swisscom

2008
Annual Report

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Facts & Figures

CHF in millions, except where indicated		2008	2007	Change
Net revenue and results				
Net revenue		12,198	11,089	10,0%
Operating income (EBITDA) [1]		4,789	4,501	6,4%
EBITDA as % of net revenue	%	39.3	40.6	
Operating income (EBIT) [2]		2,640	2,515	5,0%
Net income		1,751	2,071	–15,5%
Net income attributable to equity holders of Swisscom Ltd		1,756	2,068	–15,1%
Earnings per share	CHF	33.90	39.92	–15,1%
Balance sheet and cash flow				
Equity at end of period		5,763	6,004	–4,0%
Equity ratio at end of period [3]	%	25.3	25.4	
Operating free cash flow [4]		2,476	2,077	19,2%
Capital expenditure in tangible and other intangible assets		2,050	2,025	1,2%
Net debt at end of period [5]		9,860	10,337	–4,6%
Employees				
Number of full-time equivalent employees at end of period [6]	FTE	19,943	19,844	0,5%
Average number of full-time equivalent employees [7]	FTE	19,801	18,755	5,6%
Net revenue per employee	CHF in thousands	616	591	4,2%
EBITDA per employee	CHF in thousands	242	240	0,8%
Operational data				
Wireline access lines PSTN/ISDN in Switzerland	in thousands	3,623	3,686	–1,7%
Broadband access lines in Switzerland	in thousands	1,756	1,602	9,6%
Mobile subscribers in Switzerland	in thousands	5,370	5,007	7,2%
Bluewin TV customers in Switzerland	in thousands	118	59	100,0%
Subscribers in Italy	in thousands	1,483	1,263	17,4%
Swisscom share				
Par value per share at end of period	CHF	1.00	1.00	–
Number of issued shares	in mio.	53.441	56.719	–5,8%
Average number of outstanding shares	in mio.	51.793	51.802	–
Closing price at end of period	CHF	339.50	442.00	–23,2%
Price per share high	CHF	442.75	486.00	
Price per share low	CHF	292.00	402.50	
Market capitalisation at end of period [8]		17,587	22,896	–23,2%
Ordinary dividend	CHF	19.00 [9]	18.00 [9]	5,6%
Extraordinary dividend	CHF	– [9]	2.00 [9]	–
Payout ratio [10]	%	56.04	45.09	24,3%

1 Defintion operating income (EBITDA): operating income before depreciation, amortisation and impairment on tangible and intangible assets, gain on sale of subsidiaries, net financial result, share of profit of investments in associates and income tax expense.

2 Defintion operating income (EBIT): operating income before gain on sale of subsidiaries, net financial result, share of profit of investments in associates and income tax expense.

3 Equity in % of total assets.

4 Definition operating free cash flow: operating income (EBITDA), change in operating assets and liabilities less net capital expenditure in tangible and other intangible assets and dividends paid to minority interests.

5 Definition net debt: financial liabilities less cash and cash equivalents, current financial assets, financial assets from cross-border lease agreements and non-current derivative financial instruments.

6 Excluding 178 (previous year 275) full-time equivalent employees of Worklink at December 31, 2008.

7 Excluding 145 and 352 full-time equivalent employees of Worklink in 2008 and 2007, respectively.

8 Closing price at end of period, multiplied with number of outstanding shares at end of period.

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

10 Representing gross dividend in % of earnings per share.

We're there for you.

Dear Reader

Swisscom ended 2008 on a successful footing and so far unscathed by the financial crisis. However, economic conditions may start to slow down performance as we progress into 2009.

Last year was an important year for Swisscom as far as implementing the new strategy was concerned. Many segments reported renewed gains in market share, while Fastweb showed very encouraging performance and IT Services successfully consolidated its market position. The year under review was punctuated by a series of changes including the creation of a new customer-centric organisation. In these challenging times, our customers will continue to take centre stage. Their interests come first and they are the yardstick by which we measure ourselves. Amid all these changes, our promise to our customers remains a constant: We're there for you.

“Swisscom has always invested early on in new technologies.”

Successful finish to a challenging year

Our Swiss business posted stable performance. Revenue and operating income held steady year-on-year despite price falls of around half a billion francs, while only net income was negatively impacted by one-off events, notably the early termination of long-term leasing agreements.

Consistent customer focus

"We're there for you" is the guiding principle that dictates the way Swisscom thinks and acts. True to our promise, we transformed Swisscom's organisational structure in 2008, so that we are now equipped to offer our customers everything from a single source. Customer feedback has shown that we are on the right track. We also made further headway in strengthening our customer service organisation. Despite these initiatives, our efforts will remain focused on improving customer service even more in 2009.

From new organisation to new brand identity

A logical and necessary consequence of the reorganisation was the renewal of our brand identity. At the beginning of 2008 Swisscom still had four individual brands and four individual brand identities. A new identity was adopted in a conscious move to strengthen the Swisscom brand. The new visual identity is more emotional, younger, and encapsulates Swisscom's customer-centric approach. With on-screen communication becoming increasingly popular, our new animated logo as at its most effective on this medium.

Infrastructure for the benefit of our customers and Switzerland

According to the renowned UK publication "The Economist" Switzerland has one of the best telecoms infrastructures in the world. At the same time, Swisscom commands an impressive market share by international comparison. This is because Swisscom invested early on in new technologies and was quick to set things in motion to achieve comprehensive UMTS and VDSL coverage, for example. There is a direct correlation here between our early adoption of new technologies and our position in the marketplace. With an eye to the future, Swisscom is also investing in expanding the fibre-optic network. We want to remain competitive over the next five to fifteen years and make sure that Switzerland continues to enjoy one of the best infrastructures in the world. At a time when state economic stimulus packages are prevalent, there is a further important aspect to our investments: some 6,000 jobs outside Swisscom closely depend on the CHF 1.5 billion that we invest every year in the Swiss economy.

Implementation of the Telecommunications Act faster than any other country in Europe

The new Telecommunications Act has been in force since April 2007. No other European country unbundled the local loop faster than Switzerland. Swisscom worked flat out to implement the provisions of the Act and invested over CHF 70 million in opening up the last mile, in a dedicated effort to carry out the legislator's bidding and make our infrastructure available to competitors. Customers are reaping the benefits of increasingly lower prices, new product offerings and innovations. Against this background there is no reason at present to revise the Telecommunications Act, since this would only serve to trigger legal uncertainty. This at a time when other countries are sinking billions into economic stimulus packages or deliberating over how to spur private-sector investment in next-generation fibre-optic networks.

"No other European country unbundled the local loop faster than Switzerland."

Residential customers: iPhone and Bluewin TV as highlights

Swisscom also continued to expand its portfolio of offerings for residential customers during the year under review. Two products proved an instant hit. The first of these was the iPhone, which sold close to 181,000 units in just over six months. While subsidisation of the device resulted in a one-off charge to operating income, on the credit side third-quarter sales of the iPhone increased the mobile customer base by 25% compared with the average for the two prior quarters. The iPhone is helping to democratise the mobile Internet while driving up revenue from mobile data traffic. Added to this, iPhone is providing an innovative boost to handhelds in general. The second hit was Bluewin TV which by the end of 2008 had attracted some 118,000 customers. We also succeeded in massively reducing installation costs per customer. In 2009 customers can look forward to an expanded range of services as Swisscom continues to add customer value.

Corporate business expands market position

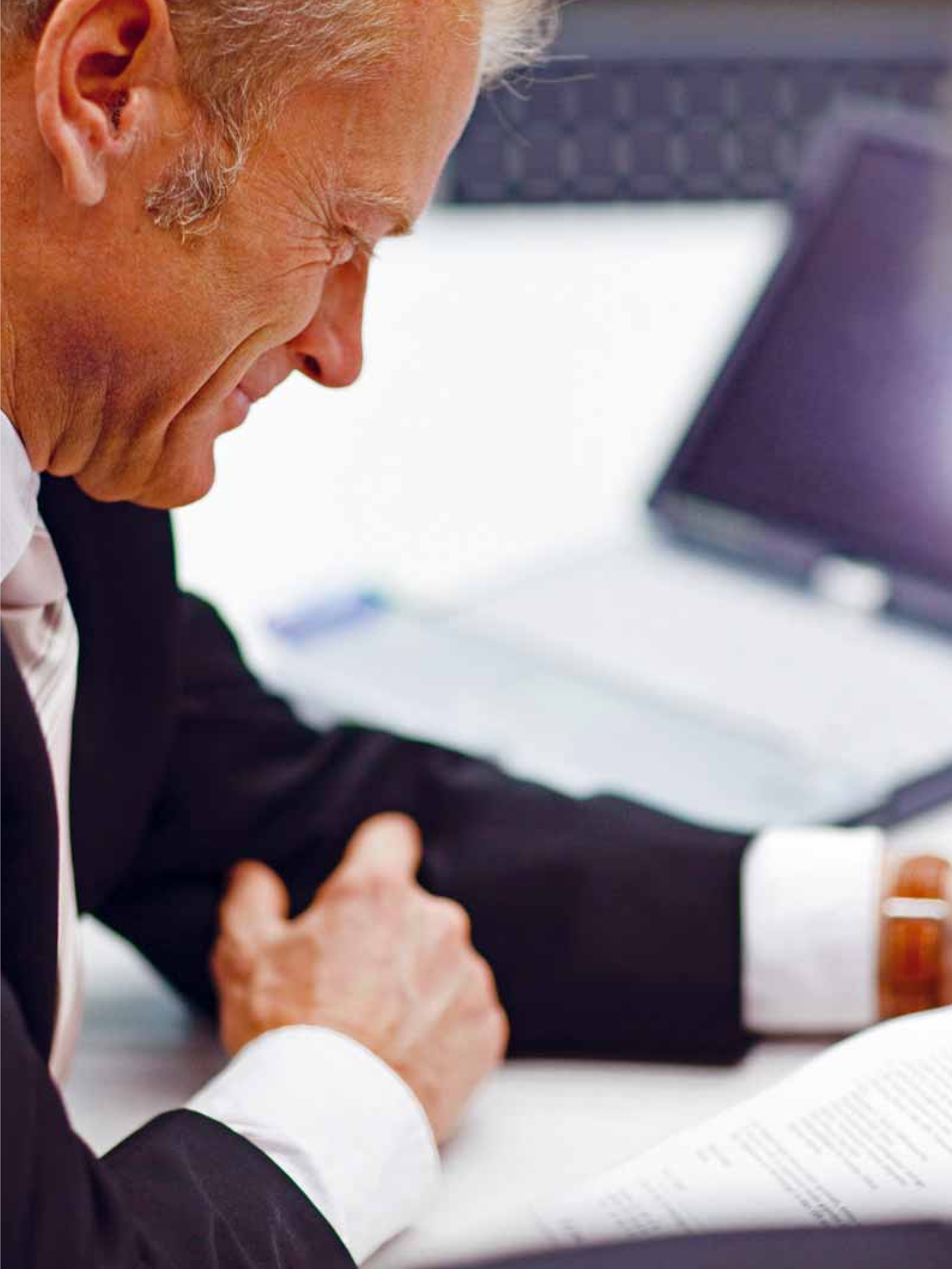
Given the challenging market environment, we were particularly encouraged by our successful bid to boost market shares in the corporate business segment. Moreover, mindful of the growing importance of global business, we concluded an international partnership agreement with Verizon in 2008 which will allow us to offer cross-border services to our customers. A further highlight of the year came when Credit Suisse named us "Strategic Supplier of the Year 2008". In 2009 we aim to further expand our market shares while generating above-average growth in mobile communications and mobile data business.

IT Services achieves turnaround

Swisscom IT Services is going from strength to strength: external revenue and profitability are both up, important new customers have been added to the portfolio, and the company's image has been enhanced. Swisscom IT Services is a leading provider of integrated systems for the banking sector and a leading player in the market for infrastructure outsourcing solutions in Switzerland. Priorities for 2009 include gaining further market shares while extending contracts and expanding activities among existing customers.

Fastweb – encouraging news from Italy

Our Italian subsidiary accounted for CHF 179 million of Swisscom's operating free cash flow and is therefore making a significant contribution to this year's dividend payout to shareholders. Corporate business is particularly important to Fastweb and accounted for 70% of growth in 2008. While Fastweb commands only an 13% share of the corporate business market, it already controls over 16% of the promising data business market. The future will see a large number of corporate customers implementing voice-over-IP services based on services currently offered by Fastweb. Competition in the corporate customer segment will also offer greater scope for growth than the residential segment.



Sustainability as a basic principle

Swisscom has long prescribed that natural resources be treated in a sustainable manner. Not surprisingly, Swisscom became the first telecoms company worldwide to be awarded ISO 14001 certification. Our customers' demand for ever-higher network and computing power will continue to push up energy consumption. In this context we employ a variety of measures designed to minimise the increase in consumption. For example, our Mistral project came up with the idea of deploying an efficient ventilation system to harness the waste heat from the telephone exchanges and thereby save on energy. Indeed, the Mistral project was accorded the European innovation prize in recognition of this achievement. Swisscom is also the biggest purchaser of eco-power in Switzerland. Sustainability and our close ties with Switzerland also lie at the heart of our long-standing partnership as lead sponsor of the Swiss Ski Association. After a long spell with few victories we can once again celebrate the achievements of our winter sports athletes along with the rest of Switzerland. Reliable partnerships, commitment and trust yield results in both the sporting and business world.

“Fastweb is making a significant contribution to this year’s dividend payout to shareholders.”

Swisscom share posts good performance in 2008

The Swisscom share was among the top SMI performers in 2008, despite suffering a fall in value triggered by capital market predictions of higher investment activity across the sector. The Swisscom share together with the shares of Netherlands-based KPN fared best in the European telecoms sector, which goes to show the sector’s defensive qualities. Payment of an ordinary dividend of CHF 19 (previous year CHF 18) will be proposed to the Annual General Meeting of Shareholders. In light of the current difficult conditions on capital markets and in order to reduce net debt faster than planned, there will be no special dividend payout or share buy-back in 2009.

Outlook for 2009

The financial outlook for 2009 is based on the assumption that the worsened economic climate will only have a limited impact on customer demand for telecoms services. Excluding Fastweb, Swisscom expects net revenue for 2009 of between CHF 9.2 billion and CHF 9.3 billion, EBITDA of between CHF 3.8 billion and CHF 3.9 billion and capital expenditure of around CHF 1.35 billion. Fastweb is expected to report revenue of around EUR 1.8 billion, EBITDA of around EUR 560 million and capital expenditure in the region of EUR 415 million. Group operating free cash flow including Fastweb will lie between CHF 2.6 billion and CHF 2.7 billion.

A warm thank you

All told, we can look back on a successful and eventful year. We owe our achievements in 2008 to the trust of our customers, to the loyalty of our shareholders and to the untiring dedication and commitment of our employees. A warm thankyou to you all.

Yours sincerely

Dr. Anton Scherrer
Chairman of the Board of
Directors of Swisscom Ltd

Carsten Schloter
CEO Swisscom Ltd

The Year of view
of the Group Executive Board

Christian Petit
Head of Residential Custommers
Swisscom (Switzerland)

"Our customers should be able to say: Swisscom knows what I need."

Christian Petit, looking back on 2008, what do you see as the highlights?

We managed to maintain and, in some cases, even increase our market share in 2008. I attribute this primarily to the loyalty of our customers towards Swisscom, our good customer service and of course to the quality of our products and networks.

What is the focus of the Residential Customers segment in 2009?

We must continue to build on our strengths and will be focusing more strongly on two areas: proximity and relevant experiences. What do we mean by that? Proximity means that customers can say: "Swisscom knows what I need, Swisscom understands me." This sentiment must be conveyed in everything we do: at customer touch points, in the way products are designed and obviously also in marketing campaigns. This is also about providing our customers with relevant offerings and excellent service, which together form a coherent experience and lasting impression.

In which areas can your division continue to grow this year?

We have identified two areas for growth, on which we will be focusing our attention. Firstly, growth in the digital TV business: the number of Bluewin TV customers almost doubled in 2008 and the potential is far from exhausted. Secondly, mobile Internet also harbours major potential for growth, due in part to good, user-friendly devices such as the iPhone and various netbooks and notebooks. More and more residential customers want to be online while on the move. In the first half of 2009, residential customers will also be able to surf the Internet via the ultra-high-speed fibre-optic network for the first time.

Heinz Herren
Head of Small and Medium-Sized Enterprises
Swisscom (Switzerland) Ltd

"Position consolidated or expanded in the most important market segments."

How has the SME division performed in the year under review?

2008 was a successful year in financial terms, during which we held onto or expanded our position in key market segments. We are and remain the provider of choice for telecommunications and IT solutions for SME customers in Switzerland. Our high market share has been won thanks to first-class products and above-average service.

What are the priorities in 2009?

Our priority in 2009 is to maximise the existing core business and expand into related business fields. In the core business our goals are to expand our service activities and achieve further growth in the Internet and mobile business. We are also focusing on ways of creating even simpler product experiences and attractive bundled offerings. We want to continue offering everything from a single source. Setting up the SME Hotline was an important step towards making the service experience even more enjoyable for our customers.

What are the growth opportunities for SME?

This year we will be testing new offerings with the aim of turning them into sustainable sources of revenue. We will continue to expand our existing range of so-called managed services that enable customers to outsource their IT and telecommunications infrastructure to us. We are also aiming for growth in the area of business support services.

Urs Schaeppi
Head of Corporate Business
Swisscom (Switzerland) Ltd

“Increased market share.”

Urs Schaeppi, what in your opinion were the Corporate Business division’s highlights in 2008?

Considering the dynamic and challenging competitive environment we faced, I am particularly pleased that we managed to increase our market share. The strategic partnership with Verizon Business is definitely another highlight. Global business is becoming increasingly important for us, and this partnership will significantly improve our ability to meet the needs of multinational customers by combining the global expertise, reach and capacity of Verizon Business with our knowledge of the Swiss market and our long-standing customer relationships. Last but not least, there’s another highlight I’d like to mention. Credit Suisse named us “Strategic Supplier of the Year” in 2008, which just goes to show the high level of confidence they have in us.

Swisscom Corporate Business has set itself the goal of offering customers everything from a single source. Why is this so important?

With this pledge we clearly set ourselves apart from the competition. Our aim is to be the first point of call for our customers’ ICT needs. The demand for communication solutions and therefore the demand for infrastructure is growing. Our aim is to relieve our customers of this complexity and offer them the functionalities they really need in the form of bespoke solutions and services. This is a highly valued service proposition, and according to customer surveys is a key deciding factor: which is why the ongoing expansion of our service offerings and day-to-day efforts to hone our service focus will continue to take priority in 2009.

What do you see as growth areas for 2009?

Our aim of further strengthening our market position will be a focal point. This applies to outsourcing, mobile data services and our international service offerings. For our international business this means further exploiting the potential of our partnership with Verizon Business and thereby raising the profile of our international service offerings. In other words, mobile data services and international services are expected to undergo further strong growth in 2009, and we want to capitalise on this growth as much as possible.

Guido Garrone
Head of Network & IT
Swisscom (Switzerland) Ltd

“The expansion of the fibre-optic network is a long-term project.”

Last year the start of work to expand the fibre-optic network to provide fibre-to-the-home connectivity was the focus of much public attention. What is Swisscom’s fibre-optic strategy going forward?

Over the next few years we will be connecting private households to the fibre-optic network. This network expansion, otherwise known as Fibre to the Home (FTTH) kicked off in Zurich, Basel and Geneva in September 2008 and will be extended to other cities in 2009. Expanding the fibre-optic network is a long-term project, on which we are working together with partners. The fibre-optic offering is attracting a great deal of interest. Four Internet service providers are set to test the BBCS fibre-optic service. We are also currently negotiating with potential cooperation partners who are interested in investing in the expansion.

As well as connecting private households to the fibre-optic network, we are also continuing to extend VDSL technology to residential areas (based on Fibre to the Curb or FTTC). This expansion into residential areas will allow us to guarantee higher bandwidths, for example to support Bluewin TV.

What’s the outlook as far as the expansion of mobile communications bandwidths is concerned?

Thanks to UMTS/HSPA upgrades, Swisscom can now provide 93% of the population with mobile data services and bandwidths of up to 3.6 Mbps and even up to 7.2 Mbps in some areas.

Bandwidths of up to 14.4 Mbps will be possible very soon. This was already implemented at the World Economic Forum in Davos as part of a pilot trial. We are currently in the process of increasing transmission capacity in busy traffic areas. Our customers expect a reliable and fast mobile communications network – even if many people are using it at the same time.

We are closely monitoring the development of the fourth generation of mobile communications and are investigating technologies such as the All-IP compatible Long Term Evolution (LTE).

One of the key buzzwords in the telecommunications industry at the moment is All-IP. What does this mean for Swisscom?

All-IP is Swisscom’s response to the challenge of offering all types of services solely via Internet Protocol (IP).

All-IP allows network access and service level to be managed separately. With All-IP, Swisscom can respond to new kinds of customer requirements more quickly and more flexibly. This technological leap opens up a whole new dimension in terms of attractive services and product combinations for our customers.

Eros Fregonas
CEO
Swisscom IT Services Ltd

"Swisscom IT Services is on an upward curve."

Swisscom IT Services has made extremely good progress within a short space of time.

Indeed, Swisscom IT Services is on an upward curve. External revenue and profitability have risen, and we have been able to acquire important new customers. Our image and customer confidence have been significantly enhanced.

What goals have you set for 2009?

We have set ourselves the challenging goal of becoming the leading IT service provider in Switzerland. This is based on two priorities: growth and efficiency. We want to continue along our path of strong growth accompanied by healthy profitability. At the same time, we intend to implement measures specifically aimed at sustained efficiency and quality enhancement.

In which areas does Swisscom IT Services still have the potential to grow?

We are building on our leading role as system integrator for the banking sector and top player in the Swiss infrastructure outsourcing market, and intend to gain additional market share in this business. As far as existing customers are concerned, the focus is on contract extension and upselling. In these uncertain times we help our customers to keep costs down and generate savings. We also aim to systematically expand our business portfolio through new offerings, chiefly in the field of business process outsourcing for banking and SAP.

Jürg Rötheli
CEO
Swisscom Participations

"Growth outside the core business."

Why does Swisscom manage a portfolio of participations?

