income statement	**38**	**15**	**14**	**(24)**	**(289)**	**(96)**
Change in fair value	–	–	14	–	–	(168)
Gains and losses transferred to income statement	–	–	(14)	–	–	6
Net result recognized in other comprehensive income	**–**	**–**	**–**	**–**	**–**	**(162)**
Total net result by asset/liability category	**38**	**15**	**14**	**(24)**	**(289)**	**(258)**

In addition, in 2009, allowances for trade and other receivables amounting to CHF 138 million (prior year: CHF 152 million) were recorded under other operating expenses.

Derivative financial instruments

in CHF millions	Contract value 31.12.2009	Contract value 31.12.2008	Positive fair value 31.12.2009	Positive fair value 31.12.2008	Negative fair value 31.12.2009	Negative fair value 31.12.2008
Forward currency contracts in USD	32	55	–	–	–	(4)
Forward currency contracts in EUR	163	208	–	5	(2)	(1)
Currency swaps in USD	–	320	–	–	–	(31)
Currency swaps in EUR	–	100	–	4	–	–
Currency options in EUR	–	74	–	–	–	(3)
Cross currency interest rate swaps in USD [1]	48	281	–	–	(21)	(185)
Cross currency interest rate swaps in EUR [1]	742	743	–	–	(90)	(91)
Total currency instruments	**985**	**1,781**	**–**	**9**	**(113)**	**(315)**
Interest rate swaps in CHF	1,100	3,335	–	3	(43)	(187)
Cross currency interest rate swaps in USD [1]	48	49	–	1	(1)	–
Cross currency interest rate swaps in EUR [1]	742	743	5	5	–	–
Total interest rate instruments	**1,890**	**4,127**	**5**	**9**	**(44)**	**(187)**
Total derivative financial instruments			**5**	**18**	**(157)**	**(502)**
Reconciliation to amount reported in balance sheet			(5)	(6)	5	6
Less current portion			–	(9)	44	39
Total non-current derivative financial instruments			**–**	**3**	**(108)**	**(457)**

[1] Separated into foreign exchange and interest rate components.

As of December 31, 2009, derivative financial instruments comprised cross currency swaps to hedge foreign exchange risks with respect to USD liabilities arising from the cross-border lease agreements entered into in 2002. In the meantime, a portion of these liabilities was terminated prematurely and recorded as bank loans. The future interest payments relating to the 2002 agreement were designated as hedges under hedge accounting. As of the balance sheet date, the hedging instruments have negative fair values of CHF 1 million (prior year: CHF 1 million positive fair values). For the designated cash flow hedges for cross-border lease agreements, CHF 7 million pre-tax (prior year: CHF 7 million) was recorded in the hedging reserve within consolidated equity. The maximum remaining term of the hedges entered into in 2002 is 4 years.

In 2007, for the purpose of hedging the foreign currency and interest rate risks of financing in EUR, Swisscom entered into cross currency swaps for EUR 500 million, of which it designated EUR 68 million as fair value hedges. As of December 31, 2009, the instruments designated for hedge accounting had a negative fair value of CHF 7 million (prior year: CHF 8 million). Furthermore, in 2006 and 2007, interest rate swaps were entered into to hedge the interest rate risk of a share of CHF 2,935 million of the variable swiss-franc denominated bank loans. These hedges were designated as cash flow hedges. In the second half of 2009, Swisscom terminated interest rate swaps of an aggregate CHF 1,835 million. The cumulative revaluation losses of CHF 96 million for an interest rate swap volume of CHF 1,635 million were transferred from other reserves under equity and recorded as other financial expense in the income statement. The revaluation losses of CHF 7 million of the release of interest swaps of CHF 200 million recorded in other reserves are recognized as interest expense over the remaining duration of the underlying transaction. The hedging instruments had negative fair values of CHF 41 million (prior year: CHF 170 million) as of the balance sheet date. For the designated cash flow hedges for bank loans, CHF 36 million (prior year: CHF 140 million) million pre-tax was recorded in the hedging reserve within consolidated equity. The remaining hedge periods are identical to the terms of the underlying loans which are 2 years. In 2009, Swisscom terminated interest swaps designated for hedge accounting to hedge interest rate risks in connection with planned issuance of debenture bonds of CHF 500 million. The effective portion of CHF 24 million was recorded under other reserves and is recognized as interest expense over the remaining duration of the issued debenture bond in 2009. Furthermore, as of December 31, 2009, a basis interest rate swap with a negative market value of CHF 2 million was recorded under derivative financial instruments; this swap was not designated for hedge accounting.

In addition, included in derivative financial instruments are foreign exchange forward transactions for EUR and USD which serve to hedge future transactions in connection with Swisscom's operating activities.

Management of equity resources

Managed capital is defined as equity including minority interests. Swisscom seeks to maintain a strong equity basis which enables it to guarantee the continuing existence of the Company and to offer investors a reasonable return in relation to the risks entered into. Furthermore, Swisscom maintains funds to enable investments to be made which will bring future benefits to customers as well as generate further returns for investors. The managed capital is monitored through the equity ratio which is the ratio of consolidated equity to total assets. The calculation of the equity ratio is set out in the following table:

in CHF millions	31.12.2009	31.12.2008
Share of equity attributable to equity holders of Swisscom Ltd	6,409	5,389
Share of equity attributable to minority interests	319	374
Total capital	**6,728**	**5,763**
Total assets	21,960	22,738
Equity ratio in %	30.6%	25.3%

In its strategic targets effective as from January 1, 2008, the Federal Council has ruled that Swisscom's net indebtedness shall not exceed 2.1 times the operating result before taxes, interest and depreciation and amortization (EBITDA). Swisscom's internal target for the ratio of net indebtedness to EBITDA is around 2.0. The target value may be temporarily exceeded. Financial leeway exists if the target is not reached. The net-debt-to-EBITDA ratio is as follows:

in CHF millions	31.12.2009	31.12.2008
Debenture bonds	4,801	2,032
Bank loans	2,570	6,140
Private placements	1,523	1,339
Financial liabilities from cross-border lease agreements	15	1,096
Finance lease liabilities	486	502
Other financial liabilities	615	683
Total financial liabilities	**10,010**	**11,792**
Cash and cash equivalents	(532)	(958)
Current financial assets	(178)	(163)
Non-current fixed interest-bearing deposits	(360)	–
Financial assets from cross-border lease agreements	(8)	(808)
Non-current derivative financial instruments	–	(3)
Net debt	**8,932**	**9,860**
Operating income before depreciation and amortization (EBITDA)	4,666	4,789
Ratio net debt/operating income (EBITDA)	1.9	2.1

Net debt consists of total financial liabilities less cash and cash equivalents, current financial assets, financial assets from cross-border lease agreements as well as non-current fixed interest-bearing deposits and derivative financial instruments.