Alongside its core business, participations help Swisscom to tap the potential for growth in related business fields as defined by the company's three-pillar strategy.

We continually review internal and external growth opportunities as well as individual partnerships that support the development of our current participations and thereby increase the value of the portfolio as a whole. This work is carried out by a specialist unit.

Looking back on 2008, what were the most important developments?

2008 was an eventful year for us. One of the highlights was, of course, EURO 2008. Swisscom Broadcast did an excellent job of transmitting signals in Switzerland and Austria, and in so doing cemented its reputation as a technical infrastructure provider for major events.

We were also able to put the collaboration between Swisscom Switzerland and Cablex on a new intercompany footing and renewed the partnership between Alphapay and Swisscom Switzerland.

In August we successfully sold our subsidiary Minick Holding Ltd to the German company net mobile AG, in return acquiring a minority interest in the company.

What challenges does 2009 hold? Can you give an example?

Last year a great deal of effort was devoted to evaluating a suitable partner for facility management, in order to outsource this business. This year we intend to make the definitive decision on outsourcing and successfully transfer facility management to the selected partner.

We will step up our e-health and telemedicine activities in order to further exploit the growing potential of these markets. In particular, we plan to launch the "Evita" electronic patient file.

Stefano Parisi
CEO
Fastweb S.p.A

"We achieved all our goals in 2008!"

How would you sum up the most important aspects of the 2008 financial year?

We set ourselves ambitious targets at the beginning of 2008: revenue growth of 14%, an above-average increase in EBITDA, positive net income, positive annualised cash flow and a significant improvement in efficiency. We have achieved all these targets. One of the most important initiatives was the implementation of the new organisational structure in January 2008, which involved the creation of three business units ensuring end-to-end customer support for the consumer, SME and executive segments. In June Fastweb and Telecom Italia signed an agreement for the next-generation network infrastructure which allows established providers to access Fastweb's cable ducts. The company has also been offering mobile services to residential customers and SMEs since September 2008. Marketing of this service offering was aimed at Fastweb's customer base and generated the expected high response. In the Executive business unit, Fastweb established itself as the most important alternative provider to Telecom Italia, with year-on-year earnings growth of 41%.

What are Fastweb's goals for 2009?

Our goals for 2009 include focusing on organic revenue growth, realising further improvements in efficiency and generating structural cash flow. We are also pursuing challenging goals in terms of operational costs in order to be able to increase margins.

While we don't see ourselves playing an active role in Italy's market consolidation, we will continue to investigate opportunities for company acquisitions.

The financial crisis has not spared the telecoms sector. What challenges does this pose for Fastweb?

As yet the financial crisis has not had any major impact on the Italian market, or on Fastweb's growth opportunities. Our current positioning, which addresses all market segments, will allow us to optimally exploit the growth opportunities in the Italian market.

Daniel Ritz
Head of Group Strategy and Business Development
Swisscom Ltd

"The strategy we adopted two years ago is starting to bear fruit."

Looking back on 2008, what were the highlights for you?

The strategy we adopted two years ago is starting to bear fruit.

In the Swiss core telecommunications business we have succeeded in stabilising market share at a high level and achieving targeted growth. Customer loyalty has also increased further.

In a challenging competitive environment Fastweb has performed well, increasing its market share, recording double-digit revenue and EBITDA growth and living up to expectations.

Swisscom IT Services has also made good progress, successfully winning projects in the market and, in so doing, strengthening its market position, growing revenue and improving profitability.

All in all we were able to meet the 2008 projections for revenue, EBITDA and free cash flow which we had communicated to capital markets.

The Swisscom strategy is based on three pillars, "Maximise", "Extend" and "Expand". Which priorities and measures come under the "Extend" category?

In both the residential and business customer segments, Swisscom is extending its service along the entire value chain. In so doing, we are pursuing two goals: to differentiate our offerings in the core telecommunications business, and to tap additional revenue potential through new services.

Our efforts in the residential customers segment focus on growing the customer base of Bluewin TV, offering services related to the "digital home" and extending our range of mobile data services. In the business customer segment our priorities include corporate communication solutions, IT services (consulting, integration and operation) and mobile data services.

Besides Fastweb, do you see potential for further acquisitions abroad?

Acquiring Fastweb allowed us to enter the Italian broadband market. Our top priority outside of Switzerland is to successfully develop Fastweb and ensure a growing contribution to the Swisscom Group's free cash flow. This can be achieved through organic growth or through targeted acquisitions.

Given the management capacity and level of investment required, as well as our current debt situation, we will probably focus our attention on Switzerland and Italy over the next two to three years.

Günter Pfeiffer
Head of Group Human Resources
Swisscom Ltd

"Our employees identify very strongly with Swisscom."

In the year under review the Group was reorganised along the lines of individual customers segments. How did employees cope with the changes?

Our employees were prepared for and welcomed this realignment, which adjusted the organisation in line with our strategy. Even though our employee survey was conducted at the beginning of 2008, when we were in the throes of reorganisation, it found that our employees identify very strongly with Swisscom – much more so than in other companies. Our Swisscom colleagues are committed to delivering first-class customer service – as a result of which, customer satisfaction has increased even further.

The telecoms sector is undergoing sweeping changes. What challenges does this pose for Human Resources?

The rapidly changing competitive environment, coupled with regulatory decisions that are virtually impossible to factor into planning, mean that agility and a positive attitude to change are essential requirements for our management and staff. Last year we invested a great deal of time working with management in order to create an organisation that enabled each and every employee to play an active role in shaping the company's future. We view executive staff as a powerful engine for driving the company forward. When recruiting new staff we make sure that we hire individuals who are forward-looking and can tackle change with enthusiasm and commitment.

In view of the difficult economic climate, many companies are reducing their workforce. Does Swisscom have any plans in this direction?

We have no plans to shed jobs due to the economic situation. As in previous years, jobs will be eliminated in certain areas due to structural changes. Elsewhere, however, we are creating new jobs, for instance in on-site customer care and fibre-optic expansion. Whether we will end the year with a larger or smaller workforce is difficult to say at this point.

Stefan Nünlist
Head of Group Communications
Swisscom Ltd

"Being there for our customers – that's what we're passionate about!"

Stefan Nünlist, looking back, what was the focus of communications work in 2008?

Being there for our customers – that's what we're passionate about! So the launch of the new customer-focused organisation and brand identity were definitely the most challenging communication tasks of the past year. Another highlight was the communication campaigns that accompanied the expansion of the fibre-optic network. Thanks to healthy competition in the infrastructure market, Switzerland already has one of the best telecommunications infrastructures in the world. By extending the fibre-optic network to individual households in 2008, Swisscom laid the foundations for Switzerland's network of the future. Another exciting project was the communication activities for the European Football Championships. Personally, I was delighted with the positive start to the ski season. As main sponsor and long-standing partner of the Swiss Ski Association, we eagerly follow the progress of our winter sports athletes through good and bad times and are always happy to celebrate the terrific achievements of our ski stars.

What does Swisscom's new brand identity stand for?

Our new brand identity follows our corporate strategy and the associated focus on customers. We now offer customers all services from a single source, and this is also reflected in our new brand identity. Swisscom remains a reliable telecommunications and IT partner with outstanding service and superior products, services and networks. But we also aim to be close to our customers, to understand their needs and to create new, multimedia experiences, and our new identity places stronger emphasis on this "emotional" side of Swisscom.

What do you see as the communications challenges facing you in 2009?

First and foremost we need to make sure the investments are securely in place for construction of our fibre-optic network, and to continue fostering a dialogue with customers, partners and authorities about our networks and the "fibre suisse" model. Implementing our identity both internally and externally will also keep us on our toes. And finally we want to demonstrate more strongly what we are doing for Switzerland, the environment and our future.

Ueli Dietiker
Head of Group Finance
Swisscom Ltd

"Our shares were among the top six SMI performers in 2008."

Has the Swisscom Group been affected by the financial crisis?

Up to now practically the only effect has been a decline in the assets of our pension fund comPlan, due to the performance of the stock markets. comPlan's funding ratio fell from 108% to around 94% in 2008.

I am also expecting the higher financing costs to have an impact in future. We currently pay an average interest rate of around 3.2% on our outstanding debts. We want to conduct further refinancing transactions in 2009, but this will certainly no longer be possible on such attractive terms.

The impact on business performance, on the other hand, is much more difficult to predict. The current situation is unprecedented, so we can only speculate. In the past, the state of the economy has not had a major impact on the telecoms industry. Unlike with a car, where you can easily postpone buying a new one for a couple of years, it takes a lot before people start cutting down on ways of keeping in touch with friends and family.

How do you rate the performance of the Swisscom Ltd share price in 2008?

Even Swisscom shares could not fully escape the chaotic stock market conditions in the second half of 2008. Yet our shares were among the top six SMI performers in 2008, and the drop in share price of 23% was significantly lower than the European Telecoms Index, which plunged in CHF by 43% in the same period. This goes to show the defensive qualities of Swisscom's shares and indicates that Swisscom is seen as a safe haven, even in turbulent times. Given the planned dividend of CHF 19, the dividend yield is over 5% and Swisscom shares are therefore an attractive investment even in uncertain times.

Net income fell by about 15% to around CHF 1.75 billion. Are you still pleased with the year's results?

Yes I am. The year-on-year decline in net income was solely attributable to special effects. These include the CHF 162 million profit recorded in 2007 from the sale of subsidiaries as well as the CHF 126 million provision made in the second quarter of 2008 for premature withdrawal from international, cross-border leasing agreements. Adjusted for exceptional items, net income was largely unchanged year-on-year. However, a much more important indicator of Swisscom's earning power is operating free cash flow. Swisscom's operating free cash flow rose by CHF 399 million or 19.2% to almost CHF 2.5 billion compared to the previous year, thanks in no small measure to Fastweb's contribution of CHF 179 million. This is a very good result, which, thanks to Swisscom's dividend policy, will also benefit shareholders.

Highlights 2008

January

– Swisscom Switzerland Ltd, founded as part of the Group reorganisation, commences operations on January 1, 2008.
– Swisscom welcomes its five-millionth NATEL® customer: two thirds of the Swiss population now use the Swisscom mobile network.

March

– Swisscom reduces the unbundling price for subscriber access lines from CHF 31 to CHF 23.50 a month, retroactive to January 1, 2008.

April

– Swisscom brings Bluewin TV to the mobile phone, enabling customers to access TV programmes in high image and sound quality at the touch of a key.
– Swisscom increases its dividend, pays out an extraordinary dividend and reduces share capital.

May

– Swisscom steps up competition between DSL service providers and cable network providers by expanding its DSL offering and increasing the most commonly used bandwidth.
– Unisys and Swisscom IT Services join forces in the Swiss outsourcing market, enabling both companies to offer complete end-to-end IT outsourcing solutions to multinational companies based in Switzerland.
– Swisscom consolidates its position in the field of Microsoft-based unified communications solutions by acquiring Webcall.
– Swisscom and Verizon Business enter into a strategic partnership under which both companies can offer customers global unified end-to-end networking and ICT services.

June

– VDSL customers benefit from a cooperation agreement between Zattoo and Swisscom in the area of online television.
– Telecom Italia and Fastweb sign an operating agreement to build a next-generation network.

July

– Swisscom gains 62 new shops following acquisition on July 1, 2008 of the sales outlets of The Phone House AG.
– As national supporter of UEFA EURO 2008™ and official telecoms equipment provider in Switzerland, Swisscom was responsible for all IT and telecoms services during the UEFA European Football Championship.
– Swisscom launches the iPhone 3G on July 11, 2008.
– Swisscom kicks off expansion of the fibre-optic network to residential households.

September

– Swisscom sold its subsidiary Minick Holding AG.
– Fastweb commences operations as a mobile-service provider, supplementing its fixed-line, Internet and IPTV services and enabling subscribers to phone and surf while on the move.

October

– Fastweb introduces 100-megabyte access and offers mobile communications to small and medium-sized enterprises.
– The Federal Communications Commission (ComCom) lowers the unbundling price for subscriber lines to CHF 18.18 a month and reduces interconnection charges for 2007 and 2008 by 30% on an average.

November

– Two years after launching Bluewin TV, Swisscom celebrates its hundred-thousandth customer.

Economic Environment

Macroeconomic environment

The macroeconomic environment has prompted considerable uncertainty concerning Swisscom's future financial position, results of operations and cash flows as a result of the current financial and economic crisis. Macroeconomic factors with the greatest implications for Swisscom are the economy, exchange rates, interest rates and the equities and bond markets.

Economic development

Economic growth in Switzerland slowed significantly in the fourth quarter 2008. Overall economic performance is expected to decline in 2009, coupled with a rise in unemployment. Whether and to what extent the economic crisis will have a negative impact on consumption pattern in general and the demand for telecoms services in particular is very difficult to estimate. So far Swisscom has not noticed any adverse effect on business performance. Sound results in the first three quarters including customer gains in mobile, broadband and TV access were sustained into the fourth quarter. Cost-cutting measures by corporate customers, resulting in projects being postponed or shelved, could negatively impact business performance. Up to now, however, no signs of a fall-off in incoming orders or a significant change in customer churn rates have been in evidence. While the economic slowdown has hit Italy far worse than Switzerland, Fastweb has also not reported any negative impact on revenue or income to date.

Exchange rates

Swisscom's key foreign currencies are the euro (EUR) and the US dollar (USD). In 2008 the Swiss franc gained 9.7% and 5.3% respectively against the euro and the dollar. In addition to holding various financial assets and liabilities in foreign currencies, Swisscom also operates foreign subsidiaries. The largest foreign-currency item relates to the shareholding in its Italian subsidiary Fastweb. The carrying value of EUR 4.3 billion for Fastweb's net assets was reduced by CHF 0.7 billion due to translation adjustments. These unrealised currency losses are reported in the consolidated financial statements directly under equity and not in profit and loss. Swisscom's operating business in Switzerland has a relatively low volume of transactions denominated in foreign currencies. Outgoing payments in foreign currencies exceed incoming payments. Currency risks on net amounts are partly hedged by foreign exchange forwards and options. The amount of free cash flow generated by Fastweb is insufficient to cover the euro needs of Swisscom's business in Switzerland. The 2008 result was impacted by foreign currency losses and hedging costs amounting to CHF 8 million net.

Interest rates

Yields on government bonds and money market interest rates have declined sharply in recent months, while spreads for corporate bonds and loans have significantly increased. This has made it much more difficult and considerably more expensive to take on new debts to refinance existing debts and to finance investments. At the end of 2008 Swisscom's debts amounted to CHF 11.8 billion, of which CHF 0.7 billion will be due for repayment over the next two years. CHF 2.8 billion and CHF 3.4 billion will become due for repayment in 2011 and 2012 respectively.

Equities and bond markets

Retirement provision for Swisscom employees in Switzerland is managed by the company's own legally independent pension fund, comPlan. Future benefit obligations are covered by plan assets, primarily consisting of equities and bonds. The market value of these plan assets amounted to CHF 6.1 billion at the end of 2008, corresponding to around 35% of Swisscom's market capitalisation at 31 December 2008. Substantial losses on plan assets have resulted in a deficit of CHF 0.4 billion, corresponding to a funding ratio of 94%. Measured in accordance with IFRS principles, underfunding is as much as CHF 1.0 billion. Pension plan minimum funding requirements are not based on IFRS valuation but on Swiss GAAP ARR accounting principles. The comPlan Board of Trustees and Swisscom are reviewing short- and medium-term measures to increase the funding ratio to at least 100%. Plan assets face the risk of a further loss in market value.

Telecoms environment

The Swiss telecoms market is one of the most highly developed markets in the world and is characterised by a wide range of voice and data communications services and permanent innovation.

Wireline telephony

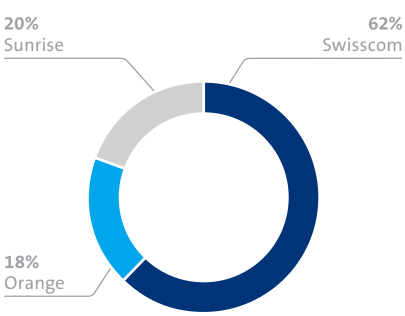
The Swiss wireline telephony market is largely saturated, with wireline customers steadily declining since 1995, largely due to substitution by mobile communications. Swisscom has 3.62 million wireline access lines. Besides Swisscom, cable network operators also have their own access infrastructure with the capacity to deliver voice, broadband as well as analogue and digital TV services to over 85% of households in Switzerland. The performance capability of cable networks has been steadily improving. A technological breakthrough has been achieved that will enable cable network operators to offer downstream bandwidths of up to 100 Mbps.

Specialised, purely Internet-based companies without a proprietary infrastructure – such as Skype or Zattoo – are increasingly offering voice, data as well as TV and other media and entertainment services.

Under the 2007 Telecommunications Act, Swisscom allows other service providers full unbundled access to subscriber lines. By the end of 2008 around 31,000 subscriber lines had been unbundled.

Mobile communications market

Market shares mobile subscribers



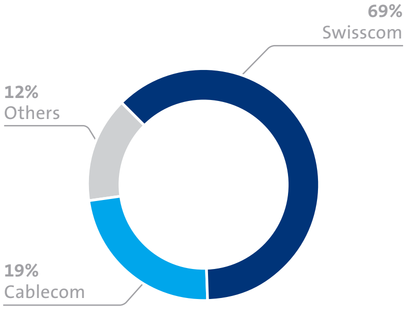
Mobile market penetration amounted to 113% in Switzerland. 39% of mobile subscribers have a prepaid card, while 61% are postpaid subscribers. Compared to other European countries, the portion of postpaid subscribers is relatively high in Switzerland.

The country has three operators of third-generation mobile networks: Swisscom, Sunrise and Orange. In November 2008 Sunrise acquired Tele2 Switzerland, which has a mobile licence and operates its own mobile network infrastructure in various Swiss cities.

At 62%[1], Swisscom commands a high market share, also by international standards. Swisscom outperformed the other market players in terms of customer growth in 2008, posting a slight gain in market share.

The mobile communications market is marked by continuing price erosion, fierce competition and increasing regulatory conditions. Mobile data services experienced robust growth in 2008, largely due to the launch of iPhone.

Market shares broadband access lines



Broadband market

The Swiss broadband market is still growing even though by international comparison the number of lines relative to the number of households is already very high. In 2008 the market grew by around 10%. Broadband lines chiefly use two technologies, DSL and cable modem. Around 50 cable network operators offer broadband via cable modem. The main player is Cablecom with a customer share of over 60%[1]. Cable broadband access lines have been declining steadily in the last few years and now only account for about 30%[1] of the market.

At the end of 2008 DSL access lines numbered 1.76 million. Swisscom offers DSL broadband access to other telecoms companies as a commercial wholesale product. At the end of 2008 there were 431,000 wholesale broadband access lines, representing nearly 25% of DSL access lines or around 18% of the total broadband market.

By the end of 2008, 31,000 subscriber lines had been fully unbundled. According to a decision passed by the Federal Administrative Court on 12 February 2009, Swisscom is obliged to offer fast bit-stream access to telecoms service providers. Swisscom will implement the decision as quickly as possible and offer a regulated range of services.

Italian telecoms market

The Italian broadband market grew from over one million connections in 2002 to 11.1 million in 2008. Fastweb is the second largest broadband provider in Italy after Telecom Italia. At the same time market penetration grew to almost 43% of households and businesses. Above-average growth is expected in Italy in the next few years due to the low broadband market penetration.

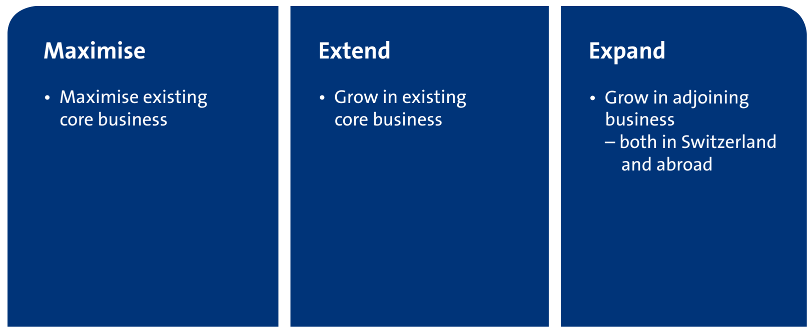
1 Market shares based on the company’s own calculations.

Strategy and Organisation

Strategy

Swisscom's core market in Switzerland is reaching saturation point. While Swisscom commands a leading position in the mobile, wireline and broadband sub-markets, fierce competition continues to erode prices and volumes. The resulting revenue and income losses need to be offset.

Swisscom is pursuing a three-pillared strategy: "Maximise", "Extend" and "Expand".



Following sweeping changes at Group level in 2007 (repurchase of Vodafone's minority stake in Swisscom Mobile, acquisition of the Italian broadband provider Fastweb, breakdown of Swisscom's core business into customer segments), efforts in 2008 focused on implementing operational measures in the individual segments, most notably at Swisscom Switzerland. Supported by a new visual identity and an internal mission statement applicable to all employees, business processes and approaches were brought more closely into line with the needs of customers. At the same time, efficiency was enhanced by eliminating duplication, and broadband infrastructure expansion continued.

Swisscom is pursuing a three-pillar strategy which is summarised below:

	Maximise	Extend	Expand
First-priority goals	**Maximise cash flow of Swisscom Switzerland** – Market leadership – Differentiation – Cost-efficiency		
Second-priority goals		**Key capital expenditures** to support – Swisscom in Switzerland – Fastweb	**Fastweb growth** conserved **Willingness to invest** conserved
Principles	**We are guided by the following investment principles** – Investments must serve to strengthen existing business – Peripheral businesses with a risk of loss must be avoided – Capitalfreed up through divestments should be used to pay off debt or be reinvested		

1. Maximise

Swisscom Switzerland aims to strengthen its already high levels of customer loyalty and consolidate its market shares by continuing to build up the service portfolio and deliver superior customer care. As well as investing heavily in upgrading the infrastructure to drive expansion of the fibre-optic network, it intends to invest in optimising the sales and service network. At the same time measures will be implemented to improve efficiency.

As an internal service provider, Swisscom IT Services can support Swisscom Switzerland in this context by helping to reduce IT costs and by delivering more flexible services.

2. Extend

In line with its commitment to provide customers with a broad range of information and communication services, Swisscom is continuing to develop its business activities along the entire value creation chain.