34 Supplementary information on the statement of cash flows

in CHF millions	2009	2008
Trade and other receivables	(130)	(13)
Inventories	53	(34)
Other non-financial assets	4	85
Trade and other payables	172	41
Provisions	(56)	(155)
Other non-financial liabilities	97	(11)
Defined benefit obligations	(124)	(190)
Total changes in operating assets and liabilities	**16**	**(277)**

Other cash flows from financing activities

In 2009, other cash flows from financing activities aggregated CHF 482 million (prior year: CHF 78 million). Included therein are payments of provisions amounting to CHF 258 million for costs in connection with the early termination of cross-border lease agreements. See Note 26. Furthermore, cash flows arising from hedging transactions are reported primarily in other cash flows from financing activities.

Material non-cash investing and financing transactions

Additions to property, plant and equipment include additions from finance leases amounting to CHF 8 million (prior year: CHF 16 million). See Note 23. In the first half of 2009, various cross-border lease agreements were terminated prematurely. As a result, previously unrecognized financial assets aggregating USD 356 million (CHF 367 million) and financial liabilities of USD 317 million (CHF 326 million) were recognized for the first time. See Note 26. The capital of Belgacom International Carrier Services was increased in 2009 by 25%. Swisscom did not participate in this capital increase. As a result, Swisscom's shareholding in Belgacom International Carrier Services declined from 28% to 22.4%, thus generating a gain on dilution of CHF 44 million which was recorded as financial income.
In 2008, the subsidiary Minick was sold to Net Mobile AG. The purchase price of CHF 9 million was settled in the form of shares of Net Mobile AG. See Note 5. In 2008, Swisscom concluded an agreement on the premature termination of approximately three quarters of the volume of cross-border leases. As a result of the termination of the agreements, previously unrecorded financial investments of CHF 132 million were assumed. Provisions for the costs of the premature termination of cross-border lease agreements were increased in the same amount as the financial investments assumed. See Note 26.

35 Future commitments

Commitments for future capital expenditures

Firm contractual commitments for future investments in property, plant and equipment and other intangible assets as of December 31, 2009 aggregated CHF 229 million (prior year: CHF 291 million).

Operating leases

Operating leases relate primarily to the rental of real estate for business purposes. See Note 26. In 2009, payments for operating leases amounted to CHF 319 million (prior year: CHF 354 million). Future minimum lease payments in respect of operating lease contracts as of December 31, 2008 and 2009 are as follows:

in CHF millions	31.12.2009	31.12.2008
Within 1 year	344	130
Within 1 to 2 years	126	132
Within 2 to 3 years	115	119
Within 3 to 4 years	82	102
Within 4 to 5 years	72	70
After 5 years	749	766
Total future minimum lease payments	**1,488**	**1,319**

36 Research and development

Costs aggregating CHF 27 million for research and development were expensed in 2009 (prior year: CHF 34 million).

37 Related parties

Majority shareholder

Pursuant to the Swiss Federal Telecommunication Enterprises Act ("Telekommunikationsunternehmungsgesetz, TUG"), the Swiss Confederation ("the Confederation") is obligated to hold a majority of the share capital and voting rights of Swisscom. On December 31, 2009, the Confederation as majority shareholder held 56.9% of the issued shares of Swisscom Ltd Any reduction of the Confederation's holding below a majority would require a change in law which would need to be voted upon the Federal Assembly, which in certain circumstances may also be subject to a referendum by Swiss voters. As the majority shareholder, the Confederation has the power to control any decisions taken at general meetings including the approval of dividend distributions and the election of the members of the Board of Directors. Swisscom supplies telecommunication services to and procures services from the Confederation, the majority shareholder in Swisscom. The Confederation comprises the various departments and administrative bodies of the Confederation, governmental agencies and other companies controlled by the Confederation (primarily the Post, Swiss Federal Railways, RUAG, and Skyguide) and the Swiss Broadcasting Corporation, SRG-SSR. All transactions are conducted on the basis of normal relationships with customers and suppliers and on conditions applicable to unrelated third parties. In addition, financing transactions were entered into with the Swiss Post on normal commercial terms.

Associated companies

Services provided to/from associated companies are based upon market prices. The associated companies are listed in Note 41.

Minority interests

Publigroup and Swisscom Directories are the principal related parties amongst minority shareholders. Services provided to/from these related parties are based upon market prices.

Post-employment benefits

Transactions between Swisscom and the various pension funds are detailed in Note 10.

Transactions and balances

Transactions and balances at the end of the year with related parties in 2008 and 2009 are as follows:

in CHF millions	Income	Expense	Receivables	Liabilities
Confederation	470	166	238	271
Associated companies	168	197	43	12
Other minority shareholders	20	3	2	–
Total in 2009 / balance at December 31, 2009	**658**	**366**	**283**	**283**

in CHF millions	Income	Expense	Receivables	Liabilities
Confederation	506	155	417	12
Associated companies	154	211	21	3
Other minority shareholders	1	4	–	13
Total in 2008 / balance at December 31, 2008	**661**	**370**	**438**	**28**

Key management compensation

in CHF millions	2009	2008
Current compensation	1.4	1.4
Share-based compensation	0.7	0.7
Social security contributions	0.2	0.2
Total compensation to members of the Board of Directors	**2.3**	**2.3**
Current compensation	8.8	9.2
Share-based compensation	1.1	0.8
Benefits paid following retirement from Group Executive Board	0.6	–
Pension contributions	1.2	1.2
Social security contributions	1.1	1.0
Total compensation to members of the Group Executive Board	**12.8**	**12.2**
Total compensation to members of the Board of Directors and of the Group Executive Board	**15.1**	**14.5**

Individuals in key positions of Swisscom are the members of the Board of Directors and the Group Executive Board of Swisscom Ltd Current compensation comprises fixed and variable remuneration and functional allowances paid in cash and non-cash benefits, as well as meeting allowances for the members of the Board of Directors. A third of the entire compensation paid to the Board of Directors (excluding meeting allowances) is paid in the form of shares. For the Group Executive Board, the share-based compensation is equal to the market value of the shares allocated. See Note 11. Remuneration and shareholdings are disclosed in the Notes to annual financial statements of Swisscom Ltd pursuant to Swiss company law (Art. 663b^{bis} and 663c para. 3 of the Swiss Federal Code of Obligations).

38 Service concession agreements

On June 21, 2007 and in accordance with the Swiss Federal Telecommunications Act (FMG), ComCom granted Swisscom a basic-service license for 2008 to 2017. As licensee, Swisscom (Switzerland) Ltd is required to offer the entire range of the basic service to all sections of the Swiss population throughout the whole territory of Switzerland during the 10-year duration of the license. The license covers the whole territory of Switzerland. The basic service is to guarantee access to a minimum offering of telecommunication services. Within the framework of the basic service, everyone has the right to a connection which allows national and international telephone calls in real time, the transmission and reception of fax messages and access to the Internet. The basic service also provides for the maintenance of a prescribed number of public telephones per municipality (Publiphone). The Federal Council periodically sets price ceilings for basic services. From 2008 onwards, in addition to the provision of a basic service to the population of Switzerland enabling access to the telephone network, the basic-service provision of broadband Internet access services providing comprehensive territorial coverage constitutes the centerpiece of the license. In addition, Swisscom, as a market-dominant provider of telecommunication services, must price its interconnection services to other service providers in a transparent and cost-based manner without discrimination. Since these new requirements are formulated in a technologically neutral manner and exceptions are permitted for technical or economic reasons, the total investment needed to fulfill the new access obligations is on a manageable scale. Consequently, Swisscom has waived claims for financial compensation in the first five years of the license. However, as price pressure increases, be it through competition or regulation, the more difficult it will become to provide the same basic service with comprehensive territorial coverage on the same conditions. Swisscom has therefore reserved the right to claim compensation in the second half of the license period in order to limit the entrepreneurial risks associated with the long license period.

39 Risk assessment process

Swisscom has a centralized risk management system in place that distinguishes between strategic and operative risks. All identified risks are quantified as a function of the probability of occurrence and possible impact and are set forth in a risk report. The risk report is discussed periodically by the Audit Committee. Management aims to monitor and control risks on an ongoing basis. A risk assessment is undertaken to identify the risks arising from the application of the accounting principles or from financial reporting. Control mechanisms are defined within the scope of the internal control system to minimize the risks connected with financial reporting. Residual risks are classified according to their possible impact and monitored accordingly. See Notes 4 and 33.

40 Events after the balance sheet date

Approval of the consolidated financial statements

The Board of Directors of Swisscom approved the release of these consolidated financial statements on February 17, 2010. As of this date, no significant post-balance sheet events occurred.

41 List of Group companies

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions	Segment
Switzerland					
Alphapay Ltd	Zurich	100	CHF	0.5	Other
BFM Business Fleet Management AG	Ittigen	100	CHF	1.0	Other
Billag AG	Fribourg	100	CHF	0.1	Other
cablex AG	Ostermundigen	100	CHF	5.0	Other
coComment B.V.	Carouge	100	CHF	0.8	Other
Comit AG	Zurich	100	CHF	0.1	Other
Comit Strategic Sourcing AG	Olten	100	CHF	0.1	Other
CT Cinetrade AG	Zurich	49	CHF	0.5	Swisscom Switzerland
Curabill AG	Freienbach	100	CHF	1.9	Other
Evita AG	Ittigen	100	CHF	0.5	Other
Hospitality Services Plus SA	Geneva	100	CHF	10.0	Other
local.ch AG	Zurich	51	CHF	3.0	Swisscom Switzerland
me2me AG	Zurich	73	CHF	2.3	Other
Medgate Holding AG	Zug	40	CHF	6.2	Other
Mona Lisa Capital AG	Ittigen	100	CHF	5.0	Group Headquarters
PubliDirect Holding AG	Zurich	49	CHF	10.0	Swisscom Switzerland
Resource Ltd	Frauenfeld	100	CHF	0.3	Other
Sicap AG	Köniz	90	CHF	2.0	Other
Sourcag AG	Münchenstein	60	CHF	3.0	Other
Swisscom Auto-ID Services AG	Ittigen	100	CHF	1.2	Other
Swisscom Broadcast AG	Berne	100	CHF	25.0	Other
Swisscom Directories AG	Berne	51	CHF	1.5	Swisscom Switzerland
Swisscom Immobilien AG	Berne	100	CHF	100.0	Other
Swisscom IT Services Ltd	Berne	100	CHF	150.0	Other
Swisscom Switzerland Ltd	Ittigen	100	CHF	1,000.0	Swisscom Switzerland
Transmedia Communications SA	Geneva	44	CHF	0.3	Swisscom Switzerland
Webcall GmbH	Zurich	100	CHF	0.1	Swisscom Switzerland
Worklink AG	Berne	100	CHF	0.5	Group Headquarters

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions	Segment
Belgium					
Belgacom International Carrier Services	Brussels	22	EUR	1.5	Swisscom Switzerland
Hospitality Services Belgium SA	Brussels	100	EUR	0.6	Other
Swisscom Belgium N.V.	Brussels	100	EUR	4,330.2	Group Headquarters
Germany					
Hospitality Services Germany GmbH	Munich	100	EUR	0.1	Other
Swisscom Telco GmbH	Eschborn	100	EUR	–	Group Headquarters
France					
Sicap France SA	Lyon	90	EUR	0.5	Other
Hospitality Services France SA	Paris	96	EUR	5.6	Other
Great Britain					
Hospitality Networks and Services UK Ltd	London	100	GBP	1.6	Other
Italy					
e.BisMedia S.p.A.	Milan	82	EUR	15.3	Fastweb
Fastweb S.p.A.	Milan	82	EUR	41.3	Fastweb
Hospitality Services Italia S.r.l.	Milan	100	EUR	0.1	Other
Qualified eXchange Network S.c.p.A.	Rome	49	EUR	0.5	Fastweb
Swisscom Italia S.r.l.	Milan	100	EUR	2,502.6	Fastweb
Jersey					
Swisscom Finance Ltd	Jersey	100	EUR	–	Group Headquarters
Liechtenstein					
Swisscom Re AG	Vaduz	100	CHF	1.0	Group Headquarters
Luxembourg					
Comit SE	Münsbach	100	EUR	0.1	Other
Hospitality Services Luxembourg SA	Luxembourg	100	EUR	–	Other
Malaysia					
Sicap Malaysia SdnBhd	Kuala Lumpur	90	MYR	0.3	Other
Netherlands					
AUCS Communications Services v.o.f.	Hoofddorp	33	EUR	–	Group Headquarters
HSIA Hospitality Services Netherlands B.V.	The Hague	100	EUR	–	Other
Swisscom Investments B.V.	Hoofddorp	100	EUR	–	Group Headquarters
Austria					
Hospitality Services GmbH	Vienna	100	EUR	0.3	Other