For Swisscom Switzerland's residential customer business, it entails building up its portfolio of digital TV offerings and mobile broadband services, while strengthening its presence in the digital advertising market and pursuing growth through selected partnerships with Internet service providers. In the corporate business market, Swisscom is positioned as a full-service provider and seeks to extend its voice, data and enterprise communication services to include innovative solutions such as unified communication and collaboration.

Swisscom IT Services aims to strengthen its presence in selected sectors and expand its expertise and service portfolio in targeted market segments such as outsourcing and system integration.

3. Expand

Swisscom seeks to identify and capitalise on growth opportunities outside its core business in Switzerland, predicated on clear industrial and strategic criteria.

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 in the "expand" strategy.

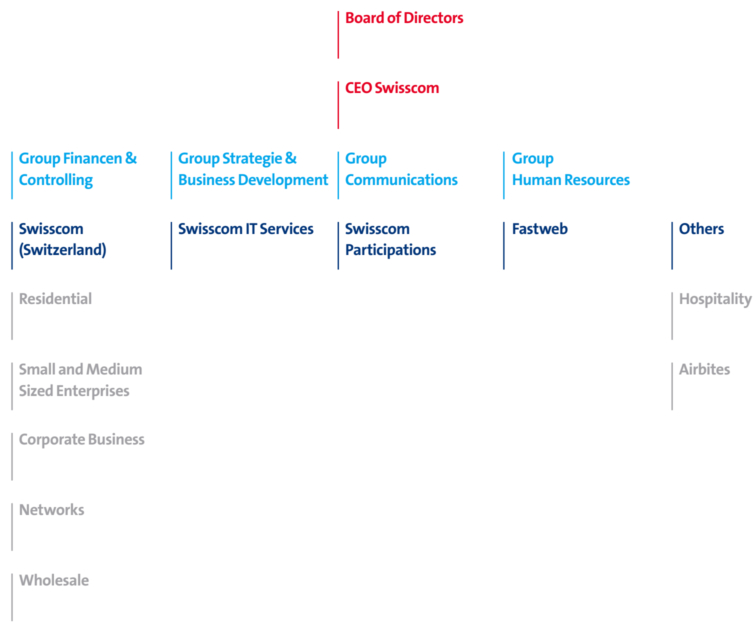
With its Hospitality Services, Swisscom is a leading provider of Internet access and IP-based television services for the international hotel industry. In line with Swisscom's convergence strategy, Hospitality Services will continue to drive digitisation in the hotel sector and complement its portfolio for hotels and guests with new, value-added service offerings.

Swisscom is also looking to expand by investing in venture capital business funds and by making direct investments in dynamic young companies in order to gain early access to new technologies and business ideas and, by so doing, assure its competitive position in its core business.

Organisation

The reorganisation in August 2007, which became legally effective on 1 January 2008, resulted in a clear corporate focus on four operating areas: Swisscom Switzerland, Swisscom IT Services, Swisscom Participations and Fastweb. Swisscom Switzerland is the contact partner for telecoms and data services in Switzerland, while in Italy the contact partner is Fastweb. Swisscom IT Services supports corporate customers in all IT-related matters. Other business activities, for example Swisscom Immobilien, Cablex, Swisscom Broadcast and Billag, are managed by Swisscom Participations.

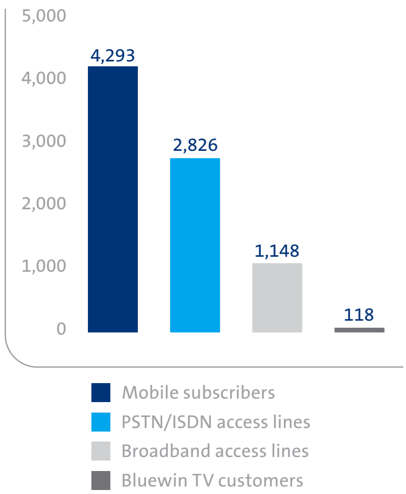
Reporting for the year 2008 is based on the following management structure:



Under the umbrella of Swisscom Switzerland, the “Residential Customers”, “Small- and Medium-Sized Enterprises”, “Corporate Business”, “Wholesale” and “Networks” operating segments, including support functions, focus on their respective target group. Each segment is responsible for the end-to-end design of their customer experience, from product portfolio and sales to consulting and service. The wireline and mobile communications infrastructures and IT platforms have been incorporated in a single division “Networks”, with an integrated network and IT unit responsible for driving convergence and the development of a modern IP-based network platform (All-IP).

The new Group structure provides customers with access to a full complement of offerings, all from a single source. The structure also reflects changes in technology, including the trend towards the convergence of wireline and mobile communications, IT, media and entertainment (TIME market), and guarantees customers a single point of contact for simple and efficient solutions. Swisscom is thus ideally placed to address the needs of its customers in a consistent and focused manner.

Residential access lines resp. customers in thousands in 2008



Operating segments

Residential Customers

The Residential Customers segment reported net revenue of CHF 4.8 billion in 2008, representing 39% of total Group revenue, and had 5,112 FTEs at the end of 2008.

The Residential Customers segment manages over 4.3 million mobile customers and over 2.8 million analogue and digital access lines, as well as more than 1 million broadband Internet connections (DSL) and a growing number of television subscribers (Bluewin TV). Residential Customers also operates Switzerland's most frequently-visited Internet portal, bluewin.ch.

Swisscom Residential Customers' main business is the connectivity market, with five sub-markets: mobile telephony, mobile data transmission, wireline telephony, broadband access and TV distribution.

The Residential Customers segment includes Swisscom Group companies, Swisscom Directories and associates CT Cinetrade and PubliDirect Holding AG.

Small and Medium-Sized Enterprises

The Small and Medium-Sized Customers segment reported net revenue of CHF 1.1 billion in 2008, representing 9% of total Group revenue, and had 782 FTEs at the end of 2008.

Swisscom's Small and Medium-Sized Enterprises (SME) segment delivers modular standard products and services to around 330,000 SME customers in Switzerland.

In the field of voice connectivity and enterprise communication, Swisscom offers SME customers a full array of wireline and mobile telephony services, complemented by a range of voice-over-IP products.

Data connectivity covers the full needs of SME customers in the area of data communication, from high-speed Internet access and site-to-site connectivity to mobile office solutions that provide access to data, e-mails and appointment calendars at any time and from any location, fostering efficient teamwork and collaboration.

In addition, Swisscom offers hosted messaging and collaboration services that enable customers to outsource parts of their IT infrastructure and thereby save on operating costs while benefiting from state-of-the-art solutions.

Corporate Business

The Corporate Business segment reported net revenue of CHF 1.7 billion in 2008, representing 14% of total Group revenue, and had 2,099 FTEs at the end of 2008.

As the leading full-service provider of efficient and reliable communications solutions, Swisscom Corporate Business focuses on addressing the needs of its 6,000 biggest corporate customers, with services ranging from ICT consulting and integration to operation and support. Swisscom Corporate Business also concludes outsourcing agreements whereby it assumes responsibility for the customer's ICT infrastructure.

Communication solutions cover the provision of voice and data services over the wireline and mobile network as well as supplementary services provided on site at the customer's premises (enterprise communication).

Swisscom Corporate Business offers integrated network solutions, from secure and reliable multi-site interconnection of company locations and data centres, to high-performance Internet access and in-house networking. Swisscom also offers "housing services" whereby client servers and their network termination are housed in Swisscom premises. Mobile data solutions that include the secure integration of mobile handsets in the customer's intranet allow employees to access company data and applications while on the move.

Large companies benefit from secure and reliable end-to-end solutions including on-site private branch exchanges which can be expanded to provide unified communications and collaboration solutions. The Corporate Business segment also offers business number solutions so that companies can be reached by their customers at any time via a single number.

Swisscom's one-stop integrated security solutions help corporate customers to protect their data and information effectively from exposure to risks and dangers.

Wholesale

The Wholesale segment reported net revenue of CHF 1.0 billion in 2008, representing 8% of total Group revenue, and had 105 FTEs at the end of 2008.

Swisscom Wholesale offers other telecom corporations an array of wholesale services that allow them to implement their own telecoms services, from interconnection services and unbundled access to broadband and data services.

Regulated interconnection services and other products covered by the Telecommunications Act are among the segment's main offerings. While the latter allow access to parts of the access network infrastructure, in particular unbundled subscriber lines, cable ducts and co-locations, a wide range of interconnection services enable third-party providers to use Swisscom's transport networks and platforms for telephony services. These include the termination of telephone calls on Swisscom's wireline and mobile network as well as access services that allow outgoing calls to be made on Swisscom's wireline network infrastructure.

Swisscom enables third-party providers to use and market diverse broadband services that include the use of high-speed DSL access services with bandwidths of up to 20 Mbps.

Additionally Wholesale offers a variety of data services for connecting locations and networks, including mobile network antenna sites.

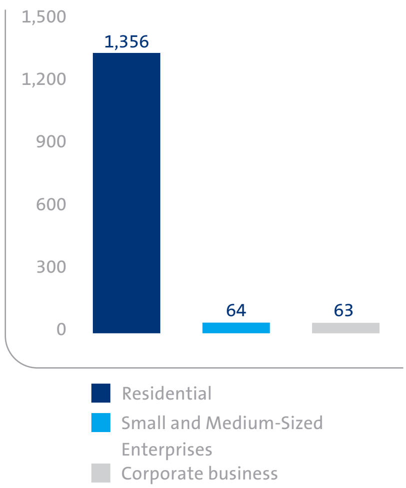
Networks

The Networks segment is managed as a cost centre and generates no revenue from third parties or other segments. At the end of 2008 the segment had 3,795 FTEs.

The segment is responsible for the wireline and mobile network infrastructures as well as the IT platforms.

This includes developing, building and maintaining the entire network infrastructure and providing the IT platforms for processes and products so that the Residential Customers, Small and Medium-Sized Enterprises, Corporate Business and Wholesale segments can meet the technical needs and requirements of their customers as efficiently and effectively as possible. As an integrated network and IT unit, Networks is driving the underlying technological shift towards a convergent, extensive All-IP network.

Customer structure of Fastweb in thousands



Support functions

The support functions of Swisscom Switzerland – finance, human resources, legal, procurement, innovation and strategy – are presented in the financial report together with the Networks segment.

Fastweb

Fastweb reported net revenue of CHF 2.7 billion in 2008, representing 22% of total Group revenue, and had 3,077 FTEs at the end of 2008.

Fastweb is Italy's second largest provider of telecoms services and operates an IP-based network on which it offers voice, data, Internet and TV services in all large towns and cities in Italy.

Fastweb serves all market segments, from large corporations to small and medium-sized enterprises (SME) and residential customers. It is also the most important supplier to Italy's government agencies. Fastweb's product portfolio ranges from voice, data, Internet and IPTV services and video-on-demand, to complete virtual private network services and bespoke solutions. The services are offered either directly via the company's own fibre-optic network or via unbundled access lines.

Under agreements concluded with 3 Italia in 2007, Fastweb also offers services as a mobile virtual network operator (MVNO).

Swisscom IT Services

Swisscom IT Services reported net revenue from third parties of CHF 435 million in 2008, representing approximately half of its total revenue, and had 2,578 FTEs at the end of 2008.

Swisscom IT Services is one of Switzerland's leading providers of information technology services to corporate customers. The core business is the integration and operation of complex IT infrastructures (workplace and data centre services).

Drawing on long-standing and comprehensive IT experience in the telecoms and financial sectors, Swisscom IT Services also delivers IT services to medium-sized and large enterprises and institutions in the area of public administration and healthcare. Together with its subsidiary Comit, Swisscom IT Services serves a large number of customers in the financial sector and is a market leader in this field.

Swisscom Participations

Swisscom Participations reported net revenue of CHF 359 million in 2008 and had 1,461 FTEs at the end of 2008.

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 tap growth potential in related business areas. The main Group companies managed by Swissom Participations are:

– Alphapay, which is positioning itself as Swiss market leader in payment collection services, specialises in the bulk handling of debt recovery. The company's core business model is based on integrated receivables management which combines risk information and payment collection processes in a single service and offers significant customer benefits.
– Billag is responsible for collecting radio and television licence fees on behalf of the Swiss Federation. This includes notifying and registering all households and businesses liable for payment of licence fees as well as managing the entire billing process. Billag transfers the fees to the entitled parties in compliance with the directives of the Federal Office of Communications (OFCON).
– Cablex is the leading company in Switzerland specialising in the construction and maintenance of wireline and wireless networks, mainly for telecommunication.
– Curabill specialises in third-party receivables management, mainly for the healthcare sector. Services cover the entire spectrum of processes related to data recording and management, billing and payment collection.

- Sicap specialises in mobile technologies for GSM operators and develops and operates mobile applications, including applications for the dynamic top-up of subscriber accounts, customer loyalty packages and systems for updating mobile handset and SIM configurations.
- Swisscom Broadcast is the leading company for the delivery of radio and TV signals from the broadcast studio to transmission sites as well as the terrestrial distribution of the signals throughout Switzerland. The company's telehousing service enables business customers in the telecommunications, radio and security fields to share Swisscom Broadcast's own transmitter stations. Swisscom Broadcast delivers services for the media sector, including the relay, processing and transmission of audio and video signals over flexible IP networks as well as over DAB, DVB-T and DVB-H for temporary events, up to high-bandwidth broadcasts for major events.
- As a centre of expertise, Swisscom Immobilien is responsible for Group-wide facility management, real-estate management and fleet management.

Hospitality Services

Hospitality Services reported net revenue of CHF 92 million in 2008.

Hospitality Services specialises in catering to the communications needs of the hotel industry and offers Internet-based services in 17 European countries and in the major cities of North America.

Hospitality Services maintains a high-speed Internet network serving more than 2,250 hotels throughout Europe and North America. The company also provides special communications solutions for events worldwide.

Swisscom Central & Eastern Europe (Airbites)

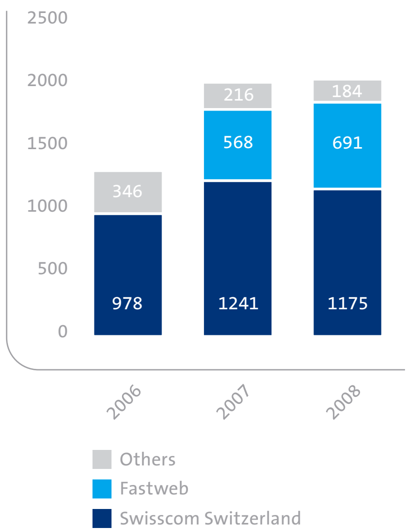
Swisscom Central & Eastern Europe (Airbites) reported net revenue of CHF 17 million in 2008.

Airbites provides broadband services for residential customers as well as small and medium-sized enterprises in cities in the Ukraine, Bulgaria and Rumania. The business activities of Airbites Poland were sold at the end 2008.

Group Headquarters

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

Development of capital expenditure CHF in millions



Capital expenditure and network infrastructure

Capital expenditure

Swisscom has one of the best telecoms infrastructures in the world and invests early on in new technologies. Ongoing network expansion necessitates a high volume of annual investments. In the 2008 financial year Swisscom invested capital expenditure amounting to CHF 2,050 million, of which Swisscom Switzerland accounted for CHF 1,175 million and Fastweb CHF 691 million. The ratio of capital expenditure to revenue was 16.8%.

44% of Swisscom Switzerland's capital expenditure in 2008 related to existing infrastructure, while customer projects accounted for 30% and the next-generation network 26%.

While Fastweb's ratio of capital expenditure to net revenue is significantly higher compared with Swisscom Switzerland, the ratio dropped sharply year-on-year from 35% to 26% in 2008 and will continue to decline over the next few years. A ratio of 23% is expected for 2009. More than half of Fastweb's capital expenditure is customer-related and commensurate with the growth in customer numbers.

Network infrastructure

Wireline

Swisscom operates a nationwide PSTN/ISDN network infrastructure, 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. Add-on technologies include microwave and fibre.

In 2000 Swisscom started rolling out ADSL broadband technology which, like PSTN/ISDN, runs on existing copper lines.

To facilitate new bandwidth intensive services such as IPTV and video telephony and to meet the 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 the transmission of up to two high-definition streams (HDTV) while simultaneously using a fast Internet access.

Transport network

The transport network is a purely digital network which 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 practically all private households and the bulk 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 maximum security and availability.

Data networks

Swisscom has several leased-line networks for the provision of managed and unmanaged services and a large number of switched data networks offering bandwidths of up to 2 Mbps. These are supplemented by an SDH and Ethernet platform which allow bandwidths ranging from 2 Mbps to 10 Gbps.

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 IP-based network infrastructure which will allow services to be provided irrespective of the selected access technology – copper, wireless or fibre. With the switchover of the data transport network to IP, commissioning of an IP-based telephony and multimedia platform and the first IP-based services like Bluewin TV and VoIP, Swisscom has already gained experience with All-IP.

Fibre-optic expansion

The volume of data transmitted over the wireline network has risen sharply. At present it is doubling every 20 months, and this 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 VoIP, unified communications and video conferencing are fuelling a growing demand from users for more bandwidth and traffic volume. Over the past few years Swisscom has been expanding the fibre-optic network in response to this trend. First the local exchanges were interconnected, following which the fibre-optic network was extended to distribution cabinets in local neighbourhoods. For some years now, a large number of major corporations and businesses have enjoyed fibre-optic connectivity, and in 2008 Swisscom started to extend access to residential customers and small and medium-sized enterprises. By the end of 2009, around 100,000 households in the cities of Zurich, Basel and Geneva will be connected to the fibre-optic network. In the course of the year the network will also be expanded to the cities of St. Gallen, Berne, Fribourg and Lausanne, with the ultimate aim of connecting over 1 million households or one third of the population by the end of 2015. Since March 2008, Swisscom has also been laying fibre-optic cable to all new or renovated residential and commercial buildings in the larger Swiss cities, so that there will be no need to dig up the ground a second time if and when there is a complete switch to fibre-optic networks.

Around 80% of capital expenditure on fibre-optic expansion is related to fibre-optic cable installation in existing cable ducts, and to in-house cabling, while hardware accounts for only 20% of the costs.

Mobile network

Swisscom operates a nationwide mobile telephony network in Switzerland. Swisscom's mobile services are based on GSM and UMTS, the predominant digital standards in Europe and much of the world. Swisscom's GSM network covers 99% of the population and operates in the 900 MHz and 1800 MHz frequency bands. The UMTS network uses the 2100 MHz band. The Federal Communications Commission has 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 for transmission between handsets and base stations.

In 2005 Swisscom 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 back in 2004, and since 2006 has continued to expand it using HSPA which allows download speeds of up to 3.6 Mbps, and in certain regions even up to 7.6 Mbps. UMTS/HSPA currently covers around 92% of the Swiss population.

Swisscom is also the leading provider of public wireless LAN (PWLAN) in Switzerland, with 1,026 hotspots. Thanks to roaming agreements concluded primarily with its own subsidiary Hospitality Services, it also offers access to further hotspots abroad.

Research and development

Swisscom's research and development activities distinguish between mid- and long-term research aimed at generating innovative offerings, and research aimed at implementing short- to medium-term innovation projects carried out jointly with the divisions and with network and IT specialists.

A combination of different elements determines the research focus: Swisscom relies on ethnological observations of multimedia and communications users that provide an insight into customer needs that have not yet been met, monitors trends to identify technology changes ("scouting"), and forges strategic partnerships with leading Swiss universities, industrial equipment manufacturers and software developers as well as start-up companies.

Swisscom's research and development projects primarily focus on the following areas:

- Working environments of the future: virtualisation solutions that enable secure remote access to a company's entire infrastructure from any computer, supported by wireline and mobile connectivity.
- Future TV and entertainment services: semantic content analysis that enables users to watch and seek personalised content (photographs, video); intelligent reception services that help users to select what they want to watch from the growing volume of entertainment offerings; convergent TV services that allow users to watch TV at any time, from any location.
- Immersive communication solutions: seamless handover between voice and video communications and between different types of terminals and devices in the home; new communication interfaces for interaction with devices and services.
- Gateways for third-parties: open-architecture programming interfaces that enable third-party providers to access Swisscom's convergent network, introduce innovations and offer a mix of telecommunications and Internet services.
- Open mobile platforms for tomorrow's handheld and portable devices: new software architectures for smartphones, ways of reducing the threshold for handheld terminal modifications, and the promotion of mobile Internet applications on mobile phones.
- Green network and IT infrastructure: innovative cooling methods to reduce energy consumption in network and data centres.
- Economical broadband networks: high-speed wireline or wireless networks for the home, with bit rates that support future fibre-to-the-home connectivity; Metropolitan Area Network architectures; innovative ways of using fibre optics that reduce the need for cable duct excavation in the access network.
- Cost-effective, flexible IT software architecture: service-oriented architecture with the potential to reduce time-to-market for new service offerings; open-source solutions for service fulfilment, reliability and billing, with the potential to reduce overall operating costs.

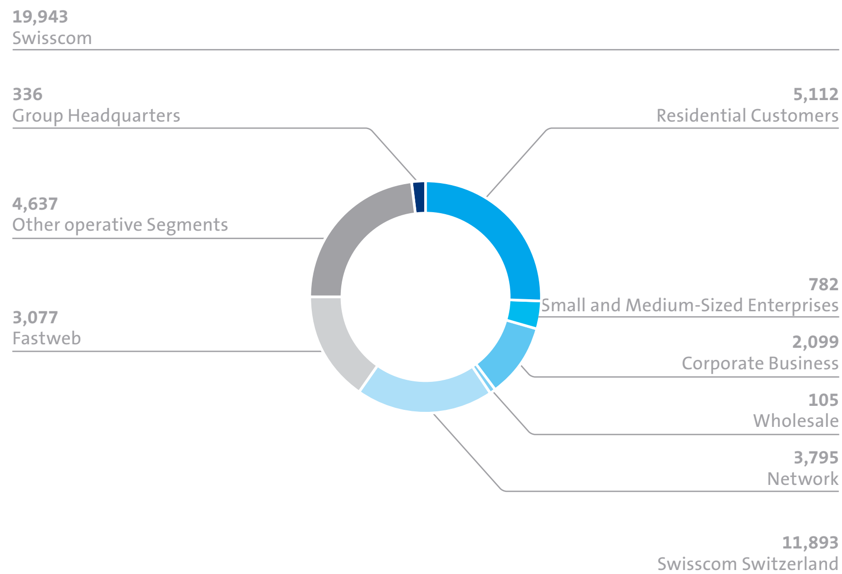
As part of this innovation process, Swisscom also implements business projects which can be incorporated subsequently in promising new start-up companies. This way, ideas with business potential but outside Swisscom's core portfolio of customer experiences can be effectively leveraged.