Registered name	Registered office	Shareholding in %	Currency	Share capital in millions	Segment
Portugal					
HSIA Hospitality Services Portugal	Lisbon	100	EUR	1.1	Other
Romania					
Hospitality Services s.r.l.	Bucarest	100	RON	–	Other
Sweden					
Diino AB	Stockholm	46	SEK	7.1	Group Headquarters
Spain					
Hospitality Networks and Services Espana SA	Madrid	100	EUR	0.1	Other
Whisher S.L.	Barcelona	40	EUR	–	Group Headquarters
Singapore					
Comit Solutions Pte Ltd	Singapore	100	SGD	0.1	Other
Sicap Asia Pacific Pte Ltd	Singapore	90	SGD	0.1	Other
South Africa					
Sicap Africa Pty Ltd	Johannesburg	90	ZAR	0.1	Other
USA					
Hospitality Services North America Corp.	Dulles	98	USD	1.6	Other

Report of the statutory auditor on the consolidated financial statements to the General Meeting of shareholders of the Swisscom Ltd, Ittigen (Berne)

As statutory auditor, we have audited the accompanying consolidated financial statements on pages 125 to 196 of Swisscom Ltd, which comprise income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes for the year ended December 31, 2009.

Board of Directors' responsibility

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards (SAS) as well as International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2009 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence. In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the board of directors.

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

KPMG AG

Hanspeter Stocker Licensed Audit Expert Auditor in Charge	Rolf Hauenstein Licensed Audit Expert

Gümligen-Berne, February 17, 2010

Financial statements of Swisscom Ltd

Income statement

in CHF millions	2009	2008
Net revenue from sale of goods and services	191	166
Other income	37	40
Total net revenue and other income	**228**	**206**
Personnel expense	(78)	(73)
Other operating expense	(103)	(130)
Depreciation and amortization	(4)	(2)
Total operating expenses	**(185)**	**(205)**
Operating income	**43**	**1**
Financial expense	(223)	(699)
Financial income	343	275
Income from participations	626	2,794
Income tax expense	(10)	4
Net income	**779**	**2,375**

Balance sheet

in CHF millions	Note	31.12.2009	31.12.2008
Assets			
Cash and cash equivalents	9	200	597
Other financial assets		90	144
Treasury shares	5	1	557
Other receivables from third parties		4	3
Receivables from Group companies		291	358
Dividends receivable from subsidiaries	8	500	2,100
Other assets		11	3
Total current assets		**1,097**	**3,762**
Property, plant and equipment	3	5	8
Participations	8	6,927	6,906
Loans to third parties		131	2
Loans to Group companies		6,829	6,816
Total non-current assets		**13,892**	**13,732**
Total assets		**14,989**	**17,494**
Liabilities and shareholders' equity			
Financial liabilities to third parties		1,028	37
Financial liabilities to Group companies		1,150	2,144
Trade payables due to third parties		5	11
Other payables to third parties		139	103
Other payables to Group companies		13	24
Total current liabilities		**2,335**	**2,319**
Financial liabilities to third parties	4	8,005	9,747
Financial liabilities to Group companies		299	314
Provisions		356	356
Other liabilities		10	13
Total non-current liabilities		**8,670**	**10,430**
Total liabilities		**11,005**	**12,749**
Share capital		52	53
General reserves		255	255
Reserve for treasury shares		1	738
Retained earnings		3,676	3,699
Total shareholders' equity	6	**3,984**	**4,745**
Total liabilities and shareholders' equity		**14,989**	**17,494**

Notes to financial statements

1 General information

The financial statements of Swisscom Ltd, the parent company of the Swisscom Group, comply with Swiss Law.

2 Contingent liabilities

At December 31, 2009, guarantees in favor of third parties for the account of Group companies aggregated CHF 164 million (prior year: CHF 219 million).

3 Fire insurance values of property, plant and equipment

The fire insurance values of property, plant and equipment correspond generally to their replacement or fair values.

4 Debenture bonds issued

The amounts, interest rates and maturities of debenture bonds issued by Swisscom Ltd are as follows:

	31.12.2009		31.12.2008	
in CHF millions	Par value	Interest rate	Par value	Interest rate
Debenture bond 2007 to 2013	550	3.50	550	3.50
Debenture bond 2007 to 2017	600	3.75	600	3.75
Debenture bond 2007 to 2010	350	3.25	350	3.25
Debenture bond 2008 to 2015	500	4.00	500	4.00
Debenture bond 2009 to 2014	1,250	3.50	–	–
Debenture bond 2009 to 2018	1,500	3.25	–	–

5 Treasury shares

Swisscom Ltd records treasury shares separately under assets and establishes a reserve for treasury shares in the same amount under shareholders' equity. Treasury shares are valued at the lower of cost and market value. Financial expenses in 2008 include an impairment loss on treasury shares of CHF 168 million.
At the Annual General Meeting of April 21, 2009, it was resolved to cancel the remaining number of treasury shares which were acquired within the framework of the 2006 share buy-back plan were cancelled. The capital reduction of 1,639,057 to 51,801,943 shares was completed in July 2009. Further to the resolution of the Annual General Meeting of Shareholders of April 22, 2008, 3,277,561 shares from the share buy-back plan of 2006 were cancelled during the third quarter of 2008. Details of the balance of and transactions in treasury shares are set out in Note 31 to the consolidated financial statements.

6 Shareholders' equity

Movements in the number of shares in circulation as well as the shareholders' equity of Swisscom Ltd are as follows:

in CHF millions	Number of shares	Share capital	General reserves	Reserve for treasury shares	Retained earnings	Total shareholders' equity
Balance at December 31, 2007	**56,718,561**	**57**	**255**	**2,212**	**2,330**	**4,854**
Net income	–	–	–	–	2,375	2,375
Dividend payment	–	–	–	–	(1,036)	(1,036)
Share capital reduction	(3,277,561)	(4)	–	(1,474)	30	(1,448)
Balance at December 31, 2008	**53,441,000**	**53**	**255**	**738**	**3,699**	**4,745**
Net income	–	–	–	–	779	779
Dividend payment	–	–	–	–	(984)	(984)
Share capital reduction	(1,639,057)	(1)	–	(737)	182	(556)
Balance at December 31, 2009	**51,801,943**	**52**	**255**	**1**	**3,676**	**3,984**

Swisscom Ltd is a holding company established under Swiss law. According to the provisions of law governing holding companies regarding the appropriation of retained earnings, share capital and appropriations to the general legal reserve in an amount of 20% of share capital as well as the reserve for treasury shares may not be distributed. As of December 31, 2009, distributable reserves aggregated CHF 3,921 million. Any dividend distribution must be proposed by the Board of Directors and approved by the Annual General Meeting of Shareholders.

7 Significant shareholders

In accordance with notification of April 9, 2009, the Swiss Confederation (Confederation), as majority shareholder, held 56.9% of the issued share capital of Swisscom Ltd. The Federal Telecommunication Enterprises Act (TUG) stipulates that the Confederation must hold the majority of the capital and voting rights of Swisscom Ltd.

8 Participations and recording of dividends from subsidiaries

Participations are accounted for at acquisition cost less provisions for impairment. Dividends from fully-consolidated subsidiaries of Swisscom Ltd are recognized in the year in respect of which the dividend is proposed. The dividends of the subsidiary companies have been approved at their respective Annual General Shareholder Meetings. A list of direct and indirect shareholdings of Swisscom Ltd is provided in Note 41 to the consolidated financial statements.

9 Assets subject to restriction

As of December 31, 2009, term deposits totaling CHF 85 million (prior year: CHF 139 million) could not be freely disposed of. These assets serve to secure liabilities arising with cross-border lease arrangements. See Note 26 to the consolidated financial statements.

10 Information on risk assessment process

Swisscom Ltd is fully integrated into the risk assessment process of Swisscom Group. This group-wide risk-assessment process also takes into consideration the nature and scope of business activities and the specific risks of Swisscom Ltd. See Note 39 to the consolidated financial statements.

Compensation for the members of the Board of Directors

2009, in CHF thousands	Base emoluments and functional allowances: Cash compensation	Base emoluments and functional allowances: Share-based compensation	Meeting attendance fees	Total 2009
Anton Scherrer	334	186	71	591
Fides P. Baldesberger[1]	30	13	5	48
Hugo Gerber[2]	98	54	18	170
Michel Gobet	98	54	16	168
Torsten G. Kreindl	114	63	20	197
Hansueli Loosli[3]	64[4]	44	8	116
Catherine Mühlemann	98	54	17	169
Felix Rosenberg	145	81	22	248
Richard Roy	114	63	21	198
Othmar Vock	112	63	25	200
Total compensation to members of the Board of Directors	**1,207**	**675**	**223**	**2,105**

[1] Resigned as of April 21, 2009.
[2] In addition, a cash compensation of CHF 6,125 was paid as member of the Board of Directors of Worklink AG, in charge from April 1, 2009.
[3] Elected as of April 21, 2009.
[4] Cash compensation is paid to Coop.

2008, in CHF thousands	Base emoluments and functional allowances: Cash compensation	Base emoluments and functional allowances: Share-based compensation	Meeting attendance fees	Total 2008
Anton Scherrer	334	186	76	596
Fides P. Baldesberger	98	54	17	169
Hugo Gerber	98	54	17	169
Michel Gobet	98	54	18	170
Torsten G. Kreindl	114	63	20	197
Catherine Mühlemann	94	54	17	165
Felix Rosenberg	145	80	22	247
Richard Roy	114	63	18	195
Othmar Vock	113	63	20	196
Total compensation to members of the Board of Directors	**1,208**	**671**	**225**	**2,104**

The compensation plan provides for basic emoluments for the Chairman of the Board of Directors of CHF 385,000, and of CHF 110,000 for the other Board members. Additional fees are also paid for specific duties (functional allowances). Each member of a Board Committee is entitled to compensation of CHF 10,000 net. In addition, the Vice-Chairman and the Chairmen of the Board committees are entitled to compensation of CHF 20,000 net. The representative of the Swiss Confederation receives an additional CHF 40,000 net for special duties related to his function. A meeting attendance fees are also paid (half a day: CHF 500 / whole day: CHF 750). Out-of-pocket expenses are reimbursed on the basis of actual costs incurred. No significant non-cash benefits are paid.
The members of the Board of Directors are obligated to draw 25% of their basic emoluments including functional allowances in the form of equity shares, whereby Swisscom increases the amount to be invested in shares by 50%. In this manner, the compensation (excluding meeting attendance fees) is made up of a two-thirds cash portion and one-third equity share portion. The 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 three-year retention period. The shares which are allocated in April of each reporting year are recorded at their market value as of the acquisition date (usually three weeks before allo-

cation) or at the market value on the date of allocation if treasury shares are allocated. In April 2009, a total of 2,119 shares were allocated to the members of the Board of Directors (prior year: 1,845 shares) for a tax value of CHF 265 per share (prior year: CHF 304). Their market value was CHF 316 per share (prior year: CHF 363).
As regards the disclosure of non-cash benefits and expenses, these are dealt with from a tax point of view, such that neither non-cash benefits nor expenses are included in reported compensation. No compensation 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 which is not at arm's length. The compensation disclosed does not include the employer's share of social security contributions in particular for old age, accident and unemployment insurance. The social security contributions for the Board of Directors in 2009 totaled CHF 0.2 million (prior year: CHF 0.2 million).

Compensation for the members of the Group Executive Board

in CHF thousands	Total Group Executive Board 2009	Total Group Executive Board 2008	Thereof Carsten Schloter 2009	Thereof Carsten Schloter 2008
Base salary paid in cash	5,474	5,593	770	770
Variable earnings-related compensation paid in cash	3,280	3,257	651	658
Non-cash compensation	80	68	15	7
Share-based compensation	1,079	1,126	258	261
Benefits paid following retirement from Group Executive Board	640	–	–	–
Retirement benefits	1,165	1,163	125	122
Total compensation of the members of the Group Executive Board	**11,718**	**11,207**	**1,819**	**1,818**