Human resources

Headcount

Swisscom is among the largest employers in Switzerland. At the end of 2008 it had 19,943 full-time equivalent employees (FTEs), of which 16,104 in Switzerland. A breakdown of employees by segment is shown below:

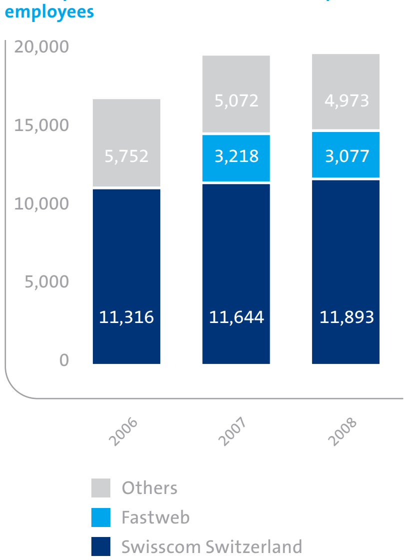
Number of full-time equivalent employees



In 2008 the total number of FTEs increased by 99 or 0.5% to 19,943. Acquisition of sales outlets The Phone House AG in July 2008 resulted in a increase of 219 FTEs. Adjusted for company acquisitions, headcount in the Residential Customers segment increased by 127 FTEs, mostly related to service quality enhancement. In Swisscom's foreign activities, Hospitality Services and Airbites, headcount increased by 101 FTEs net. Headcount in the other areas of Swisscom Switzerland as well as Fastweb fell mainly as a result of efficiency improvements.

The rapid pace of technological change is changing the demands placed on employees. Swisscom attaches high importance to supporting employees in developing their skills and preparing them for current and future challenges.

Development of number of full-time equivalent employees



Collective employment agreement / social plan

Since 1 January 2001 Swisscom employees have ceased to have civil servant status. Most employees in Switzerland are covered by a collective employment agreement (CEA). Special terms and conditions of employment apply to executive staff. A new CEA and social plan were introduced on 1 January 2006 and are valid for an indefinite period.

The social plan sets out the benefits provided by Swisscom to employees affected by large-scale redundancies or dismissals. The 2006 social plan takes into account the personal situation of affected employees, e.g. age and length of service. The main elements of the 2006 social plan are the outplacement programme PersPec and the employment programme Worklink. Only employees in Switzerland who are covered by the CEA are entitled to benefits under the social plan. Members of management affected by workforce reductions are supported by separate outplacement schemes.

The CEA offers employees flexibility and progressive employment conditions and makes provision for personal development opportunities in order to enhance employability. Swisscom's salary system contains a variable component which applies to all employees and is primarily dependent on achievement of overarching goals such as customer loyalty. Salaries are also contingent, among other things, on personal performance. Quantitative goals (financial and customer satisfaction targets) and qualitative objectives are defined at the beginning of each year.

The working week consists of 40 hours, and employees are entitled to five weeks' annual leave (six weeks from the age of 60). Swisscom also offers flexible working-hour models such as annual working hours, variable working hours and teleworking.

Under the terms of the CEA, Swisscom employees are not permitted to strike.

Employee representation and union relations

In compliance with the Telecommunications Enterprise Act, Swisscom is obliged to draw up a collective employment agreement in consultation with the unions. Failing agreement between Swisscom and the unions, a committee of arbitration is called upon to settle the issues at stake and to submit proposals to the social partners.

Under the Telecommunications Enterprise Act, employees must be granted adequate representation on the Board of Directors. The Articles of Incorporation state that the Board of Directors must include two employee representatives.

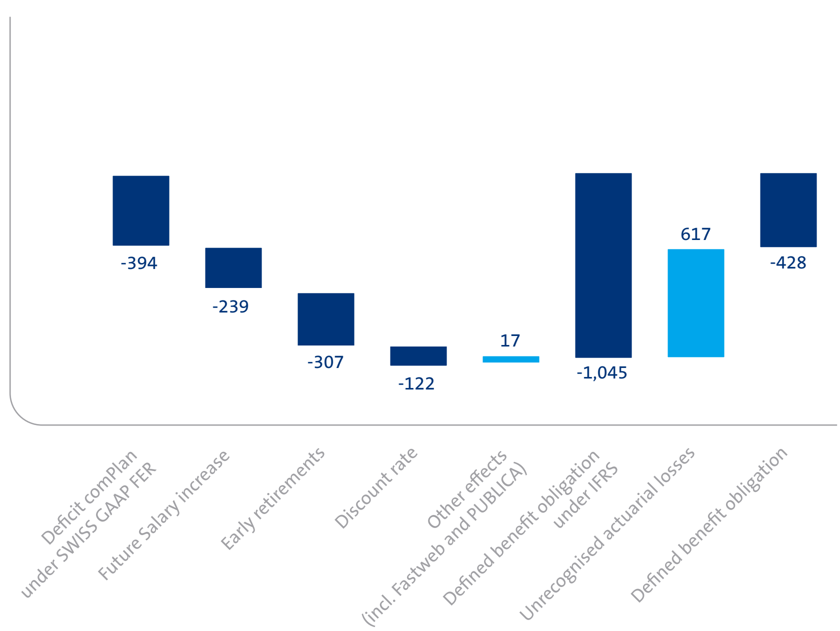
Under the CEA, employee representatives are granted co-determination rights in certain areas. In some cases such co-determination rights are exercised by the unions. The unions and Swisscom engage in a mutual exchange of information. Swisscom discusses and negotiates key issues such as pay rises and amendments to the CEA with the unions.

Pension plans

Obligatory and supplementary retirement provision for Swisscom employees in Switzerland is managed by the company's own pension foundation comPlan. comPlan insures employees against the economic consequences of old age, death and disability. At 31 December 2008 comPlan's provisional year-end results prepared under Swiss GAAP ARR showed underfunding of around CHF 394 million, or a funding ratio of around 94%. This compares with a prior-year funding ratio of 108%. In 2008 comPlan posted a negative return of 12.9% on plan assets. At the end of 2008, the market value of the plan assets amounted to CHF 6,076 million.

The benefit obligation and pension cost are measured in accordance with International Financial Reporting Standards (IFRS). At the end of 2008 the defined benefit obligation calculated in accordance with IFRS amounted to CHF 1,045 million. In contrast to Swiss GAAP ARR, this calculation follows IFRS guidelines and takes into account actuarial assumptions for future developments such as salary and contribution increases or pension indexation as well as employees taking early retirement. The benefit obligation is also measured using a variable discount rate.

Reconciliation to defined benefit under IFRS CHF in millions



Regulatory Environment

Swisscom's business is heavily influenced by the Federal Telecommunications Act and its ordinances. Any amendment to, or change in, the application of these regulations can have important implications for the company. The recently revised Telecommunications Act governs among things the unbundling of the last mile and at the same time defines the boundary conditions for future investments.

Implementation of the revised Telecommunications Act

In 2008 the focus was on implementation of the revised Telecommunications Act, including unbundling of the last mile. In line with the valid "ex post" regime, Swisscom's initial offerings were negotiated with all parties. In order to enforce the ex-post regime effectively, and conscious of the possibility of objections to the prices offered, Swisscom structured the contracts such that the statutory basic services could be provided even in the absence of any agreement on prices. In addition, Swisscom initiated "round-table talks" on the implementation of unbundling, to which all parties were invited and which proved extremely useful and constructive. As a result, agreements were reached with other providers on a great many of the technical and operational aspects, and within a few months of the revised Telecommunications Act coming into force co-location sites in many Swisscom exchanges had been unbundled and handed over to other providers. By the end of 2008, 597 locations had been unbundled, representing 57% of all subscriber lines. Demand is spread across Switzerland and based on population density. The number of unbundled access lines at the end of 2008 amounted to around 31,000. More than 138,000 customers have opted to pay for their telephone line via their chosen telephone service provider on the basis of a single bill for telephone line and services. Over 183 projects have been completed for co-use of cable ducts.

On 9 October 2008, the Federal Communications Commission (ComCom) defined the prices for the last mile, co-location and the interconnection of telephone networks. The monthly charge for the last mile in 2008 was CHF 18.18. Swisscom has accepted this and other prices ruled on by ComCom. Consequently, only a few months after the law came into force there is now legal certainty with regard to unbundling. In other countries such as Germany and Austria, where an ex-ante regime exists, many prices have been sub judice since 2002. This is a clear indication that ex-ante regimes do not accelerate the enforcement of legislation, since under both regimes official decisions, if objected to, can be taken at least as far as a court of appeal before they are implemented.

The Telecommunications Act sets the boundary conditions fibre-optic network investments

Unbundling of the last mile was deliberately restricted to existing networks, i.e. copper wire and cable ducts, in order to avoid modern, yet to be built fibre-optic networks coming under regulation. Parliament was aware that any "pre-emptive regulation" would dampen willingness to invest. Given the long-term nature of investments in the fibre-optic infrastructure , it is not possible to predict which access prices the regulator will rule on over such a lengthy period. The Telecommunications Act guarantees ownership protection (a key criterion for investment) and provides legal reassurance. Assured by this, several market participants, including Swisscom, have declared their willingness to invest billions in a state-of-the-art fibre-optic network.

Regulatory differences between Switzerland and the European Union

Within the European Union (EU), the regulatory authorities are responsible for analysing markets and, if necessary, demanding new access services. The Swiss legislator opted against such a regime, since the market conditions in Switzerland differ from those in the larger EU member states. The Swiss market is characterised by virtually nationwide competition between Swisscom, cable network providers and – more recently – a growing number of municipal electrical utilities. This market situation calls for a different, less extensive set of regulations than those in place in countries like Germany, France and Italy, where no platform competition can evolve due to the de facto existence of a single “last mile” network provider . In the Swiss regulatory framework the legislator conclusively defined which access services were to be offered by market-dominant players, and by so doing enhanced legal certainty. By restricting regulation to existing (copper) networks, the legislator aimed to create legal certainty and hence provide incentives for investments in fibre-optic network expansion. This core issue dominated the parliamentary debate on the revision of the Telecommunications Act.

Risk Factors

Explanations on risk management are provided in the section on Corporate Governance.

Risk factors which are regarded as the most important among those identified for the Group and which can influence its future financial position and results of operations are described below.

Regulation and proceedings

For Swisscom, provisions of the Telecommunications Act and Competition Act entail certain risks which may impact the company's future financial position and results of operations. Chief among these is the regulation governing access service prices, as well as decisions by official authorities or courts of appeal which may result in short-term cash outflows. Regulation can also impact the range of products and services as well as investment decisions.

Establishment of misuse of market dominance in the wholesale broadband service market could result in short-term cash outflows (see reference below to the Competition Commission's investigation into upstream ADSL offerings). In view of the well-functioning platform competition, particularly in terms of cable network operators and electrical utilities in the fibre-optic area, Swisscom believes it is not market-dominant. Swisscom did not include fast bit-stream access in the regulatory basic service offering since an obligation in this area is contingent on market dominance. On 12 February 2009 the Federal Administrative Court ruled that Swisscom was obliged to offer bit-stream access to other telecommunication service providers for a period of four years. The decision of the Federal Administrative Court is final. Swisscom will draw up the conditions including prices for bit-stream access as quickly as possible.

Due to the position it commands in certain markets, Swisscom is also subject to regular scrutiny under the terms of the antitrust law, primarily to determine any violations of the code of conduct for market-dominant companies. Any such violations can lead to sanctions. Swisscom operates an internal compliance scheme to ensure that its business activities comply with the provisions of the antitrust law. Several antitrust proceedings are currently being deliberated on by the Competition Commission (COMCO) and the Federal Administrative Court (Appeals Commission).

On 5 February 2007 COMCO fined Swisscom CHF 333 million due to allegedly excessive termination fees for its mobile network. Swisscom lodged an appeal with the Federal Administrative Court against this COMCO ruling. Based on a legal assessment of the matter, Swisscom is of the opinion that it is unlikely that sanctions will be imposed. The Federal Administrative Court is expected to issue its decision in the first half of 2009.

On 20 October 2005 COMCO opened an investigation into an allegation by a competitor that Swisscom had abused its position in the broadband market. Swisscom is accused of setting the prices for ADSL head-end services so high as to make it impossible to achieve any adequate profit margin compared to the prices billed by Swisscom to its end customers (margin squeeze). The investigation also had to determine whether these upstream ADSL offerings were forcing providers to charge unreasonable prices. Swisscom repudiates the market dominance claim and rejects the allegation of margin squeeze on the grounds that the prices for its upstream ADSL offerings are entirely capable of providing its ADSL competitors with a reasonable profit margin. On 12 November 2008 the Secretariat of COMCO petitioned the Commission to issue sanctions against Swisscom for abusing its market-dominant position in the area of ADSL services and asked Swisscom to state its position on the matter. The COMCO petition foresees a penalty amounting to CHF 237 million. Based on a legal assessment of the matter, Swisscom is of the opinion that it is unlikely that sanctions will be imposed.

Further development of the proceedings may result in a different assessment.

Competition in Switzerland

Switzerland's telecommunications market is characterised by intense competition, which in recent years has caused a substantial drop in prices for voice and data traffic as well as in the declining wireline sector and the still-growing mobile sector.

In view of market and competition trends and given the opportunities available to competitors as a result of unbundling the local loop, Swisscom expects to see increased competitive pressure in the future. Further price falls and loss of market share would have negative implications for Swisscom's revenue and profitability, particularly if it were unable to achieve a commensurate reduction in costs.

Technological progress and the battle with cable network providers for a share of the still-growing broadband market have led to an explosion in bandwidths, which in turn has necessitated hefty investments and will continue to do so in the future. Depending on how the market develops, there is a risk that such investments may yield zero or only partial returns.

Alongside contending with growing pressure from competitors, Swisscom faces the challenge of replacing offerings which are largely based on the traditional infrastructure with new products and services based on the Internet Protocol (IP). Should Swisscom fail to launch high-quality convergent bundled offerings on the market at attractive prices and in a timely manner, this could also have a negative effect on market share and the financial position.

Service quality is a key criterion for Swisscom's future competitive position. The risk is that Swisscom does not succeed in differentiating itself through service quality and will suffer a drop in revenue as a result.

Another risk is inherent in the rising cost of customer acquisition and loyalty schemes. This includes efforts to retain customers in the mobile and broadband market, since these markets, while still expanding, are growing at a slower rate and gradually approaching saturation.

Network and IT infrastructures

Swisscom's business is heavily dependent on technical infrastructures such as communications networks and information technology. In these areas force majeure, human error, hardware and software crashes and criminal actions by third parties (e.g. computer viruses), can result in damage or interrupted operations. This in turn can lead not only to costs for repairing any damage caused, but also to reduced customer satisfaction with the associated negative impact on Swisscom's image and revenues.

Another risk concerns the increasingly rapid obsolescence of the infrastructure, driven by the pace of technological change. Due to the ongoing further development of older systems and the integration of new systems in previous years, Swisscom's current IT landscape is highly complex. Lack of a harmonised IT landscape could, for instance, prevent Swisscom from enhancing its competitive capability and exploiting further potential for cost savings.

The current trend is also necessitating the integration of technologies and devices in order to offer multimedia services, which are expected to account for a significant proportion of future growth. Should Swisscom encounter difficulties in integrating this infrastructure or in operating these devices in conjunction with the existing infrastructure, this could delay implementation of the company's growth strategy or have a detrimental effect on customer satisfaction. Both scenarios could have a negative impact on Swisscom's image and business performance.

Products and services

Due to sustained technology convergence and the rapid pace of technological change, traditional technologies and products are increasingly being substituted by new ones, which may drive prices and revenue for voice and data traffic down further. The ongoing rise in the use of mobile phones as well as the option of VoIP telephony enabled by higher bandwidths pose a significant risk to traditional wireline voice telephony.

Another risk is posed by inadequate innovative capability, lack of development processes or poorly designed development processes, or a product range that is excessively complex. Consequently, newly developed products and services may be launched on the market too late or not at all, as a result of which customer demand cannot be satisfied fast enough or only by delivering insufficiently mature products.

To achieve its revenue targets, Swisscom must create sufficient added value for existing and new products and services and generate acceptance for these offerings. In particular, the major investments being made in broadband for mobile and wireline networks entail the risk that the use of, and revenue generated by, related products and services falls short of expectations.

Environment and health

In recent years electromagnetic radiation – for example from mobile antennae or mobile handsets – has repeatedly been claimed to be 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. In future there is a risk that the regulations governing electromagnetic emissions will be tightened, or new regulations will be enacted. 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 antennae or other wireless networks in future, and lead to higher costs.

Moreover, concerns about the possible effect of radiation from mobile communication systems and the use of mobile handsets pose an additional risk related to the intensity of use. Should scientific studies furnish proof that electromagnetic radiation has 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.

Fastweb valuation

In May 2007 Swisscom acquired Fastweb of Italy for a purchase price of CHF 5.1 billion. At the time of acquisition, Fastweb had net debts of CHF 1.8 billion. The main items recorded in the acquisition balance sheet are property, plant and equipment, goodwill and other intangible assets, in particular brand and customer relationships. By acquiring Fastweb, Swisscom was able to significantly enhance its growth potential. The value of assets is dependent on whether the revenue growth projected in the business plan can be achieved. The impairment test performed at the balance sheet date resulted in no impairment charge. If future growth is lower than projected, there is a risk that this will result in an impairment of goodwill.

Definition of key performance indicators

Item	Description
PSTN/ISDN access lines	All active access lines connected to the network using PSTN (Public Switched Telephone Network) or ISDN (Integrated Services Digital Network) telephone transmission technology. Internal business lines used by Swisscom are included. PSTN access lines:one line is equivalent to one access channel. ISDN access lines:one line consists of two or 30 access channels.
Unbundled access lines	The number of unbundled access lines in the last mile that are leased from Swisscom by other providers at regulated conditions to enable them to provide their own end user services.
Broadband access lines	All activated broadband connections using ADSL or VDSL technology, irrespective of the bandwidth selected by the customer.
Bluewin TV customers	Number of activated IPTV connections. IPTV (Internet Protocol Television; German) refers to the digital transmission of broadband applications, such as television programmes and films, via a digital data network.
Mobile subscribers postpaid and prepaid	Number of active SIM cards. Postpaid payment systems are telephone contracts postpaid and prepaid where services are billed after use. Prepaid systems are contractual relationships without a fixed monthly charge where services are paid via a credit account that is topped up in advance. With postpaid systems, SIM cards are used to quantify the customer base for the term of the contract. With prepaid systems, the 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 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 longer period of absence) or by Swisscom (debt collection), 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 smaller than CHF 0, although the SIM card is still included in the customer base.
Average revenue per mobile user (ARPU)	The average mobile revenue generated (voice, data, SMS and MMS) by each mobile user per month. This includes revenue from outgoing and incoming calls, monthly subscription charges, revenue from roaming of Swisscom customers abroad, as well as revenue from value-added services. Traffic revenue from M-Budget users is not included. Revenue not generated by Swisscom customers (e.g. inbound roaming) is also not included.
Average usage per mobile user (AMPU)	The average number of tax minutes per mobile user per month. This includes tax minutes of outgoing and incoming calls, roaming traffic of Swisscom customers abroad, as well as tax minutes using value-added services.
Subscriber acquisition cost	Average acquisition costs incurred in connection with acquiring new customers in one period. This is made up of subsidies for handsets sold in own sales outlets, dealer commission, subsidies for third party channels, sales aids and advertising cost subsidies.
Subscriber retention cost	Average costs incurred in connection with renewing contracts with existing customer in one period. This is made up of subsidies for handsets sold in own sales outlets, dealer commission and subsidies for third party channels.

Financial Review

Introduction

The commentary on business development should be read in conjunction with the consolidated annual financial statements of Swisscom. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. The most important accounting principles are described in Note 3 to the consolidated financial statements.

Swisscom offers telecommunication services mainly in Switzerland and Italy.

The financial review reports on the following segments:

- **Swisscom Switzerland,** includes the operating segments:
- Residential Customers
- Small and Medium-Sized Enterprises
- Corporate Business
- Wholesale
- Networks
- **Fastweb**
- **Other Operating Segments,** mainly include the operating segments Swisscom IT Services, Swisscom Participations, Hospitality Services and Swisscom Central & Eastern Europe (Airbites)
- **Group Headquarters** mainly comprises Group Headquarter divisions and the employment company Worklink

Reorganisation and alterations to financial reporting

As of August 1, 2007, Swisscom reorganised. Since then, the consistent focus of the company on its customers' needs has also been reflected in its organisation. The step was legally effected as of January 1, 2008. The former group companies Swisscom Fixnet AG, Swisscom Mobile AG and Swisscom Solutions AG were merged to become Swisscom (Switzerland) Ltd. Swisscom Switzerland now includes the business divisions "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business", "Wholesale" and "Networks". The supporting functions of financing, human resources and strategy of Swisscom Switzerland have been centralised in the division Networks.

The reporting structure was aligned with the new customer-centric organisational structure. The business divisions of Swisscom Switzerland are disclosed as individual operating segments. The revenue and segment results reported correspond to internal reporting to the Group Executive Board and the Board of Directors. No costs are charged for the use of fixed and mobile networks in the financial management of the customer segments. The results of the customer segments Residential Customers, Small and Medium-Sized Enterprises, Corporate Business and the Wholesale division therefore correspond to a contribution margin before network costs. Network costs are planned, monitored and controlled by the Networks division. The Networks segment is managed as a cost centre. No revenue is credited and the segment result before depreciation and amortisation is presented as operating expenses less capitalised costs and other income. The accumulated results of the individual segments within Swisscom Switzerland add up to the operating result (EBITDA and EBIT) for Swisscom Switzerland.

Swisscom Ltd (Group Headquarters) does not charge any management fees to group companies for the financial management of the operating segments.

Segment disclosure is based on the management approach. IFRS 8 "Operating Segments" is therefore already being applied earlier than required from the 2008 financial year. The previous year's figures were adjusted accordingly.