The compensation paid to the Group Executive Board consists of a basic salary, a variable performance-related share of profits as well as non-cash benefits and additional benefits (in particular company car and pension benefits). The variable performance-related share of profits is fixed in the subsequent year on the basis of the consolidated financial statements and the incentive targets fixed in the year under review and is paid out in April of the following year. Apart from a 100% cash payment in the case of one member who did not participate in the equity-share participation program and one member who resigned from the Group Executive Board as of the end of August 2009, 75% of the variable performance-related share of profits are paid out in cash and 25% in Swisscom shares to the remaining members of the Group Executive Board. The 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 three-year retention period. The share-based compensation for the reporting period equates the 25% share of the variable share of profits for 2009, 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 acquisition date of the shares (usually three weeks before their allocation) or, if treasury shares are allocated, as of the date of their allocation. Shares in respect of the current year are allocated in April 2010. As regards the financial year 2008, a total of 3,254 shares with a tax value of CHF 265 and market value of CHF 316 per share were allocated to members of the Group Executive Board in April 2009. In April 2008, 2,184 shares with a tax value of CHF 304 and market value of CHF 363 per share were allocated in respect of the 2007 financial year. As regards the disclosure of non-cash benefits and expenses, these are dealt with from a tax point of view. Of the non-cash benefits reported, only a share of the use of a company car is thus included in the reported compensation. Reported pension benefits (amounts which give rise to pension entitlements or increase pension benefits) encompass all savings and risk contributions paid by the employer to pension plans, including proportionate contributions to constitute fluctuation reserves for changes in asset values.
All compensation was accrued in accordance with the International Financial Reporting Standards (IFRS). The highest compensation in the reporting year and prior year was paid to the CEO of Swisscom Ltd, Carsten Schloter. Swisscom has granted no sureties, guaranties or pledges in favor of third parties or other collateral to any of the persons impacted by the reporting obligation. No compensation was paid to former members of the Group Executive Board in connection with their earlier activities as a member of a governing body of the Company and which is not at arm's length. The compensation disclosed does not include the employer's share of social security contributions in particu-

lar for old age, accident and unemployment insurance. The social security contributions for the Group Executive Board in 2009 totaled CHF 1.1 million (prior year: CHF 1.0 million).

Payments to related parties

Related parties are spouses and common-law spouses, close relatives who are financially dependent on the member of the governing body or live in the same household, other persons who are financially dependent on such individuals as well as partnerships or corporate entities that are controlled by the member of the governing body or over which the individual exercises a significant influence. Parents, siblings and children are also considered to be related parties. During the reporting year, no payments were made to individuals who are closely related to any member of the Board of Directors or the Group Executive Board which is not at arm's length.

Loans and credits granted

Swisscom has granted no loans and credits to present or former members of the Board of Directors and the Group Executive Board nor has it waived any rights to amounts due from such individuals.

Further information

Further information on compensation paid to management members is set out in the Remuneration Report on page 116.

12 Shareholdings of the members of Board of Directors and Group Executive Board

The table below discloses the shares and share options held by the members of Board of Directors and the Group Executive Board as of December 31, 2008 and 2009.

Number	Shares 31.12.2009	Shares 31.12.2008
Anton Scherrer	1,695	1,108
Fides P. Baldesberger [1]	–	408
Hugo Gerber	451	281
Michel Gobet	818	648
Torsten G. Kreindl	514	316
Hansueli Loosli [2]	133	–
Catherine Mühlemann	441	271
Felix Rosenberg	2,017	1,762
Richard Roy	514	693
Othmar Vock	692	494
Total shares of the members of the Board of Directors	**7,275**	**5,981**
Carsten Schloter (CEO)	3,511	2,684
Ueli Dietiker	2,323	1,807
Eros Fregonas	817	265
Guido Garrone	–	–
Heinz Herren	426	226
Stefan Nünlist	443	314
Christian Petit	687	416
Günter Pfeiffer	475	306
Daniel Ritz	560	259
Jürg Rötheli [3]	–	750
Urs Schaeppi	1,034	728
Total shares of the members of the Group Executive Board	**10,276**	**7,755**

[1] Resigned as of April 21, 2009.
[2] Elected as of April 21, 2009.
[3] Resigned as of August 31, 2009.

No share of the voting rights of any person required to make disclosure thereof exceeds 0.1% of the share capital.

Proposal of the Board of Directors

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on April 27, 2010 that the retained earnings of CHF 3,676 million for the year ended December 31, 2009 are appropriated as follows:

in CHF millions	31.12.2009
Appropriation of retained earnings	
Balance carried forward from prior year	2,715
Share capital reduction	182
Net income for the year	779
Total retained earnings	**3,676**
Ordinary dividend of CHF 20 per share on 51,798,111 shares	(1,036)
Balance to be carried forward	**2,640**

In the event that the proposal is approved, a dividend per share will be paid to shareholders on May 4, 2010 as follows:

Per registered share	CHF
Ordinary dividend, gross	20.00
Less 35% withholding tax	(7.00)
Net dividend paid	13.00

Report of the statutory auditor on the financial statements to the General Meeting of shareholders of Swisscom Ltd, Ittigen (Berne)

As statutory auditor, we have audited the accompanying financial statements on pages 198 to 205 of Swisscom Ltd, which comprise the income statement, balance sheet and notes for the year ended December 31, 2009.

Board of Directors' responsibility

The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards (SAS). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2009 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence. In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of 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	Rolf Hauenstein Licensed Audit Expert

Gümligen-Berne, February 17, 2010

Further Information

Glossary

Technical terms

ADSL (Asymmetric Digital Subscriber Line)
A broadband data transmission technology that uses the existing copper telephone cable for access to the data network. A filter separates voice and data traffic so that people can browse the Internet and use the telephone at the same time. Depending on the service category, the transmission speed varies between a maximum of 6,000/600 kbps and 300/100 kbps.

All-IP
All-IP is the technology behind the transformation to a single network based on the Internet Protocol (IP). In the medium and long term, Swisscom intends to migrate all existing communications networks to IP so that all telecommunications services (telephony, data traffic, TV, mobile communications, etc.) can be offered over IP. All-IP technology is based on a clear separation between access and services, so that the different types of multimedia products and services can be offered to customers, irrespective of whether they are connected over the fixed or the mobile network and regardless of their telephone number. Customers can use services and applications irrespective of the access type.

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.

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

DSL (Digital Subscriber Line)
The transmission standard used for sending and receiving data at high speed (up to 210 Mbps) over simple copper lines such as the subscriber access line.

EDGE (Enhanced Data Rates for GSM Evolution)
Radio modulation technology used to enhance data transmission speeds in GSM mobile networks and TDMA (Time Division Multiple Access). EDGE enables higher data transmission speeds based on the GSM standard. Thanks to improved encoding, EDGE permits data rates of up to 48,000 bits per channel compared to the maximum 14,400 bps currently available in the GSM network.

Fibre to the Home (FTTH)/Fibre to the Office (FTTO)
The use of fibre-optic cables instead of copper cables to connect homes and offices.