Changes in the scope of consolidation

Acquisitions and disposals of subsidiaries in 2008

- Acquisition of local.ch AG by Swisscom Directories on January 1, 2008
- Acquisition of Webcall GmbH by Swisscom Switzerland on June 23, 2008
- Acquisition of the sales outlets of The Phone House AG by Swisscom Switzerland on July 1, 2008
- Acquisition of coComment B.V. by Swisscom Switzerland at the end of 2008
- Sale of Minick Holding AG on September 1, 2008
- Sale of Airbites Poland on December 22, 2008

Acquisitions and disposals of subsidiaries in 2007

- Acquisition of Fastweb on May 22, 2007
- Acquisition of IFBS AG by Comit in August 2007
- Acquisition of Talkfinance AG by Comit in December 2007
- Acquisition of various smaller companies in Rumania and the Ukraine by Swisscom Central & Eastern Europe (Airbites)
- Sale of the cards business (Accarda) in July 2007
- Sale of Antenna Hungária in July 2007
- Sale of the business activities of Infonet Switzerland in December 2007

Litigations

Interconnection proceedings Swisscom (Switzerland) Ltd

Since 2000 Swisscom (Switzerland) Ltd has been involved in various proceedings concerning interconnection prices. Provisions were adjusted in 2008 as a result of a reassessment. Of these adjustments, an amount of CHF 12 million is presented in EBITDA as a one-off item in 2008 (one-off item previous year CHF 91 million). On December 31, 2008 provisions amounted to CHF 296 million.

Competition commission proceedings

The competition commission (WEKO) is currently leading various proceedings against Swisscom. These involve investigations into mobile termination fees as well as the relationship between ADSL wholesale and retail prices. If it is proved that Swisscom has violated Antitrust Law, WEKO is entitled to impose monetary sanctions. In view of its legal assessment Swisscom is of the opinion that it is unlikely that sanctions will be imposed. Consequently no provisions were recognised in 2008 in connection with these proceedings.

One-off items in net revenue and operating income (EBITDA)

The table below shows the impact on net revenue and EBITDA as a result of the changes in the scope of consolidation and provisions for legal proceedings mentioned above.

CHF in millions	Net revenue	EBITDA
Financial statements as of December 31, 2008	12,198	4,789
Financial statements as of December 31, 2007	11,089	4,501
Changes to the previous year	**1,109**	**288**
Analysis of changes to the previous year		
Effect of business combination Fastweb	1,225	366
Effect of other changes in scope of consolidation	(150)	(30)
Effect of provisions relating to interconnection proceedings of Swisscom Switzerland	(6)	(79)
Other changes	40	31
Total changes to the previous year	**1,109**	**288**

International Financial Reporting Standards (IFRS) and interpretations

Swisscom is applying IFRS 8 “Operating Segments” (effective from January 1, 2009) earlier than required from the 2008 financial year. The previous year’s figures have been reclassified accordingly.

The other new and amended International Financial Reporting Standards and Interpretations which are compulsory for financial years beginning on or after January 1, 2008 do not have any impact on Swisscom’s reporting.

CHF in millions, except where indicated	2008	2007	Change
Net revenue	**12,198**	**11,089**	**10,0%**
Goods and services purchased	(2,750)	(2,348)	17,1%
Personnel expenses	(2,466)	(2,442)	1,0%
Other operating expenses	(2,647)	(2,229)	18,8%
Capitalised costs and other income	454	431	5,3%
Operating income (EBITDA)	**4,789**	**4,501**	**6,4%**
Depreciation, amortisation and impairment	(2,149)	(1,986)	8,2%
Operating income (EBIT)	**2,640**	**2,515**	**5,0%**
Gain on sale of subsidiaries	–	162	–
Financial income and financial expense, net	(488)	(191)	155,5%
Share of profit of investments in associates	47	32	46,9%
Income before income taxes	**2,199**	**2,518**	**–12,7%**
Income tax expense	(448)	(447)	0,2%
Net income	**1,751**	**2,071**	**–15,5%**
Net income attributable to equity holders of Swisscom Ltd	1,756	2,068	–15,1%
Net income attributable to minority interests	(5)	3	–
Average number of outstanding shares (in mio.)	51.793	51.802	–
Earnings per share (in CHF)	33.90	39.92	–15,1%

Swisscom reported an increase in net revenue in 2008 of 10.0% to CHF 12,198 million and in operating income before interest, taxes, depreciation and amortisation (EBITDA) of 6.4% to CHF 4,789 million. The increase is mainly attributable to the acquisition of Fastweb in May 2007. Fastweb contributed CHF 2,698 million or 22.1% to consolidated net revenue and CHF 864 million or 18.0% to EBITDA.

Although EBITDA increased by CHF 288 million, net income fell by CHF 320 million (–15.5%) to CHF 1,751 million. This is due to higher depreciation and amortisation at Fastweb, higher net financial expense and the profit of CHF 162 million from the sale of subsidiaries in the previous year. Financial expense includes provisions of CHF 126 million for the early termination of cross-border lease agreements.

The operating free cash flow increased by CHF 399 million (+19.2%) to CHF 2,476 million in 2008.

Excluding Fastweb, Swisscom expects net revenue for 2009 of between CHF 9.2 billion and CHF 9.3 billion, EBITDA of between CHF 3.8 billion and CHF 3.9 billion and capital expenditure of around CHF 1.35 billion. Fastweb is expected to report revenue of around EUR 1.8 billion, EBITDA of around EUR 560 million and capital expenditure in the region of EUR 415 million. Group operating free cash flow including Fastweb will lie between CHF 2.6 billion and CHF 2.7 billion.

Net revenue and operating income (EBITDA)

	Net revenue [1]			Segment result (EBITDA)		
CHF in millions	2008	2007	Change	2008	2007	Change
Swisscom Switzerland	8,679	8,693	–0,2%	3,793	3,886	–2,4%
Fastweb	2,698	1,473	83,2%	864	498	73,5%
Other operating segments	1,831	1,944	–5,8%	324	317	2,2%
Group Headquarters	6	6	–	(176)	(184)	–4,3%
Intersegment elimination	(1,016)	(1,027)	–1,1%	(16)	(16)	–
Total	**12,198**	**11,089**	**10,0%**	**4,789**	**4,501**	**6,4%**

1 Includes intersegment revenue.

In 2008 accumulated net revenue of CHF 12,198 million was 10.0% or CHF 1,109 million higher year-over-year. EBITDA in 2008 increased year-over-year by CHF 288 million (+6.4%) to CHF 4,789 million. Fastweb contributed CHF 1,225 million to the increase in net revenue and CHF 366 million to the improved EBITDA. Without taking into account Fastweb and other one-off items, net revenue increased by CHF 40 million (+0.4%) and EBITDA by CHF 31 million (+0.8%). Last year's EBITDA also included costs of CHF 65 million for the interactive TV remote control Betty which was discontinued at the end of 2007.

Price erosion in the traditional telecommunication services in Switzerland continued in 2008 and led to a decline in net revenue and EBITDA of over CHF 400 million. This decline could be compensated by continuing increase in mobile subscribers and broadband communication as well as additional revenue from mobile data services and Bluewin TV.

Swisscom reported strong growth in revenue from the increasingly popular mobile data transmission products. In the third and fourth quarters of 2008, revenues from the sale of mobile handsets rose sharply as a result of the successful launch of the Apple iPhone. 181,000 iPhones were sold in 2008, which led to a significant increase in new subscribers. The related costs for equipment subsidies and dealer commission are seen as an investment in the future.

Taking into account the effects of changes in the scope of consolidation, other operating segments reported a marked rise in revenue, mainly as a result of growth in third-party business at Swisscom IT and in the foreign subsidiary Hospitality Services.

Goods and services purchased

CHF in millions	2008	2007	Change
Raw material and supplies	44	23	91,3%
Services purchased	374	317	18,0%
Customer premises equipment and trade goods	753	676	11,4%
National traffic fees	349	433	–19,4%
International traffic fees	448	448	–
Traffic fees of foreign operations	782	451	73,4%
Total goods and services purchased	**2,750**	**2,348**	**17,1%**

Goods and services purchased increased by CHF 402 million (+17.1%) to CHF 2,750 million year-over-year. Taking into account the increase as a result of the acquisition of Fastweb (CHF 431 million) and other one-off items, goods and services purchased was CHF 22 million (+1.3%) higher than the previous year. The increase in goods and services purchased can be mainly attributed to the growth in the areas of outsourcing and system integration and the higher number of handsets sold following the launch of the iPhone. Traffic fees fell as a result of lower roaming and termination prices together with a lower volume in national wholesale traffic. International traffic increased due to higher use, especially in the area of roaming.

Personnel expenses

CHF in millions	2008	2007	Change
Salaries and wages	1,999	1,921	4,1%
Social security expenses	225	213	5,6%
Pension cost	120	171	–29,8%
Expense for share-based payments	6	9	–33,3%
Salaries and wages of the employment company Worklink	29	44	–34,1%
Other personnel expenses	87	84	3,6%
Total personnel expenses	**2,466**	**2,442**	**1,0%**

Personnel expenses increased by CHF 24 million (+1.0%) to CHF 2,466 million. Taking into account acquisition and disposal of subsidiaries, personnel expenses decreased by CHF 50 million (–2.2%). This is mainly due to lower pension costs and lower costs for the employment company Worklink. Year-over-year headcount increased by 99 full-time equivalent employees (+0.5%) to 19,943. This is principally the result of development in growth areas, the improvement of service levels, as well as the acquisition of the sales outlets of The Phone House AG in the third quarter of 2008 by Swisscom Switzerland. This was partially offset by the sales of Minick and Airbites Poland and discontinued activities for the interactive TV remote control Betty at the end of 2007.

The headcount at year-end was as:

Number of FTE, except where indicated	2008	2007	Change
Swisscom Switzerland	11,893	11,644	2,1%
Fastweb	3,077	3,128	–1,6%
Other operating segments	4,637	4,727	–1,9%
Group Headquarters	336	345	–2,6%
Total full-time equivalent employees at end of period	**19,943**	**19,844**	**0,5%**
Average number of full-time equivalent employees	19,801	18,755	5,6%
Net revenue per employee (CHF in thousands)	616	591	4,2%
EBITDA per employee (CHF in thousands)	242	240	0,8%

Participants in the two social plan programs, Outplacement (39 full-time equivalent employees) and the employment company Worklink (145 full-time equivalent employees) are not included in the headcount reported as at December 31, 2008.

Other operating expenses

CHF in millions	2008	2007	Change
Rent	355	277	28,2%
Repair and maintenance	287	267	7,5%
Loss on sale of property, plant and equipment	9	39	–76,9%
Energy	98	96	2,1%
Information technology cost	181	174	4,0%
Advertising and promotion	213	218	–2,3%
Commissions	443	364	21,7%
Contractors and consultancy expenses	329	293	12,3%
Allowances for bad debt	152	42	261,9%
Reversal of provisions relating to interconnection proceedings of Swisscom Switzerland	(18)	(91)	–80,2%
General and administration	217	204	6,4%
Other operating expenses	381	346	10,1%
Total other operating expenses	**2,647**	**2,229**	**18,8%**

Other operating expenses rose year-over-year by CHF 418 million (+18.8%) to CHF 2,647 million. Changes in the scope of consolidation led to a net increase of CHF 334 million, of which Fastweb accounted for CHF 374 million. In October 2008 ComCom ordered new prices for interconnection services and other regulated products. On the basis of this decision, provisions of net CHF 12 million were reversed in 2008 and recorded through operating income. Of this amount, CHF 18 million were released over operating expenses. As a result of an assessment, CHF 91 million of provisions for interconnection proceedings could be reversed in the fourth quarter of 2007. Taking into account these one-off items, other operating expenses increased slightly by

CHF 11 million (+0.6%). The higher costs for market launches of new products such as Bluewin TV, as well as for the improvement of customer services and the development of new markets in the current year could not be fully offset. The increase in allowances for bad debt is a result of adjustments to old receivables at Fastweb. Last year's figures for operating expenses also include the costs of the interactive TV remote control Betty which was discontinued at the end of 2007.

Capitalised costs and other income

CHF in millions	2008	2007	Change
Capitalised costs	269	264	1,9%
Gain on sale of property, plant and equipment	15	38	–60,5%
Income from employment company Worklink (personnel hire)	9	11	–18,2%
Compensation payment of Telecom Italia relating to proceedings	48	–	–
Reversal of provisions and allowances for bad debts from interconnections proceedings of Fastweb	–	66	–
Other income	113	52	117,3%
Total capitalised costs and other income	**454**	**431**	**5,3%**

Capitalised costs and other income rose in 2008 by CHF 23 million (+5.3%) to CHF 454 million, of which CHF 68 million can be attributed to Fastweb. This includes a one-off amount of EUR 30 million (CHF 48 million) recorded in the second quarter of 2008, resulting from a compensation payment by Telecom Italia. This was based on an agreement between Fastweb and Telecom Italia in connection with the proceedings about unfair solicitation of customers by Telecom Italia. Adjusted by one-off items, capitalised costs and other income decreased year-over-year by CHF 45 million (–14.7%). This is mainly attributable to lower gains of CHF 23 million from sales of real estate by Swisscom Immobilien AG.

Depreciation, amortisation and impairment

CHF in millions	2008	2007	Change
Depreciation and impairment on tangible assets	1,563	1,502	4,1%
Amortisation on intangible assets	557	411	35,5%
Impairment of goodwill and other intangible assets	29	73	–60,3%
Total depreciation, amortisation and impairment	**2,149**	**1,986**	**8,2%**

The increase in depreciation, amortisation and impairment in 2008 of CHF 163 million (+8.2%) to CHF 2,149 million is mainly attributable to the acquisition of Fastweb (effect of CHF 307 million). In addition, part of the acquisition costs for Fastweb were capitalised within the purchase price allocation as intangible assets such as customer relationships and brand, and will be amortised over the estimated useful lives of between 7 and 11 years. In the 2008 financial year amortisation amounted to CHF 176 million.

As a result of a decision by the Federal Communications Commission (ComCom), the useful lives of ducts were reviewed and altered with effect from January 1, 2008 from 20 to 40 years. The positive impact on depreciation in 2008 amounted to CHF 120 million.

Gain from the sale of subsidiaries

A gain of CHF 162 million was recorded in 2007 on the sale of the subsidiaries Antenna Hungária und Infonet Switzerland.

Net financial result

CHF in millions	2008	2007	Change
Interest income	113	136	(23)
Interest expense	(434)	(396)	(38)
Net interest expense	**(321)**	**(260)**	**(61)**
Present value adjustment on provisions	(12)	(3)	(9)
Interest on provisions relating to interconnection proceedings of Swisscom Switzerland	14	(1)	15
Recognition of provisions for cross-border lease agreements	(126)	–	(126)
(Foreign exchange losses) Foreign exchange gains	(8)	84	(92)
Other financial income, net	(35)	(11)	(24)
Total financial income and financial expense, net	**(488)**	**(191)**	**(297)**

Net financial expense in 2008 increased by CHF 297 million to CHF 488 million year-over-year. The increase is due on the one hand to higher net interest expense of CHF 61 million in connection with the acquisition of Fastweb, as well as the recognition of provisions of CHF 126 million in the second quarter of 2008 in connection with the early termination of cross-border lease agreements. On the other hand a gain of CHF 72 million was made in the second quarter of 2007 from currency hedges in connection with the acquisition of Fastweb.

Investments in associates

CHF in millions	2008	2007	Change
Share of profit of investments in associates	47	32	15
Total share of profit of investments in associates	**47**	**32**	**15**

Share of profit of investments in associates rose year-over-year by CHF 15 million to CHF 47 million. The item mainly comprises the share of profit of investments in Belgacom International Carrier Services, Cinetrade and PubliDirect.

Income tax expense

CHF in millions	2008	2007	Change
Current income tax expense	343	462	–25,8%
Deferred income tax expense	105	(15)	–
Total income tax expense	**448**	**447**	**0,2%**
Effective income tax rate	20,4%	17,8%	
Income taxes paid	401	469	–14,5%

Income tax expenses amounted to CHF 448 million (previous year: CHF 447 million), which corresponds to an effective income tax rate of 20.4% (previous year 17.8%). Income tax payments decreased year-over-year by CHF 68 million to CHF 401 million.

Net income and earnings per share

CHF in millions, except where indicated	2008	2007	Change
Operating income (EBITDA)	**4,789**	**4,501**	**6,4%**
Depreciation, amortisation and impairment	(2,149)	(1,986)	8,2%
Operating income (EBIT)	**2,640**	**2,515**	**5,0%**
Gain on sale of subsidiaries	–	162	–
Financial income and financial expense, net	(488)	(191)	155,5%
Share of profit of investments in associates	47	32	46,9%
Income tax expense	(448)	(447)	0,2%
Net income	**1,751**	**2,071**	**–15,5%**
Net income attributable to equity holders of Swisscom Ltd	1,756	2,068	–15,1%
Net income attributable to minority interests	(5)	3	–
Average number of outstanding shares (in mio.)	51.793	51.802	–
Earnings per share (in CHF)	33.90	39.92	–15,1%

Net income decreased in 2008 by CHF 320 million (–15.5%) to CHF 1,751 million despite higher EBITDA. The decline in net income is primarily due to scheduled amortisation of acquisition costs for Fastweb amounting to CHF 176 million which were capitalised as intangible assets, higher net interest expense of CHF 61 million and the recognition of provisions of CHF 126 million in the second quarter of 2008 in connection with the early termination of cross-border lease agreements, as well as a gain of CHF 162 million recognised in the prior year from the sale of subsidiaries.

Earnings per share are calculated on the basis of net income attributable to equity holders of Swisscom Ltd and the average number of shares outstanding. Net income attributable to equity holders of Swisscom Ltd decreased year-over-year by 15.1% to CHF 1,756 million. Earnings per share fell accordingly from CHF 39.92 to CHF 33.90.

Segment results

Swisscom Switzerland

Swisscom Switzerland includes the operating segments “Residential Customers”, “Small and Medium-Sized Enterprises”, “Corporate Business”, “Wholesale” and “Networks”. The group company Swisscom Directories AG is included in the “Residential Customers” segment. Supporting functions (Headquarters) of Swisscom Switzerland are included in the segment “Networks”.

A contribution margin is also presented for the segments of Swisscom Switzerland in addition to the segment results. This contribution margin is made up of net revenue less direct revenue-related costs such as expenditure on trade goods or traffic fees. The segment result also includes indirect costs such as personnel expenses or structural costs, capitalised costs and other income as well as depreciation and amortisation.

The development of Swisscom Switzerland is presented in the following table:

CHF in millions	2008	2007	Change
Net revenue			
Residential Customers	4,771	4,787	–0,3%
Small & Medium-Sized Enterprises	1,098	1,072	2,4%
Corporate Business	1,733	1,715	1,0%
Wholesale	994	1,036	–4,1%
Revenue from external customers	**8,596**	**8,610**	**–0,2%**
Intersegment revenue	83	83	–
Net revenue Swisscom Switzerland	**8,679**	**8,693**	**–0,2%**
Segment result			
Residential Customers	2,913	3,023	–3,6%
Small & Medium-Sized Enterprises	843	805	4,7%
Corporate Business	914	892	2,5%
Wholesale	591	638	–7,4%
Networks	(1,467)	(1,465)	0,1%
Intersegment elimination	(1)	(7)	–
Segment result before depreciation and amortisation	**3,793**	**3,886**	**–2,4%**
Margin as % of net revenue	*43.7*	*44.7*	
Depreciation, amortisation and impairment	(1,051)	(1,174)	–10,5%
Segment result Swisscom Switzerland	**2,742**	**2,712**	**1,1%**

Number of wireline lines in thousands	2008	2007	Change
Wireline access lines PSTN/ISDN	3,623	3,686	–1,7%
Broadband access lines	1,756	1,602	9,6%
Unbundled access lines	31	–	–
Bluewin TV customers	118	59	100,0%

Subscribers mobile in thousands	2008	2007	Change
Postpaid	3,249	3,013	7,8%
Prepaid	2,121	1,994	6,4%
Total subscribers mobile (SIM cards)	**5,370**	**5,007**	7,2%

ARPU and AMPU per mobile user in CHF and minutes, respectively	2008	2007	Change
Average revenue per mobile user (ARPU) per month in CHF	52	57	–8,8%
Average minutes per mobile user (AMPU) per month	114	110	3,6%

CHF in millions or number	2008	2007	Change
Capital expenditure in tangible and other intangible assets	1,175	1,241	–5,3%
Number of full-time equivalent employees at end of period	11,893	11,644	2,1%

Swisscom Switzerland's revenue from external customers decreased in the last financial year by CHF 14 million (–0.2%) to CHF 8,596 million. Revenue attributable to Infonet, the subsidiary sold at the end of 2007, amounted to CHF 35 million in the previous year. Adjusted by this one-off item, revenue from external customers remained stable (+0.2%).

The launch of the iPhone in mid-July 2008 was extremely successful, with 181,000 iPhone sets being sold up to the end of 2008. Revenue from the sale of the iPhone was a major factor in the growth of the number of subscribers and revenue in the second half of 2008. The decline in revenue of over CHF 400 million due to price reductions could be compensated by higher revenue from new mobile data services, as well as the growth in broadband and the TV service offering.

Revenue from new mobile data services (not including SMS) rose year-over-year by 32% to CHF 379 million. The average number of minutes per mobile subscriber per month (AMPU) rose during the same period by 3.6% to 114 minutes, while the average monthly revenue per mobile subscriber (ARPU) fell by 8.8% to CHF 52 due to price reductions. Swisscom expects that the launch of the new generation of handsets such as the iPhone to have a positive effect in the future on ARPU due to the higher volume of mobile data.

In the area of mobile telephony, prices for calls fell by 13.9%, for outbound roaming calls customers are benefiting on average from 15.1% lower prices. The average price per minute for a wireline call decreased by 3.7% year-over-year.

Operating expenses rose by CHF 79 million (+1.6%) to CHF 4,886 million. Higher expenditure in connection with the successful launch of the iPhone, higher maintenance and repair costs due to an increased construction activity in the public sector and higher costs for external personnel to improve service levels were offset by lower costs as a result of new tariff agreements for international roaming and lower marketing costs.

On October 9, 2008 the Federal Communications Commission (ComCom) recalculated the prices for interconnection services and issued new decisions. At the same time ComCom issued decisions on prices for the collocation services and unbundled connections. As a result of the decision, provisions were reassessed and adjusted. Overall the adjustments have not had any material effects on the segment results of Swisscom Switzerland.

The segment result before depreciation and amortisation of CHF 3,793 million is CHF 93 million (–2.4%) lower year-over-year. In the second half of 2008, EBITDA was negatively impacted by the launch of the iPhone with an amount of CHF 71 million.

Broadband communication has seen a continuing growth compared with the previous year. The number of broadband access lines rose by 154,000 (+9.6%) to 1,756,000. Whereas the number of retail broadband access lines increased by 13.8%, the number of wholesale broadband access lines decreased by 1.6%.

At the end of 2008 Bluewin TV was used by 118,000 paying customers. Net growth compared with the previous year doubled by 59,000 customers. Average one-off costs per new customer, including installation, appliances, etc. were greatly reduced by self-installation. At the end of February 2008, Swisscom added four channels in high-definition quality (HDTV) to its channel line-up at Bluewin TV, and at the same time launched an offering for first-time users, without a hard-disk recorder.

The number of mobile subscribers rose in comparison with the previous year by 363,000 net (+7.2%) to 5.4 million. As a result of the increasing market saturation in Switzerland, growth in the number of new mobile subscribers slowed down compared with the previous year. The above-average growth in mobile subscribers in the second half of 2008 is mainly attributable to the launch of the iPhone in July 2008.

The number of PSTN and ISDN access lines decreased by 63,000 (–1.7%) to 3.6 million. This is due on the one hand to the competition of cable networks companies with their telephony offerings and on the other hand to the unbundling of the local loop in 2008 which effected 31,000 unbundled access lines. Furthermore, substitution through broadband also accounted for the decrease in ISDN access lines.

The market share of PSTN/ISDN access lines decreased slightly to 89%. This is a result of the competition with cable networks companies and the offering of the first unbundled access lines. In wireline telephony, the market share of non-carrier preselection subscribers rose year-over-year by 1% to 67%. Despite continued steady growth in the number of mobile subscribers, Swisscom's market share has remained unchanged. The growth in subscribers in Switzerland as a whole was distributed among the providers in line with current market shares. On the Internet broadband market, Swisscom increased its market share of retail broadband access lines to 52%.

Residential Customers

The Residential Customers segment mainly comprises access fees for broadband access services, wireline and mobile subscriptions as well as national and international telephone and data traffic for Residential Customers. The Residential segment also includes value-added services and TV services, sells customer equipment and operates a directories database. The Residential segment also includes the sales outlets of The Phone House AG (Phone House) with effect from July 2008.

The development of Residential Customers is presented in the following table:

CHF in millions	2008	2007	Change
Revenue from external customers	4,771	4,787	–0,3%
Intersegment revenue	377	383	–1,6%
Net revenue	**5,148**	**5,170**	**–0,4%**
Direct costs (including intersegment)	(1,286)	(1,187)	8,3%
Contribution margin	**3,862**	**3,983**	**–3,0%**
Margin as % of net revenue	*75.0*	*77.0*	
Indirect costs (including intersegment)	(964)	(980)	–1,6%
Capitalised costs and other income	15	20	–25,0%
Segment result before depreciation and amortisation	**2,913**	**3,023**	**–3,6%**
Margin as % of net revenue	*56.6*	*58.5*	
Depreciation, amortisation and impairment	(69)	(43)	60,5%
Segment result	**2,844**	**2,980**	**–4,6%**

CHF in millions or number	2008	2007	Change
Capital expenditure in tangible and other intangible assets	162	154	5,2%
Number of full-time equivalent employees at end of period	5,112	4,744	7,8%

Revenue from external customers could be maintained more or less at last year's level at CHF 4,771 million (–0.3%). The segment result before depreciation and amortisation fell by CHF 110 million (–3.6%) to CHF 2,913 million, mainly as a result of higher costs in connection with the launch of the iPhone. Without the revenue from the sales outlets of Phone House, which was acquired in July 2008, revenue from external customers would have decreased by CHF 29 million (–0.6%). Capital expenditure of CHF 162 million was CHF 8 million (+5.2%) higher than last year, mainly due to Bluewin TV. Headcount rose year-over-year by 368 full-time equivalent employees (+7.8%), mainly as a result of the acquisition of the sales outlets of Phone House (+219 full-time equivalent employees) in July 2008 as well as improvements in the customer service levels.

Residential Customers/Net revenue

CHF in millions	2008	2007	Change
Revenue mobile	2,356	2,374	–0,8%
Revenue wireline access lines	1,449	1,409	2,8%
Revenue wireline traffic	635	679	–6,5%
Revenue other	331	325	1,8%
Revenue from external customers	**4,771**	**4,787**	**–0,3%**
Intersegment revenue	377	383	–1,6%
Net revenue	**5,148**	**5,170**	**–0,4%**

Number of wireline lines in thousands	2008	2007	Change
Wireline access lines PSTN/ISDN	2,826	2,888	–2,1%
Broadband access lines	1,148	1,005	14,2%
Bluewin TV customers	118	59	100,0%

Subscribers mobile in thousands	2008	2007	Change
Postpaid	2,172	2,075	4,7%
Prepaid	2,121	1,994	6,4%
Total subscribers mobile (SIM cards)	**4,293**	**4,069**	5,5%

ARPU and AMPU mobile in CHF and minutes, respectively	2008	2007	Change
Average revenue per mobile user (ARPU) per month	44	48	–8,3%
Average minutes per mobile user (AMPU) per month	94	88	6,8%

In the year under review revenue from external customers remained virtually constant year-over-year at CHF 4,771 million (–0.3%). Year-over-year revenue was lower as a result of the decrease in the number PSTN/ISDN access lines and lower traffic revenue due to price reductions and the competition with cable networks companies. In addition, lower traffic and subscription prices resulting from new tariff models and the reduction in roaming and termination prices for mobile telephony led to a decline in net revenue. This decline in revenue could be virtually wholly offset by the steady increase in the number of mobile subscribers and growth in the area of new mobile data services as well as the growth in broadband access lines and the TV offering. Furthermore, higher revenue was generated from the sale of mobile handsets in the second half of 2008 as a result of the successful launch of the iPhone.

Revenue from other segments fell by CHF 6 million (–1.6%) to CHF 377 million. This is mainly due to lower intersegment revenue with other segments of Swisscom Switzerland.

The number of mobile subscribers increased year-over-year by 224,000 net (+5.5%) to 4,293,000. This includes 2,121,000 prepaid and 2,172,000 postpaid subscribers. The decline in average revenue per mobile user (ARPU) from CHF 48 to CHF 44 (–8.3%) can be attributed to the new tariff models and lower roaming and termination prices. The number of broadband access lines rose significantly year-over-year by 14.2% to 1,148,000 and the number of subscribers to the new television offering Bluewin TV doubled within twelve months. At the end of 2008 Bluewin TV had 118 000 customers.

Residential Customers/Segment expenses and depreciation and amortisation

CHF in millions	2008	2007	Change
Traffic fees	347	373	–7,0%
Subscriber acquisition and retention costs	271	262	3,4%
Other direct costs	668	552	21,0%
Total direct costs	**1,286**	**1,187**	**8,3%**
Personnel expenses	501	506	–1,0%
Other indirect costs	463	474	–2,3%
Total indirect costs	**964**	**980**	**–1,6%**
Capitalised costs and other income	(15)	(20)	–25,0%
Total segment expenses	**2,235**	**2,147**	**4,1%**
Depreciation, amortisation and impairment	69	43	60,5%

Segment expenses in 2008 of CHF 2,235 million are CHF 88 million higher (+4.1%) year-over year. Direct costs of CHF 1,286 million are CHF 99 million higher (+8.3%) year-over year. Higher expenditure on trade goods as well as higher costs for customer acquisition and retention, due to the launch of the iPhone in the second half of 2008 could only be partially offset by savings from lower roaming tariffs. Indirect costs are 1.6% or CHF 16 million lower compared with last year. Despite a higher headcount in connection with the improvement of service levels for customers as well as the acquisition of the sales outlets of Phone House, personnel expenses fell year-over-year, mainly as a result of lower pension costs. The decrease in other indirect costs can be mainly attributed to lower installation costs for Bluewin TV, lower marketing expenditure and various cost saving measures. Depreciation and amortisation increased year-over-year by CHF 26 million to CHF 69 million. This increase is due to higher capital expenditure for Bluewin TV.

Small and Medium-Sized Enterprises

The Small and Medium-Sized Enterprises segment mainly comprises access fees for broadband access services, wireline and mobile subscriptions as well as national and international telephone and data traffic for small and medium-sized enterprises.

The development of the segment Small and Medium-Sized Enterprises is presented in the table below:

CHF in millions	2008	2007	Change
Revenue from external customers	1,098	1,072	2,4%
Intersegment revenue	56	56	–
Net revenue	**1,154**	**1,128**	**2,3%**
Direct costs (including intersegment)	(178)	(179)	–0,6%
Contribution margin	**976**	**949**	**2,8%**
Margin as % of net revenue	*84.6*	*84.1*	
Indirect costs (including intersegment)	(133)	(144)	–7,6%
Segment result before depreciation and amortisation	**843**	**805**	**4,7%**
Margin as % of net revenue	*73.1*	*71.4*	
Depreciation, amortisation and impairment	(1)	(1)	–
Segment result	**842**	**804**	**4,7%**

CHF in millions or number	2008	2007	Change
Capital expenditure in tangible and other intangible assets	7	6	16,7%
Number of full-time equivalent employees at end of period	782	816	–4,2%

Revenue from external customers rose in 2008 by CHF 26 million (+2.4%) to CHF 1,098 million and the segment result before depreciation and amortisation of CHF 843 million was CHF 38 million (+4.7%) higher year-over-year. Headcount fell year-over-year by 34 full-time equivalent employees (–4.2%) to 782 full-time equivalent employees.

Small and Medium-Sized Enterprises/Net revenue

CHF in millions	2008	2007	Change
Revenue mobile	437	393	11,2%
Revenue wireline access lines	360	356	1,1%
Revenue wireline traffic	235	246	–4,5%
Revenue other	66	77	–14,3%
Revenue from external customers	**1,098**	**1,072**	**2,4%**
Intersegment revenue	56	56	–
Net revenue	**1,154**	**1,128**	**2,3%**

Number of wireline lines in thousands	2008	2007	Change
Wireline access lines PSTN/ISDN	511	509	0,4%
Broadband access lines	158	142	11,3%

Subscribers mobile in thousands	2008	2007	Change
Postpaid (SIM cards)	411	360	14,2%

ARPU and AMPU mobile in CHF and minutes, respectively	2008	2007	Change
Average revenue per mobile user (ARPU) per month	99	106	–6,6%
Average minutes per mobile user (AMPU) per month	203	212	–4,2%

Revenue with external customers increased year-over-year by CHF 26 million (+2.4%) to CHF 1,098 million. The decline in revenue due to lower volumes and lower prices in wireline traffic was more than fully offset by the growth in mobile subscribers, new mobile data services and the number of broadband access lines. The number of mobile subscribers rose year-over-year by 51,000 (+14.2%) to 411,000. The decline in average revenue per mobile user (ARPU) from CHF 106 to CHF 99 (–6.6%) per month can be attributed to the new tariff models and lower roaming and termination prices. The decline in average minutes per user per month (AMPU) to 203 minutes (–4.2%) is mainly due to the increased use of SIM cards for data services. The number of broadband access lines increased year-over-year by 11.3% to 158,000 lines.

Small and Medium-Sized Enterprises/Segment expenses and depreciation and amortisation

CHF in millions	2008	2007	Change
Traffic fees	116	110	5,5%
Subscriber acquisition and retention costs	24	21	14,3%
Other direct costs	38	48	–20,8%
Total direct costs	**178**	**179**	**–0,6%**
Personnel expenses	81	84	–3,6%
Other indirect costs	52	60	–13,3%
Total indirect costs	**133**	**144**	**–7,6%**
Total segment expenses	**311**	**323**	**–3,7%**
Depreciation, amortisation and impairment	1	1	–

Direct costs remained stable year-over-year at CHF 178 million. Savings from lower goods and services purchased absorbed the slightly higher costs for customer acquisition and retention. Despite lower roaming and termination prices, traffic costs increased due to a growth in the number of subscribers year-over-year. Due to a range of cost-saving measures, indirect costs of CHF 133 million were CHF 11 million lower (–7.6%) year-over-year.

Corporate Business

The segment Corporate Business provides communication solutions for business customers. The product range in the field of business ICT infrastructure covers everything from individual products through to complete solutions. This includes a comprehensive range of services for planning, installing, commissioning, as well as maintaining and operating mobile- or fixed-based network infrastructures and accompanying IT systems.

The development of Corporate Business is presented in the following table:

CHF in millions	2008	2007	Change
Revenue from external customers	1,733	1,715	1,0%
Intersegment revenue	155	153	1,3%
Net revenue	**1,888**	**1,868**	**1,1%**
Direct costs (including intersegment)	(544)	(526)	3,4%
Contribution margin	**1,344**	**1,342**	**0,1%**
Margin as % of net revenue	*71.2*	*71.8*	
Indirect costs (including intersegment)	(438)	(456)	–3,9%
Capitalised costs and other income	8	6	33,3%
Segment result before depreciation and amortisation	**914**	**892**	**2,5%**
Margin as % of net revenue	*48.4*	*47.8*	
Depreciation, amortisation and impairment	(43)	(46)	–6,5%
Segment result	**871**	**846**	**3,0%**

CHF in millions or number	2008	2007	Change
Capital expenditure in tangible and other intangible assets	78	49	59,2%
Number of full-time equivalent employees at end of period	2,099	2,063	1,7%

Revenue from external customers totalled CHF 1,733 million which was CHF 18 million higher than last year (+1.0%) and the segment result before depreciation and amortisation of CHF 914 million increased by CHF 22 million (+2.5%). Taking into account Infonet, the subsidiary sold at the end of 2007, revenue from external customers increased by CHF 53 million (+3.2%) and the segment result before depreciation and amortisation rose by CHF 26 million. Headcount increased year-over-year by 36 to 2,099 full-time equivalent employees (+1.7%).

Corporate Business/Net revenue

CHF in millions	2008	2007	Change
Revenue mobile	562	512	9,8%
Revenue wireline access lines	166	173	–4,0%
Revenue wireline traffic	176	185	–4,9%
Revenue other	829	845	–1,9%
Revenue from external customers	**1,733**	**1,715**	**1,0%**
Intersegment revenue	155	153	1,3%
Net revenue	**1,888**	**1,868**	**1,1%**

Number of wireline lines in thousands	2008	2007	Change
Wireline access lines PSTN/ISDN	286	289	–1,0%
Broadband access lines	19	17	11,8%

Subscribers mobile in thousands	2008	2007	Change
Postpaid (SIM cards)	666	578	15,2%

ARPU and AMPU mobile in CHF and minutes, respectively	2008	2007	Change
Average revenue per mobile user (ARPU) per month	79	89	–11,2%
Average minutes per mobile user (AMPU) per month	191	218	–12,4%

The adjusted increase in revenue from external customers of CHF 53 million (+3.2%) can be attributed to the increase in the number of mobile subscribers of 578,000 (+15.2%) to 666,000, the sharp increase in revenue from new mobile data services and the healthy growth of project and outsourcing business. The increased use of new mobile data services could only partially compensate for the decline in average revenue per mobile user (ARPU) to CHF 79 (–11.2%) per month as a result of lower roaming and termination prices. The decline in average minutes per mobile user per month (AMPU) to 191 minutes (–12.4%) is mainly due to the increase in the use of SIM cards for data services.

Corporate Business/Segment expenses and depreciation and amortisation

CHF in millions	2008	2007	Change
Traffic fees	246	271	–9,2%
Subscriber acquisition and retention costs	48	42	14,3%
Other direct costs	250	213	17,4%
Total direct costs	**544**	**526**	**3,4%**
Personnel expenses	289	297	–2,7%
Other indirect costs	149	159	–6,3%
Total indirect costs	**438**	**456**	**–3,9%**
Capitalised costs and other income	(8)	(6)	33,3%
Total segment expenses	**974**	**976**	**–0,2%**
Depreciation, amortisation and impairment	43	46	–6,5%

Taking into account the subsidiary Infonet sold in 2007, the adjusted segment expenses rose by CHF 29 million (+3.1%) to CHF 974 million, mainly as a result of a change in the focus of the product portfolio and higher expenditure for the project and outsourcing business.

Wholesale

Wholesale comprises mainly the use of Swisscom fixed and mobile networks by other telecommunication providers and the use of third-party networks by Swisscom. It also consists of roaming by foreign operators whose customers use Swisscom's mobile network, as well as broadband services and regulated products in connection with the unbundling of the local loop for other telecommunication providers.

The development of Wholesale is presented in the following table:

CHF in millions	2008	2007	Change
Revenue from external customers	994	1,036	–4,1%
Intersegment revenue	697	720	–3,2%
Net revenue	**1,691**	**1,756**	**–3,7%**
Direct costs (including intersegment)	(1,090)	(1,187)	–8,2%
Contribution margin	**601**	**569**	**5,6%**
Margin as % of net revenue	*35.5*	*32.4*	
Indirect costs (including intersegment)	(21)	57	–
Capitalised costs and other income	11	12	–8,3%
Segment result	**591**	**638**	**–7,4%**
Margin as % of net revenue	*34.9*	*36.3*	

CHF in millions or number	2008	2007	Change
Capital expenditure in tangible and other intangible assets	–	5	–
Number of full-time equivalent employees at end of period	105	127	–17,3%

Revenue from external customers fell in the last financial year by CHF 42 million (–4.1%) to CHF 994 million and the segment result decreased by CHF 47 million (–7.4%) to CHF 591 million. In October 2008 ComCom ordered new prices for interconnection services and other regulated products. On the basis of this decision, provisions were adjusted in 2008 through revenue (CHF –6 million) and operating expenses (CHF –18 million). In the fourth quarter of 2007, CHF 91 million of the provisions for interconnection proceedings could be released and recognised in the income statement following a reassessment. Adjusted by these one-off items, revenue fell year-over-year by CHF 57 million (–5.5%). The adjusted segment result was CHF 32 million (+5.6%) higher year-over-year. The contribution margin increased year-over-year from 32.4% to 35.5%. The improved margin is primarily due to higher revenues from non-regulated products such as roaming by foreign operators whose customers use Swisscom's mobile network.

Headcount fell within the year by 22 full-time equivalent employees (–17.3%), to 105 full-time equivalent employees, principally due to improved efficiency.

Wholesale/Net revenue

CHF in millions	2008	2007	Change
Revenue mobile	446	424	5,2%
Revenue wireline access lines	191	202	–5,4%
Revenue wireline traffic	214	269	–20,4%
Revenue other	143	141	1,4%
Revenue from external customers	**994**	**1,036**	**–4,1%**
Intersegment revenue	697	720	–3,2%
Net revenue	**1,691**	**1,756**	**–3,7%**

Number of wireline lines in thousands	2008	2007	Change
Broadband access lines	431	438	–1,6%
Unbundled access lines	31	–	–

Wholesale traffic volume in millions of minutes	2008	2007	Change
Wholesale traffic	12,878	14,517	–11,3%

Revenue from external customers decreased year-over-year by CHF 42 million (–4.1%) to CHF 994 million. Higher revenue from roaming traffic with foreign subscribers using Swisscom's mobile network partially offset the lower revenue from interconnection services due to lower volumes and prices, as well as from broadband services for other telecommunication providers due to price reductions. Furthermore, additional provisions due to price reductions for interconnection services ordered in a decision by ComCom in October 2008 had a negative impact on revenue in the amount of CHF 6 million. Intersegment revenue fell by CHF 23 million (–3.2%) within the year, mainly because of lower revenue for interconnection services with other segments in Swisscom Switzerland.

Wholesale/Segment expenses and depreciation and amortisation

CHF in millions	2008	2007	Change
Traffic fees	1,073	1,153	–6,9%
Other direct costs	17	34	–50,0%
Total direct costs	**1,090**	**1,187**	**–8,2%**
Personnel expenses	16	21	–23,8%
Other indirect costs	5	(78)	–
Total indirect costs	**21**	**(57)**	**–136,8%**
Capitalised costs and other income	(11)	(12)	–8,3%
Total segment expenses	**1,100**	**1,118**	**–1,6%**

Segment expenses dropped year-over-year by CHF 18 million (–1.6%) to CHF 1,100 million. Taking into account the recognition and reversal of provisions for interconnection services, the decrease was CHF 91 million (–7.4%). Direct costs fell by CHF 97 million (–8.2%). This is mainly due to lower roaming and termination prices, a lower volume of interconnection services and lower expenditure for service fulfillment. The release of a part of the provisions for interconnection proceedings for the years 2000 to 2006, amounting to CHF 91 million, led to negative indirect costs in the 2007 financial year. In the third quarter of 2008, further provisions for interconnection proceedings amounting to CHF 18 million could be released through indirect costs, following a decision by the regulatory authorities ComCom. Personnel expenses fell mainly as a result of the lower headcount.

Networks

Networks primarily plans, operates and maintains Swisscom's network infrastructure and related IT systems, both for wireline and mobile telephony. It also includes the supporting functions for Swisscom Switzerland, mainly consisting of the finance, human resources and strategy departments. Expenses incurred are not charged to other segments so that this segment only presents costs and no revenue.

The development of Networks is presented in the following table:

CHF in millions	2008	2007	Change
Personnel expenses	(587)	(556)	5,6%
Rent	(225)	(234)	–3,8%
Repair and maintenance	(276)	(305)	–9,5%
Information technology cost	(301)	(281)	7,1%
Other expenses	(309)	(315)	–1,9%
Capitalised costs and other income	231	226	2,2%
Segment result before depreciation and amortisation	**(1,467)**	**(1,465)**	**0,1%**
Depreciation, amortisation and impairment	(941)	(1,085)	–13,3%
Segment result	**(2,408)**	**(2,550)**	**–5,6%**

CHF in millions or number	2008	2007	Change
Capital expenditure in tangible and other intangible assets	927	1,030	–10,0%
Number of full-time equivalent employees at end of period	3,795	3,894	–2,5%

Year-over-year the segment result improved by CHF 142 million or 5.6% to CHF –2,408 million. The improvement is mainly due to lower depreciation and amortisation following the change in the useful lives of ducts. As a result of a decision by ComCom, the Federal Communications Commission, the useful lives of ducts were reviewed and altered with effect from January 1, 2008 from 20 to 40 years. The positive impact on depreciation in 2008 was CHF 120 million. Segment expenses are unchanged from last year. Higher expenditure for internal and external personnel, as well as higher costs for workforce reduction measures were compensated by lower maintenance and repairs costs, partly incurred in connection with the development of network infrastructure for the new VDSL broadband technology.