GPRS (General Packet Radio Service)
GPRS significantly accelerates the transmission speed in GSM mobile communications networks. Currently, GPRS enables speeds of 30 to 40 kbps. It is ideal for WAP services and entertainment offerings as well as sending and receiving e-mails.

GSM (Global System for Mobile communications) network
GSM is a digital mobile communications standard which, in addition to voice and data transmission, also enables services such as SMS messaging and connections to and from countries abroad (international roaming).

HSPA (High-Speed Packet Access)
A further development of the UMTS mobile communications standard. HSPA enables large volumes of data to be transmitted at faster speeds and will provide even faster mobile Internet access.

ICT (Information and Communication Technology)
A term coined in the 1980s to denote the convergence of information technology (information and data processing and the related hardware) and communication technology (technically aided communications).

IP (Internet Protocol)
Internet Protocol enables different types of services to be integrated on a 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 (e.g. television programmes, films) via a digital data network.

ISDN (Integrated Services Digital Network)
A digital communications network for transferring data, text, voice and images over the same telephone line. Two or more transmission channels allow users to make several calls simultaneously or transfer data at the same time as they make a voice call. The transmission speed is 64 kbps per channel.

ISP (Internet Service Provider)
An ISP is a provider of Internet-based services. Also commonly referred to as Internet Provider. Services include Internet connection (e.g. using DSL), hosting (registration and operation of Internet addresses, websites and web servers) and content provision.

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

LTE (Long Term Evolution)
The successor technology to HSPA. LTE enables mobile broadband data speeds of up to 100 Mbps.

MVNO (Mobile Virtual Network Operator)
A business model for mobile communications in which a company (the MVNO) with no network infrastructure or a limited network infrastructure is able to access the infrastructure of other mobile communication providers.

Optical fibre
The transport medium for optical data transmission.

PSTN (Public Switched Telephone Network)
PSTN is a collective term that covers the public fixed telephone network in its entirety.

PWLAN (Public Wireless Local Area Network)
PWLAN covers several wireless transmission methods for data access. All that is required is a laptop or a PDA, a WLAN card and access via a telecommunications provider. Maximum transmission capacity is 2 Mbps.

Roaming
The term "roaming" originally comes from the GSM world. Traditional GSM roaming is defined as the ability of a mobile network subscriber to make and receive automatic calls in a network other than his own, to automatically send and receive data or have access to other mobile network services.

Router
A router is a device for combining or separating several computer networks. The router analyses incoming data packets according to their destination address, and either blocks them or forwards them accordingly (packet routing).

TIME (Telecommunications, Information, Media, Entertainment)
The TIME market covers applications in the areas of telecommunications, IT, media and entertainment.

Triple play
The provision of three services – telephony, broadband Internet, and TV – over the telephone line.

Unified communications
A method used to integrate the wide variety of modern communication technologies. Different telecommunications services such as e-mail, unified messaging, telephony, mobile communications, PDAs, instant messaging and presence functions are coordinated to enhance the reachability of dispersed communication partners, thereby speeding up business processes.

UMTS (Universal Mobile Telecommunications System)
An international third-generation mobile communications standard that combines mobile multimedia and telematic services under the 2 GHz frequency spectrum. A further development of GSM, UMTS complements GSM and Public Wireless LAN in urban regions of Switzerland. Data transmission speeds of up to 384 kbps can be achieved, enabling the transmission of short video clips, for example.

VDSL (Very High-Speed Digital Subscriber Line)
VDSL is the fastest of all DSL technologies and enables data transmission speeds of up to 55 Mbps.

Video-on-demand:
A service that allows subscribers to choose from a selection of films and watch the selected film at any time. The film is delivered to the subscriber either over the broadband network or over DSL and the telephone network.

VoIP (Voice over Internet Protocol)
VoIP is used to set up telephone connections over the Internet. This can be done in three ways: PC-to-PC, PC-to-fixed network, or telephoning over IP-based internal networks.

VPN (Virtual Private Network)
VPN is generally used to refer to logical private subnetworks set up within a public network. The most common interpretation of a VPN at present is an IP-VPN, where subscribers are connected over IP tunnels.

WLAN (Wireless Local Area Network)
A wireless network that provides mobile Internet access. Several computers can be interconnected wirelessly and linked to a central information system, printer or scanner.

Average minutes per user (AMPU)
The average number of charge minutes per mobile user per month. This includes charge minutes for outgoing and incoming calls, roaming traffic of Swisscom customers abroad, as well as charge minutes for using value-added services.

Average revenue per user (ARPU)
Average mobile revenue (voice, data, SMS and MMS) generated per mobile subscriber per month. This includes revenue from outgoing and incoming calls, monthly subscription charges, revenue from roaming for Swisscom customers abroad, and revenue from value-added services. Traffic revenue from M-Budget users is not included, nor is revenue generated by non-Swisscom customers (e.g. inbound roaming).

Broadband access lines
All activated broadband connections using ADSL or VDSL technology, irrespective of the bandwidth selected by the customer.

Customer acquisition costs
Average costs incurred for new customer acquisition during a reporting period. These comprise subsidies for handsets sold in Swisscom's own sales outlets, dealer commissions, subsidies for third-party channels and advertising cost subsidies.

Customer retention costs
Average costs incurred for renewing contracts with existing customers during a reporting period. These are made up of subsidies for handsets sold in Swisscom's own sales outlets, dealer commissions and subsidies for third-party channels.

Mobile customers, postpaid and prepaid
Number of active SIM cards. Postpaid systems are telephone contracts under the terms of which charges are billed after use. Prepaid systems involve a contractual relationship without a fixed monthly charge, whereby services are paid from a credit account that is topped up in advance. With postpaid systems, SIM cards are used to quantify the customer base for the duration of the contract. With prepaid systems, SIM cards are included in the customer base from the first active use until they have not been used for a consecutive period of 12 months (no explicit cancellation of the contract by the customer). Internal business lines used by Swisscom are included. If a postpaid SIM card is temporarily suspended by the customer (due to a lengthy absence) or by Swisscom (due to payment default), it is no longer included in the customer base. SIM cards issued on the basis of prepaid systems are suspended as soon as the balance is less than CHF 0, although the SIM card is still included in the customer base.

Net debt
Net debt consists of total financial liabilities less cash and cash equivalents, current financial assets, financial assets from cross-border lease agreements as well as non-current fixed interest-bearing deposits and derivative financial instruments.

Operating Free Cash Flow
Operating income (EBITDA), change in operating assets and liabilities less net capital expenditure on tangible and intangible assets as well as dividend payments to minority interests.