The decrease in capital expenditure in 2008 is mainly due to lower capital expenditure for the development of the networks infrastructure for VDSL technology compared with last year.

Headcount fell by 99 full-time equivalent employees (–2.5%), mainly as a result of improved efficiency thanks to reorganisational measures launched at the beginning of 2008.

Fastweb/Whole year

Fastweb is the second-largest wireline provider of broadband telecommunication services in Italy. Their product portfolio comprises voice, data, Internet and IPTV services, as well as video on demand for residential and corporate customers. In addition Fastweb offers mobile services on the basis of MVNO contracts (virtual network providers). They also provide a wide range of network services and customised solutions.

A year-over-year comparison is affected by the acquisition during the course of 2007 and various consolidation effects. In order to be able to assess the course of business in the year under review more accurately, the income statement is therefore presented below in accordance with Fastweb's external financial reporting. It is presented in EUR and does not include any effects resulting from the acquisition by Swisscom. More especially, it does not include any amortisation on intangible assets which were recognised in the purchase price allocation.

EUR in millions	2008	2007	Change
Revenue from external customers	1,708	1,433	19,2%
Net revenue	**1,708**	**1,433**	**19,2%**
Goods and services purchased	(596)	(537)	11,0%
Personnel expenses	(197)	(185)	6,5%
Other operating expenses	(491)	(389)	26,2%
Capitalised costs and other income	124	158	–21,5%
Total segment expenses	**(1,160)**	**(953)**	**21,7%**
Segment result before depreciation and amortisation	**548**	**480**	**14,2%**
Margin as % of net revenue	*32.1*	*33.5*	
Depreciation, amortisation and impairment	(414)	(382)	8,4%
Segment result	**134**	**98**	**36,7%**
Financial income and financial expense, net	(86)	(67)	28,4%
Income before income tax expense	**48**	**31**	**54,8%**
Income tax expense	(42)	(156)	–73,1%
Net income (net loss)	**6**	**(125)**	**–**

Number of subscribers in thousands	2008	2007	Change
Number of subscribers	1,483	1,263	17,4%

EUR in millions or number	2008	2007	Change
Capital expenditure in tangible and other intangible assets	438	541	–19,0%
Number of full-time equivalent employees at end of period	3,077	3,128	–1,6%

Fastweb recorded a constantly high growth in revenue, EBITDA and customers in 2008. Net revenue rose by 19.2% to EUR 1,708 million. Of net revenue, 47.3% can be allocated to residential customers, 13.4% to small and medium-sized enterprises, and 39.3% to corporate business. Net revenue from residential customers increased by 11.1% due to a sharp rise in the number of subscribers despite a lower average revenue per customer. Revenue from small and medium-sized enterprises fell slightly by 0.3%. The strongest growth was recorded in corporate business. Revenue rose by 40.9% to EUR 671 million. Fastweb benefits from contracts with public authorities with terms of several years. Revenue with public administration increased by 75%. Furthermore Fastweb won other major customers from the industrial and finance sectors. Fastweb recorded a year-over-year increase in the number of customers of +220,000 (+17.4%) to around 1.5 million.

The segment result before depreciation and amortisation of EUR 548 million was 14.2% higher year-over-year. Fastweb received a compensation payment of EUR 30 million following an agreement with Telecom Italia in connection with proceedings about illegal solicitation of customers by Telecom Italia. This was recorded under other income in the second quarter of 2008. Fastweb retrospectively removed from their customer base 50,000 subscribers who have not yet activated their accounts. The 2007 result includes one-off items of EUR 70 million. These comprise primarily the reversal of provisions in connection with the decision by the Italian regulatory authorities (AGCOM) concerning prices for interconnection services. Compensation payments made by Telecom Italia were also recorded in 2007. Taking into account one-off items, EBITDA increased by EUR 108 million (+26.3%), the adjusted EBITDA margin rose from 28.6% to 30.3%.

Headcount as at December 31, 2007 includes 72 additional external, temporary full-time equivalent employees. At the end of 2008 these jobs were no longer taken into account. The adjusted increase is thereof 21 full-time equivalent employees (+0.7%).

Capital expenditure fell by EUR 103 million (–19.0%) from EUR 541 million to EUR 438 million. Around half the capital expenditure are directly related to the growth in the number of customers. The year-over-year decrease is due to lower demand in the network infrastructure.

Fastweb/From date of acquisition

Fastweb is included in Swisscom's consolidated financial statements as at December 31, 2008 as follows:

CHF in millions	2008	2007	Change
Revenue from external customers	2,698	1,473	83,2%
Net revenue	**2,698**	**1,473**	**83,2%**
Goods and services purchased	(941)	(510)	84,5%
Personnel expenses	(310)	(189)	64,0%
Other operating expenses	(778)	(404)	92,6%
Intersegment expenses	(1)	–	–
Capitalised costs and other income	196	128	53,1%
Total segment expenses	**(1,834)**	**(975)**	**88,1%**
Segment result before depreciation and amortisation	**864**	**498**	**73,5%**
Margin as % of net revenue	*32.0*	*33.8*	
Depreciation, amortisation and impairment	(827)	(520)	59,0%
Segment result	**37**	**(22)**	**–**

CHF in millions	2008	2007	Change
Capital expenditure in tangible and other intangible assets	691	568	21,7%

Fastweb is included in Swisscom's consolidated financial statements for 2008 with net revenue of CHF 2,698 million and a segment result before depreciation and amortisation of CHF 864 million. In the previous year the figures were included from the date of completion of acquisition on May 22, 2007. Depreciation and amortisation of CHF 827 million include depreciation and amortisation of CHF 176 million on intangible assets, such as customer relationships and brand, which were recognised within the scope of purchasing price allocation and amortised over the estimated useful life of between 7 and 11 years.

Other operating segments

The segment Other operating segments mainly comprises Swisscom IT Services, Swisscom Participations, Hospitality Services and Swisscom Central & Eastern Europe (Airbites). Swisscom IT Services comprises the group companies Swisscom IT Services AG und Comit AG. Swisscom Participations comprises Swisscom Broadcast AG, Swisscom Immobilien AG, Cablex AG, Billag AG, Alphapay AG and Curabill AG as well as the Sicap and the Minick group. Antenna Hungária and Accarda were included in Swisscom Participations until their sale in July 2007. Minick was sold in September 2008.

The development of Other operating segments is presented in the following table:

CHF in millions	2008	2007	Change
Revenue from external customers	903	1,004	–10,1%
Intersegment revenue	928	940	–1,3%
Net revenue	**1,831**	**1,944**	**–5,8%**
Segment expenses (including intersegment)	(1,507)	(1,627)	–7,4%
Segment result before depreciation and amortisation	**324**	**317**	**2,2%**
Margin as % of net revenue	*17.7*	*16.3*	
Depreciation, amortisation and impairment	(277)	(299)	–7,4%
Segment result	**47**	**18**	**161,1%**

CHF in millions or number	2008	2007	Change
Capital expenditure in tangible and other intangible assets	187	238	–21,4%
Number of full-time equivalent employees at end of period	4,637	4,727	–1,9%

Revenue from external customers decreased year-over-year by CHF 101 million (–10.1%) to CHF 903 million. The sale of Antenna Hungária and Accarda in 2007 led to a decline in revenue of CHF 128 million. Taking this into account, revenue increased year-over-year by CHF 27 million (+3.1%). Taking into account the sale of Antenna Hungária and Accarda (CHF 34 million in 2007), the segment result (EBITDA) increased year-over-year by CHF 41 million (+14.5%) to CHF 324 million. The increase in EBITDA can be attributed mainly to the omission of costs in connection with discontinued activities for Betty. Swisscom IT Services also recorded an increase in EBITDA, although this was offset by a decrease in the operating income at Swisscom Participations due to lower gains from the sale of real estate. Hospitality Services increased EBITDA by CHF 7 million. Capital expenditure of CHF 187 million in 2008 are CHF 51 million (–21.4%) lower than last year. The decline is mainly due to lower capital expenditure at Swisscom Participations. Headcount of 4,637 full-time equivalent employees at December 31, 2008 was 90 (–1.9%) lower than last year. Whereas the sale of Minick and Airbites Poland and the discontinued business activities of Betty led to a reduction of around 200 full-time equivalent employees.

Other operating segments/Net revenue

CHF in millions	2008	2007	Change
Swisscom IT Services	435	430	1,2%
Swisscom Participations	359	478	–24,9%
Hospitality Services	92	81	13,6%
Airbites	17	13	30,8%
Other	–	2	–
Revenue from external customers	**903**	**1,004**	**–10,1%**
Intersegment revenue	928	940	–1,3%
Net revenue	**1,831**	**1,944**	**–5,8%**

Swisscom IT Services reported a year-over-year increase in revenue with external customers of CHF 5 million (+1.2%) to CHF 435 million, mainly in the areas of financial services and outsourcing business. Swisscom Participations presented a decline in revenue with external customers in 2008 of CHF 119 million (–24.9%). Taking into account the sale of Antenna Hungária and Accarda (CHF 128 million in 2007), revenue increased year-over-year by CHF 9 million (+2.5%). Most of the increase in revenue at Swisscom Participations can be attributed to the healthy order books at Cablex, the network constructor subsidiary. Hospitality Services recorded an increase in revenue of CHF 11 million (+13.6%) to CHF 92 million.

Intersegment revenue dropped by 1.3% to CHF 928 million in 2008. The decrease is mainly due to lower capital expenditure for the development of the network infrastructure for VDSL technology at Swisscom Switzerland compared with last year. This work is partly realised by Cablex.

Other operating segments/Segment expenses and depreciation and amortisation

CHF in millions	2008	2007	Change
Goods and services purchased	142	201	–29,4%
Personnel expenses	604	678	–10,9%
Other operating expenses	710	735	–3,4%
Intersegment expenses	80	78	2,6%
Capitalised costs and other income	(29)	(65)	–55,4%
Total segment expenses	**1,507**	**1,627**	**–7,4%**
Depreciation, amortisation and impairment	277	299	–7,4%

Segment expenses dropped year-over-year by CHF 120 million (–7.4%) to CHF 1,507 million. Segment expenses in 2007 included expenditure of CHF 94 million from Antenna Hungária and Accarda as well as CHF 65 million for the interactive TV remote control Betty which was discontinued at the end of 2007. The decrease in other income results from lower gains from the sale of real estate totalling around CHF 23 million. Taking into account these effects, cost savings at Swisscom IT Services and Swisscom Participations more or less completely absorbed the growth-related increase in operating expenses at Hospitality Services and Airbites.

Group Headquarters

Group Headquarters comprises Group Headquarter divisions and the employment company Worklink.

The development of Group Headquarters is presented in the following table:

CHF in millions	2008	2007	Change
Revenue from external customers	1	2	–50,0%
Intersegment revenue	5	4	25,0%
Net revenue	**6**	**6**	**–**
Personnel expenses	(121)	(135)	–10,4%
Other operating expenses	(86)	(90)	–4,4%
Intersegment expenses	(55)	(45)	22,2%
Capitalised costs and other income	80	80	–
Total segment expenses	**(182)**	**(190)**	**–4,2%**
Segment result before depreciation and amortisation	**(176)**	**(184)**	**–4,3%**
Depreciation, amortisation and impairment	(9)	(3)	–
Segment result	**(185)**	**(187)**	**–1,1%**

CHF in millions or number	2008	2007	Change
Capital expenditure in tangible and other intangible assets	10	–	–
Number of full-time equivalent employees at end of period	336	345	–2,6%

The segment result before depreciation and amortisation improved year-over-year by CHF 8 million to CHF –176 million. On the one hand, expenditure on workforce reduction measures was lower due to the decreasing number of participants in the employment company Worklink and cost reductions in central areas, and on the other hand intersegment expenses were higher. Capitalised costs and other income comprise mainly income from transactions for Shared Services with subsidiaries and income from insurance commissions.

Capital expenditure in 2008 totalled CHF 10 million, since group-wide expenditure was partly capitalised in connection with the introduction of the new brand.

Headcount fell to 336 full-time equivalent employees (–2.6%), mainly as a result of optimisation.

Cash flows

CHF in millions	2008	2007	Change
Cash flow provided by operating activities	4,111	3,589	522
Cash used in investing activities	(1,798)	(5,950)	4,152
(Cash used in) cash provided by financing activities	(2,283)	2,644	(4,927)
Net increase in cash and cash equivalents	**30**	**283**	**(253)**

Net cash provided by operating activities of CHF 4,111 million in 2008 exceeded net cash used in investing and financing activities by CHF 30 million (previous year CHF 283 million). The increase in net cash provided by operating activities can be mainly attributed to the acquisition of Fastweb. The year-over-year change in cash flows from investing and financing activities is also a result of the acquisition of Fastweb. On May 22, 2007 Swisscom acquired an 82.1% share in Fastweb for a purchasing price of CHF 5.1 billion. The acquisition of Fastweb was financed 100% by bank loans.

Cash flows from operating activities

CHF in millions	2008	2007	Change
Operating income (EBITDA)	4,789	4,501	288
Change in working capital and other cash flow from operating activities	(277)	(443)	166
Income taxes paid	(401)	(469)	68
Cash flow provided by operating activities	**4,111**	**3,589**	**522**

Net cash provided by operating activities increased year-over-year by CHF 522 million (14.5%) to CHF 4,111 million, mainly as a result of the increase in the operating income (EBITDA) following the acquisition of Fastweb. Net working capital changed year-over-year by CHF 277 million. Income tax payments decreased by CHF 68 million to CHF 401 million.

Cash flows from investing activities

CHF in millions	2008	2007	Change
Capital expenditure in tangible and other intangible assets	(2,050)	(2,025)	(25)
Proceeds from sale of property, plant and equipment	26	56	(30)
Acquisition of Fastweb, net of cash and cash equivalents acquired	–	(5,002)	5,002
Acquisition of other subsidiaries, net of cash and cash equivalents acquired	(47)	(29)	(18)
Proceeds from sale of subsidiaries, net of cash and cash equivalents sold	4	804	(800)
Purchase and sale of shares in associates	(2)	(9)	7
Proceeds from other current and non-current financial assets	372	145	227
Investments in current and non-current financial assets	(221)	(159)	(62)
Interest received	111	265	(154)
Dividends received	9	4	5
Cash flow used in investing activities	**(1,798)**	**(5,950)**	**4,152**

In 2008 net cash of CHF 1,798 million was used in investing activities. Net cash of CHF 5,950 million used in investing activities in 2007 was mainly connected to the acquisition of Fastweb. Acquisition costs including direct transaction costs amounted to EUR 3.1 billion (CHF 5.1 billion). A total of CHF 47 million was paid in 2008 for the acquisition of a number of smaller companies. The increase in capital expenditure in tangible and other intangible assets is mainly attributable to capital expenditure by Fastweb amounting to CHF 691 million (previous year CHF 568 million). Net cash of CHF 804 million was generated in 2007 from the sale of Antenna Hungária, Accarda and Infonet. This cash flow was used to pay back bank loans.

Capital expenditure in tangible and intangible assets

CHF in millions	2008	2007	Change
Swisscom Switzerland	1,175	1,241	–5,3%
Fastweb	691	568	21,7%
Other operating segments	187	238	–21,4%
Group Headquarters	10	–	–
Intersegment elimination	(13)	(22)	–40,9%
Total capital expenditure	**2,050**	**2,025**	**1,2%**
Total capital expenditure as % of net revenue	16.8	18.3	

The increase in capital expenditure of CHF 25 million (+1.2%) to CHF 2,050 million is mainly due to the acquisition of Fastweb. Fastweb accounted for capital expenditure of CHF 691 million (previous year CHF 568 million). Taking into account changes in the scope of consolidation, capital expenditure fell by CHF 95 million (–6.6%). The adjusted decrease is primarily due to lower capital expenditure for the development of networks infrastructure for the new VDSL technology. Capital expenditure includes capitalised costs of CHF 269 million (previous year CHF 264 million).

Cash flows from financing activities

CHF in millions	2008	2007	Change
Issuance of financial liabilities	525	15,431	(14,906)
Repayment of financial liabilities	(1,240)	(11,375)	10,135
Interest paid	(436)	(496)	60
Purchase of treasury shares for share-based payments	(6)	(9)	3
Dividends paid to equity holders of Swisscom Ltd	(1,036)	(881)	(155)
Dividends paid to minority interests	(12)	(101)	89
Other cash flow from financing activities	(78)	75	(153)
Cash flow (used in) provided by financing activities	**(2,283)**	**2,644**	**(4,927)**

Net cash used for financing activities in 2008 amounted to CHF 2,283 million. In the previous year net cash inflow amounted to CHF 2,644 million, primarily due to financing for the acquisition of Fastweb. CHF 5.1 billion was paid for Fastweb, financed almost wholly by bank loans. The major part of the acquired bank loans of Fastweb were paid back in June 2007 und refinanced by Swisscom Ltd through bank loans. In 2008 dividend payouts of CHF 1,036 million were made to equity holders of Swisscom Ltd and CHF 12 million to minority interests. Of the dividends paid to minority interests in the previous year, CHF 89 million (EUR 54 million) were paid to minority interests in Fastweb. Before the acquisition by Swisscom, the General Meeting of Shareholders of Fastweb agreed to the payment of a dividend of EUR 300 million due in October 2007.

Net debt

CHF in millions, except where indicated	31.12.2008	31.12.2007	Change
Bonds	2,032	1,510	522
Bank loans	6,140	7,171	(1,031)
Private placements	1,339	1,427	(88)
Financial liabilities from cross-border lease agreements	1,096	1,177	(81)
Finance lease liabilities	502	609	(107)
Other financial liabilities	683	429	254
Total	**11,792**	**12,323**	**(531)**
Cash and cash equivalents	(958)	(957)	(1)
Current financial assets	(163)	(151)	(12)
Financial assets from cross-border lease agreements	(808)	(862)	54
Non-current derivative financial instruments	(3)	(16)	13
Net debt	**9,860**	**10,337**	**(477)**
Ratio net debt/operating income (EBITDA)	2.06	2.30	
Ratio net debt/equity	1.7	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 derivative financial instruments. Current financial assets include term deposits and money market investments with a term of less than one year, as well as securities and derivative financial instruments. Financial liabilities consist primarily of finance lease obligations and sale and leaseback obligations relating to buildings. The finance lease obligations recognised are covered by non-current financial assets to an extent of CHF 808 million.

Net debt decreased year-over-year by CHF 477 million to CHF 9,860 million.

Balance sheet

CHF in millions	31.12.2008	31.12.2007	Change
Assets			
Cash and cash equivalents and current financial assets	1,128	1,108	1,8%
Trade and other receivables	2,798	2,890	–3,2%
Property, plant and equipment	8,070	8,315	–2,9%
Goodwill	6,633	6,920	–4,1%
Other intangible assets	2,282	2,515	–9,3%
Investments in associates and financial assets	1,138	1,174	–3,1%
Tax assets	38	57	–33,3%
Other current and non-current assets	651	697	–6,6%
Total assets	**22,738**	**23,676**	**–4,0%**
Liabilities and equity			
Financial liabilities	11,792	12,314	–4,2%
Trade and other payables	2,186	2,287	–4,4%
Defined benefit obligation	428	618	–30,7%
Provisions	1,197	1,044	14,7%
Tax liabilities	570	560	1,8%
Other current and non-current liabilities	802	849	–5,5%
Total liabilities	**16,975**	**17,672**	**–3,9%**
Equity attributable to equity holders of Swisscom Ltd	5,389	5,574	–3,3%
Equity attributable to minority interests	374	430	–13,0%
Total equity	**5,763**	**6,004**	**–4,0%**
Equity ratio at the balance sheet date	*25,3%*	*25,4%*	
Total equity	**22,738**	**23,676**	**–4,0%**

The balance sheet total at December 31, 2008 decreased year-over-year by CHF 938 million (–4.0%) to CHF 22,738 million, mainly due to the lower CHF/EUR exchange rate and the decline of net debt. The change in the carrying amount of goodwill, property, plant and equipment and other intangible assets is mainly a result of less favourable exchange rates.

Equity

CHF in millions	Attributable to equity holders of Swisscom Ltd	Attributable to minority interests	Total equity
Balance at December 31, 2006	**4,413**	**67**	**4,480**
Income and expenses directly recognised in equity, net	(26)	(1)	(27)
Net income	2,068	3	2,071
Total recognised income and expenses	**2,042**	**2**	**2,044**
Dividends paid	(881)	(12)	(893)
Additions from business combinations	–	373	373
Balance at December 31, 2007	**5,574**	**430**	**6,004**
Income and expenses directly recognised in equity, net	(903)	(36)	(939)
Net income	1,756	(5)	1,751
Total recognised income and expenses	**853**	**(41)**	**812**
Dividends paid	(1,036)	(12)	(1,048)
Other changes	(2)	(3)	(5)
Balance at December 31, 2008	**5,389**	**374**	**5,763**

Equity fell by CHF 241 million (–4.0%) to CHF 5,763 million in the year under review. On the one hand there was a net income of CHF 1,751 million and on the other hand dividend payments of CHF 1,048 million and a net expense of CHF 939 million recognised directly in equity. This includes losses of CHF 789 million from currency translation of foreign group companies as a result of lower exchange rates. The CHF/EUR exchange rate fell from 1.654 to 1.486 compared with the end of 2007. Cumulative currency translation losses recognised in equity as at December 31, 2008 amounted to CHF 785 million.

Distributable reserves are not calculated on the basis of equity as reported in the consolidated balance sheet prepared in accordance with the International Financial Reporting Standards (IFRS), but on the equity reported in the individual financial statements of Swisscom Ltd in line with statutory accounting provisions. At December 31, 2008, Shareholders equity of Swisscom Ltd amounted to CHF 4,745 million. After deduction of repurchased treasury shares, equity is reduced to CHF 4,188 million. The difference between this amount and the equity shown in the consolidated balance sheet is primarily due to gains withheld by subsidiaries, as well as to different accounting and valuation methods.