Operating income (EBITDA)
Operating income before depreciation, amortisstion and impairment on tangible and intangible assets, gains and losses on the sale of subsidiaries, net financial result, share of profit of investments in associates and income taxes.

Operating income (EBIT)
Operating income before gains and losses on the sale of subsidiaries, net financial result, share of profit of investments in associates and income taxes.

PSTN/ISDN lines
Total number of active access lines connected to the network using PSTN (Public Switched Telephone Network) or ISDN (Integrated Services Digital Network) transmission technology. Internal business lines used by Swisscom are included. PSTN lines: one line corresponds to one access channel. ISDN access lines: one line consists of two or 30 access channels.

Swisscom TV customers
Number of activated IPTV connections.

Unbundled subscriber lines
The number of unbundled telephone lines within the last mile which are leased by other providers in order to deliver their own services to Swisscom end customers at regulated conditions.

Bit-stream access (BSA)
Regulated bit-stream access refers to a high-speed link (from the local exchange to the home on a metallic pair cable) on the last mile, which Swisscom sets up and provides to other telecoms service providers (TSP) as an upstream service at a price regulated by the government. TSPs can use this link to offer their customers broadband services or fast Internet access.

Collocation
Collocation is governed by the Ordinance on Telecommunications Services. The market-dominant provider offers alternative providers non-discriminatory access at the required locations, co-use of the location and the right to install and operate telecommunications systems at that location.

ComCom (Federal Communications Commission)
As the decision-making authority for telecommunications, the primary responsibilities of the Federal Communications Commission include issuing concessions for use of the radio frequency spectrum as well as basic service licences, providing access (unbundling, interconnection, leased lines, etc.), approving national numbering plans and regulating the conditions governing number portability and free choice of service providers.

Competition Commission (ComCo)
The Competition Commission 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, and in so doing foster competition. The Competition Commission combats harmful cartels and monitors market-dominant companies for signs of anti-competitive conduct. It is also responsible for examining mergers and issuing statements on official decrees that affect competition.

Ex ante
In an ex-ante regime, the particulars of the regulated offerings (commercial, technical and operating conditions) must be approved in advance by a government authority (authorisation obligation). The conditions approved by the authority (e.g. the price) are known to the parties using the regulated services, and there is legal provision for the affected providers to have the authorised price examined for correctness.

Ex post
In an ex-post regime, the parties must agree – wherever possible – on 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 not able to agree (objection principle).

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

Federal Telecommunications Act
The aim of the Federal Telecommunications Act (Fernmeldegesetz, FMG) is to ensure that the Swiss population and the business community have access to a wide range of affordable, high-quality telecommunications services that are nationally and internationally competitive. In particular, it lays down the framework for the reliable, mandatory provision of basic telecommunications services for all sections of the population in all regions of the country, ensures fault-free telecommunications traffic that respects personal and intellectual property rights, enables effective competition among providers of telecommunications services, and protects users of telecommunications services against unfair mass advertising and misuse of value-added services.

Full access
Full access enables alternative telecommunications service providers to access subscriber lines so that they can use the entire frequency spectrum of metallic pair cables.

Interconnection
Interconnection connects the systems and services of two TSPs so as to enable the logical interaction of the connected telecoms components and services and provide access to third-party services. Interconnection enables 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 (LRIC) prices.

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.

LRIC (Long-Run Incremental Costing):
LRIC is the method defined by the Ordinance on Telecommunications Services for calculating regulated prices. The LRIC method is future-oriented and therefore creates economically efficient investment incentives.

Termination charges
Termination charges are levied by the network operator for forwarding calls to other third-party networks (e.g. calls from Orange to Swisscom or from Sunrise to Orange, etc.).

Unbundling
Unbundling of the last mile (Unbundling of the Local Loop, ULL) enables fixed-network competitors without their own access infrastructure to access customers directly at non-discriminatory conditions based on original cost. The requirement for ULL is a market-dominant position.

Index of keywords

Swisscom Group five-year review

in CHF millions, except where indicated		2005	2006	2007	2008	2009
Net revenue and results						
Net revenue		9,732	9,652	11,089	12,198	12,001
Operating income before depreciation and amortization (EBITDA)		4,171	3,786	4,501	4,789	4,666
EBITDA as % of net revenue	%	42.9	39.2	40.6	39.3	38.9
Operating income (EBIT)		2,777	2,351	2,515	2,640	2,678
Net income		2,346	1,904	2,071	1,751	1,925
Share of net income attributable to equity holders of Swisscom Ltd		2,022	1,598	2,068	1,756	1,928
Earnings per share	CHF	33.79	28.90	39.92	33.90	37.22
Balance sheet and cash flows						
Equity at end of year		6,624	4,480	6,004	5,763	6,728
Equity ratio at end of year	%	49.4	28.7	25.4	25.3	30.6
Cash flow provided by operating activities		3,432	3,264	3,589	4,111	4,380
Capital expenditure in property, plant & equipment and other intangible assets		1,087	1,324	2,025	2,050	1,987
Net debt (net funds)		(1,632)	4,379	10,337	9,860	8,932
Employees						
Full-time equivalent employees at end of year	Number	16,088	17,068	19,844	19,943	19,479
Average number of full-time equivalent employees	Number	15,455	16,734	18,755	19,801	19,813
Operational data						
Telephone access lines PSTN/ISDN in Switzerland	in thousands	3,822	3,747	3,686	3,623	3,484
Broadband access lines in Switzerland	in thousands	1,098	1,368	1,602	1,756	1,803
Mobile subscribers in Switzerland	in thousands	4,281	4,632	5,007	5,370	5,610
Swisscom TV subscribers in Switzerland	in thousands	–	10	59	118	230
Unbundled fixed access lines in Switzerland	in thousands	–	–	–	31	153
Broadband subscribers in Italy	in thousands	–	–	1,263	1,483	1,644
Swisscom share						
Par value per share at end of year	CHF	1.00	1.00	1.00	1.00	1.00
Number of issued shares at end of period		56.719	56.719	56.719	53.441	51.802
Closing price at end of period		414.75	461.25	442.00	339.50	395.60
Market capitalization at end of year	CHF	23,523	23,894	22,896	17,587	20,491
Ordinary dividend per share	CHF	16.00	17.00	18.00	19.00	20.00 [1]
Extraordinary dividend per share	CHF	–	–	2.00	–	–
Ratio payout/earnings per share	%	47.35	58.82	50.10	56.05	53.73

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

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