Under Swiss law share capital and 20% of the share capital in the reserves may not be distributed. At December 31, 2008 Swisscom Ltd had distributable reserves of CHF 3,943 million.

Outlook

		2008	2009
Net revenue			
Swisscom excluding Fastweb	CHF in billions	9.5	9.2–9.3
Fastweb	EUR in billions	1.7	around 1.8
EBITDA			
Swisscom excluding Fastweb	CHF in billions	3.9	3.8–3.9
Fastweb	EUR in billions	0.55	around 0.56
Capital expenditure			
Swisscom excluding Fastweb	CHF in billions	1.36	around 1.35
Fastweb	EUR in billions	0.44	around 0.42
Change in net working capital			
Swisscom including Fastweb	CHF in billions	–0.3	around –0.1
Operating free cash flow			
Swisscom including Fastweb	CHF in billions	2.5	2.6–2.7

The financial outlook for 2009 is based on the assumption that the worsened economic climate will only have a limited impact on customer demand for telecoms services.

Swisscom expects a slowdown in performance in its Swiss business in 2009 due to the continued high level of competitive pressure, unbundling and flatter growth in the mobile and broadband market. Excluding Fastweb, Swisscom expects net revenue for 2009 to fall by around CHF 300 million to between CHF 9.2 billion and CHF 9.3 billion, EBITDA of between CHF 3.8 billion and CHF 3.9 billion and capital expenditure of around CHF 1.35 billion. Fastweb is expected to report revenue of around EUR 1.8 billion, EBITDA of around EUR 560 million and capital expenditure in the region of EUR 415 million. Group operating free cash flow including Fastweb will lie between CHF 2.6 billion and CHF 2.7 billion.

Quarterly review 2007 and 2008

CHF in millions, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2007	1. quarter	2. quarter	3. quarter	4. quarter	2008
Net revenue	**2,376**	**2,718**	**2,988**	**3,007**	**11,089**	**2,933**	**3,058**	**3,094**	**3,113**	**12,198**
Goods and services purchased	(441)	(530)	(690)	(687)	(2,348)	(615)	(661)	(755)	(719)	(2,750)
Personnel expenses	(594)	(603)	(599)	(646)	(2,442)	(641)	(620)	(592)	(613)	(2,466)
Other operating expenses	(444)	(611)	(565)	(609)	(2,229)	(594)	(674)	(641)	(738)	(2,647)
Capitalised costs and other income	71	100	99	161	431	78	163	82	131	454
Operating income (EBITDA)	**968**	**1,074**	**1,233**	**1,226**	**4,501**	**1,161**	**1,266**	**1,188**	**1,174**	**4,789**
Depreciation and amortisation	(349)	(465)	(498)	(674)	(1,986)	(507)	(523)	(519)	(600)	(2,149)
Operating income (EBIT)	**619**	**609**	**735**	**552**	**2,515**	**654**	**743**	**669**	**574**	**2,640**
Gain on sale of subsidiaries	–	–	157	5	162	–	–	–	–	–
Net financial result	(41)	4	(89)	(65)	(191)	(113)	(212)	(70)	(93)	(488)
Share of profit of investments in associates	4	10	8	10	32	6	12	10	19	47
Income tax expense	(115)	(146)	(122)	(64)	(447)	(122)	(122)	(139)	(65)	(448)
Net income	**467**	**477**	**689**	**438**	**2,071**	**425**	**421**	**470**	**435**	**1,751**
Attributable to equity holders of Swisscom	461	475	691	441	2,068	428	412	473	443	1,756
Attributable to minority interests	6	2	(2)	(3)	3	(3)	9	(3)	(8)	(5)
Net revenue by segments [1]										
Swisscom Switzerland	2,125	2,171	2,196	2,201	8,693	2,115	2,162	2,206	2,196	8,679
Fastweb	–	281	586	606	1,473	618	686	687	707	2,698
Other operating segments	491	522	458	473	1,944	438	467	447	479	1,831
Group Headquarters	2	1	2	1	6	1	2	2	1	6
Intersegment elimination	(242)	(257)	(254)	(274)	(1,027)	(239)	(259)	(248)	(270)	(1,016)
Total net revenue	**2,376**	**2,718**	**2,988**	**3,007**	**11,089**	**2,933**	**3,058**	**3,094**	**3,113**	**12,198**
Segment result										
Swisscom Switzerland	963	978	1,013	932	3,886	953	979	942	919	3,793
Fastweb	–	79	156	263	498	179	260	205	220	864
Other operating segments	73	62	103	79	317	77	87	86	74	324
Group Headquarters	(65)	(40)	(41)	(38)	(184)	(43)	(60)	(35)	(38)	(176)
Intersegment elimination	(3)	(5)	2	(10)	(16)	(5)	–	(10)	(1)	(16)
Total segment results (EBITDA)	**968**	**1,074**	**1,233**	**1,226**	**4,501**	**1,161**	**1,266**	**1,188**	**1,174**	**4,789**
Capital expenditure in tangible and other intangible assets										
Swisscom Switzerland	269	355	282	335	1,241	241	250	241	443	1,175
Fastweb	–	85	192	291	568	161	202	162	166	691
Other operating segments	49	70	55	64	238	27	39	44	77	187
Group Headquarters	–	–	–	–	–	–	6	2	2	10
Intersegment elimination	(3)	(7)	(4)	(8)	(22)	(9)	6	(7)	(3)	(13)
Total capital expenditure	**315**	**503**	**525**	**682**	**2,025**	**420**	**503**	**442**	**685**	**2,050**
Operating free cash flow	443	535	624	475	2,077	751	608	765	352	2,476
Number of full-time equivalent employees at end of period	17,157	20,498	19,658	19,844	19,844	19,718	19,795	19,995	19,943	19,943

1 Includes intersegment revenue.

Quarterly review 2007 and 2008

CHF in millions, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2007	1. quarter	2. quarter	3. quarter	4. quarter	2008
Swisscom Switzerland										
Net revenue and results										
Residential Customers	565	594	615	600	2,374	557	559	650	590	2,356
Small & Medium-Sized Enterprises	92	101	104	96	393	101	109	114	113	437
Corporate Business	121	128	129	134	512	133	145	144	140	562
Wholesale	110	103	114	97	424	116	112	113	105	446
Revenue wireless	**888**	**926**	**962**	**927**	**3,703**	**907**	**925**	**1,021**	**948**	**3,801**
Residential Customers	347	351	354	357	1,409	359	364	365	361	1,449
Small & Medium-Sized Enterprises	89	89	89	89	356	90	90	91	89	360
Corporate Business	43	44	43	43	173	42	41	42	41	166
Wholesale	49	52	50	51	202	46	49	48	48	191
Revenue wireline access lines	**528**	**536**	**536**	**540**	**2,140**	**537**	**544**	**546**	**539**	**2,166**
Residential Customers	176	168	165	170	679	164	159	154	158	635
Small & Medium-Sized Enterprises	67	60	60	59	246	59	60	58	58	235
Corporate Business	44	48	46	47	185	44	44	44	44	176
Wholesale	63	70	68	68	269	62	51	43	58	214
Revenue wireline traffic	**350**	**346**	**339**	**344**	**1,379**	**329**	**314**	**299**	**318**	**1,260**
Residential Customers	88	90	75	72	325	84	91	77	79	331
Small & Medium-Sized Enterprises	22	18	17	20	77	16	18	16	16	66
Corporate Business	194	202	211	238	845	191	204	203	231	829
Wholesale	35	33	34	39	141	34	39	27	43	143
Revenue other	**339**	**343**	**337**	**369**	**1,388**	**325**	**352**	**323**	**369**	**1,369**
Residential Customers	1,176	1,203	1,209	1,199	4,787	1,164	1,173	1,246	1,188	4,771
Small & Medium-Sized Enterprises	270	268	270	264	1,072	266	277	279	276	1,098
Corporate Business	402	422	429	462	1,715	410	434	433	456	1,733
Wholesale	257	258	266	255	1,036	258	251	231	254	994
Revenue from external customers	**2,105**	**2,151**	**2,174**	**2,180**	**8,610**	**2,098**	**2,135**	**2,189**	**2,174**	**8,596**
Segment result										
Residential Customers	762	774	785	702	3,023	733	758	719	703	2,913
Small & Medium-Sized Enterprises	207	202	203	193	805	206	214	214	209	843
Corporate Business	215	217	233	227	892	217	233	230	234	914
Wholesale	140	137	141	220	638	143	152	132	164	591
Networks	(359)	(348)	(349)	(409)	(1,465)	(346)	(378)	(355)	(388)	(1,467)
Intersegment elimination	(2)	(4)	–	(1)	(7)	–	–	2	(3)	(1)
Segment result (EBITDA)	**963**	**978**	**1,013**	**932**	**3,886**	**953**	**979**	**942**	**919**	**3,793**
Margin as % of net revenue	*45.3*	*45.0*	*46.1*	*42.3*	*44.7*	*45.1*	*45.3*	*42.7*	*41.8*	*43.7*

Quarterly review 2007 and 2008

	1. quarter	2. quarter	3. quarter	4. quarter	2007	1. quarter	2. quarter	3. quarter	4. quarter	2008
Swisscom Switzerland										
Operational data										
Residential Customers	2,929	2,914	2,898	2,888	2,888	2,868	2,854	2,842	2,826	2,826
Small and Medium-Sized Enterprises	523	502	502	509	509	509	512	510	511	511
Corporate Business	275	296	296	289	289	288	288	288	286	286
Wireless access lines PSTN/ISDN in thousands	**3,727**	**3,712**	**3,696**	**3,686**	**3,686**	**3,665**	**3,654**	**3,640**	**3,623**	**3,623**
Residential Customers	856	917	965	1,005	1,005	1,050	1,078	1,101	1,148	1,148
Small and Medium-Sized Enterprises	125	131	136	142	142	148	152	153	158	158
Corporate Business	14	17	17	17	17	18	19	19	19	19
Wholesale	439	441	440	438	438	439	450	448	431	431
Broadband access lines in thousands	**1,434**	**1,506**	**1,558**	**1,602**	**1,602**	**1,655**	**1,699**	**1,721**	**1,756**	**1,756**
Residential Customers	2,040	2,049	2,058	2,075	2,075	2,091	2,102	2,139	2,172	2,172
Small and Medium-Sized Enterprises	313	329	344	360	360	380	392	399	411	411
Corporate Business	496	517	551	578	578	591	623	654	666	666
Mobile subscribers postpaid in thousands	**2,849**	**2,895**	**2,953**	**3,013**	**3,013**	**3,062**	**3,117**	**3,192**	**3,249**	**3,249**
Residential Customers	1,858	1,881	1,941	1,994	1,994	2,038	2,064	2,092	2,121	2,121
Mobile subscribers prepaid in thousands	**1,858**	**1,881**	**1,941**	**1,994**	**1,994**	**2,038**	**2,064**	**2,092**	**2,121**	**2,121**
Residential Customers	47	49	50	46	48	43	44	45	43	44
Small and Medium-Sized Enterprises	100	114	112	99	106	96	100	103	97	99
Corporate Business	94	91	88	86	89	79	81	81	74	79
ARPU mobile per month in CHF	**56**	**58**	**59**	**55**	**57**	**51**	**53**	**54**	**51**	**52**
Residential Customers	86	90	88	85	88	92	95	95	95	94
Small and Medium-Sized Enterprises	197	221	219	213	212	199	211	202	200	203
Corporate Business	225	221	208	217	218	194	202	183	186	191
AMPU mobile per month in minutes	**108**	**113**	**111**	**110**	**110**	**112**	**116**	**114**	**114**	**114**
Unbundled access lines in thousands	–	–	–	–	–	2	4	12	31	31
Bluewin TV customers in thousands	25	40	52	59	59	64	80	95	118	118
Retail traffic in million minutes	2,897	2,679	2,590	2,713	10,879	2,698	2,620	2,440	2,581	10,339
Wholesale traffic in million minutes	3,918	3,615	3,430	3,554	14,517	3,468	3,218	3,002	3,190	12,878
Fastweb (EUR in millions)										
Residential Customers	–	86	178	179	443	200	204	193	211	808
Small and Medium-Sized Enterprises	–	27	57	53	137	57	58	55	59	229
Corporate Business	–	57	119	133	309	132	163	179	197	671
Revenue from external customers	**–**	**170**	**354**	**365**	**889**	**389**	**425**	**427**	**467**	**1,708**
Number of subscribers in thousands	–	1,146	1,201	1,263	1,263	1,338	1,398	1,441	1,483	1,483

Share Information

		2008	2007
Year-end price	CHF	339.50	442.00
Year high	CHF	442.75	486.00
Year low	CHF	292.00	402.50
Price loss	%	–23,2%	–4,2%
Total trading volume	Shares	48,574,327	39,809,925
Daily average	Shares	193,523	159,879
Total turnover volume	CHF in millions	17,485.26	17,308.82
Daily average	CHF in millions	69.66	69.51

Source: Bloomberg

As of December 31, 2008 shares issued totalled 53,441,000. The nominal value per registered share is CHF 1. Each share entitles the holder to one vote except those treasury shares. Voting rights may only be exercised if the shareholder with its voting rights has been entered in the Swisscom share register. However, the Board of Directors may refuse to enter a shareholder with its voting rights in the share register if such voting rights exceed 5% of the company's overall share capital. On December 31, 2008 Swisscom had 48,921 registered shareholders and an average non-allotted share level (without treasury shares) of approximately 13%.

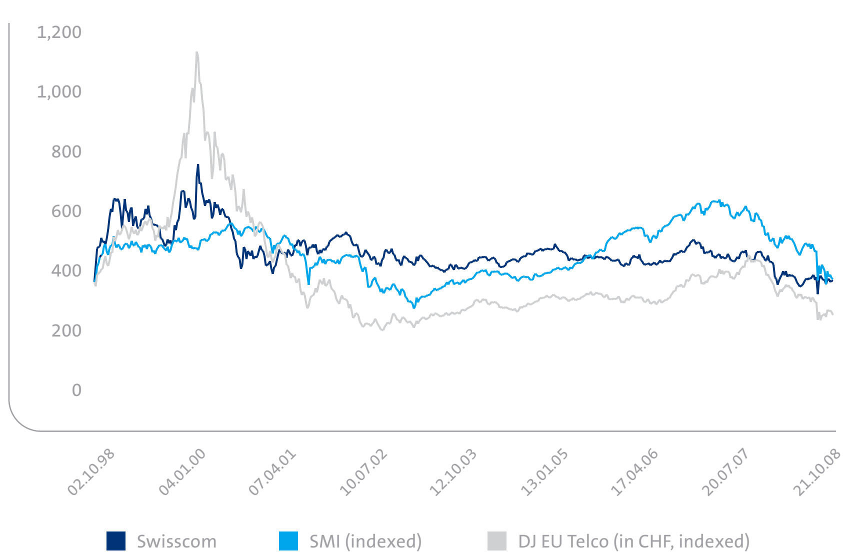
Under the Telecommunications Enterprise Act (TUG), the Swiss Federal Government must have a majority holding in Swisscom in terms of both capital and voting rights. On December 31, 2008 the Swiss Confederation as majority shareholder held 55.2% of the shares issued of Swisscom Ltd.

At the General Meeting of Shareholders on April 22, 2008 Swisscom Ltd shareholders approved the reduction of the share capital by CHF 3,277,561 to CHF 53,441,000 through the destruction of treasury shares bought back during the share buy-back scheme in 2006. The shares were destroyed in July 2008. As at December 31, 2008 Swisscom Ltd held 1,639,057 treasury shares or 3.1% of issued shares.

The share price of Swisscom shares fell year-over-year by 23.2% from CHF 442.00 to CHF 339.50. Ordinary dividend payment of CHF 18 per share (previous year: CHF 17) and special dividend payment of CHF 2 per share, agreed at the General Meeting of Shareholders on April 22, 2008, were paid on April 25, 2008. The total shareholder return (change in share price plus return) on Swisscom shares in the current year was –18.7%.

Swisscom shares are traded in London via the pan-European platform SIX Europe Limited (formerly virt-x) under the symbol "SCMN" (Security ID: 874251). Trading in the United States takes place "over the counter" (OTC), as a so-called Level 1 program under the symbol "SCMWY" (Pink Sheet ID: 69769). The instrument is the American Depositary Receipt (ADR). In Swisscom's case, 10 such ADRs represent one share.

Performance of the Swisscom share on the virt-x



Return policy

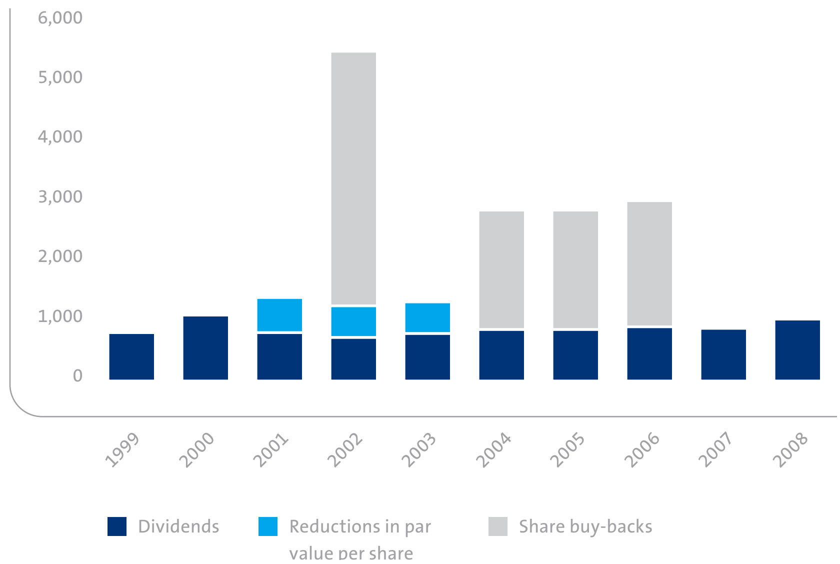
CHF in millions	2008	2007	Change
Operating income (EBITDA)	4,789	4,501	288
Change in operating assets and liabilities and other receipts or payments from operating activities	(277)	(443)	166
Capital expenditure in tangible and intangible assets	(2,050)	(2,025)	(25)
Proceeds from sale of property, plant and equipment	26	56	(30)
Dividends paid to minority interests	(12)	(12)	–
Operating free cash flow	**2,476**	**2,077**	**399**

In 2008 operating free cash flow increased by 19.2% or CHF 399 million to CHF 2,476 million. In accordance with Swisscom's payout policy, around half of the operating free cash flow may to be paid out to the shareholders in the subsequent year. In the previous year, an ordinary dividend of CHF 18 and an extraordinary dividend of CHF 2 were paid out per share. At the Annual General Meeting on 21 April 2009, the Swisscom Board of Directors will propose an increase of the ordinary dividend to CHF 19 per share. This amounts to a total dividend of CHF 984 million or around 40% of operating free cash flow. Given the difficult conditions currently prevailing on the capital markets, Swisscom aims to speed up the reduction of net debt. As a result, neither a extraordinary dividend nor a share buy-back programme is planned. The proposed payout will thus amount to 10%, or around CHF 250 million, less than half the total operating free cash flow.

Development of dividend per share in CHF (year of payment), since initial public offer

The Board of Directors will also propose the cancellation of 1.6 million treasury shares to the General Meeting of Shareholders. This is 3.1% of the issued shares.

Development of distribution CHF in millions since initial public offer



Since going public in 1998, Swisscom has paid out CHF 20.8 billion to its shareholders. This amount is divided into dividend payments of CHF 8.8 billion, reductions in par value of CHF 1.6 billion and share buy-back schemes of CHF 10.4 billion.

Accumulated total returns since going public in 1998 amount to 51.3%. Over the last 10 financial years, Swisscom has distributed CHF 175 per share to its shareholders. This corresponds to a return of approximately 5% per year, based on an issuing price of CHF 340 per share in 1998.

Corporate Governance

1 Principles

Transparency and a clear sense of responsibility are the cornerstones of - Swisscom's corporate governance principles: transparency in financial reporting as well as a clear allocation of responsibilities to shareholders, the Board of Directors, the Group Executive Board and Group companies.

Since it is listed on the SIX Swiss Exchange, Swisscom complies with the standards laid down in the Directive on Information relating to Corporate Governance issued by the SIX Swiss Exchange (revised at January 1, 2007) and Arts. 663b^{bis} and 663c sect. 3 of the Swiss Code of Obligations and also the current standards laid down in the Code of Best Practice for Corporate Governance including Appendix 1 on the recommendations for compensation for members of the Board of Directors and the Group Executive Board.

Swisscom Ltd shares are traded in the "EU-regulated Market Segment" of the SWX Europe in London, so that it also complies with the relevant EU capital market regulations implemented by the UK under national law including rules passed by the UK Financial Services Authority (FSA). In November 2008 the SIX Group decided to transfer trading from the SWX Europe in London to the SIX Swiss Exchange, which means that approximately from mid-2009 all trading will be subject to Swiss regulations and supervision.

Swisscom's principles and rules on Corporate Governance are laid down in the Articles of Incorporation , the Organisational Rules and the regulations of the committees of the Board of Directors, which are regularly reviewed and if necessary updated.

Of particular importance in this context are the Swiss Code of Ethics[1] adopted by the Audit Committee in 2003 and revised at March 3, 2008 and the Code of Conduct[2] introduced by the Swisscom Group Executive Board in 2005. The Swiss Code of Ethics is applicable to the CEO and CFO of Swisscom Ltd, the CEOs and CFOs of its group companies, and any other senior financial, accounting or controlling officer of Swisscom. The standards defined in the Code of Ethics are intended to guarantee honest and ethical conduct, including the ethical handling of conflicts of interest between personal and professional relations. The Swisscom Code of Conduct describes how the Swisscom Management expects all managers and employees to conduct themselves in the daily course of business.

1 The Swisscom Code of Ethics can be found under: www.swisscom.ch/codeofethics
2 The Swisscom Code of Conduct can be found under: www.swisscom.ch/codeofconduct

2 Group structure and shareholders

Group structure

In 2001 Swisscom was transformed into a corporate group with independently operating subsidiaries, divided into Category I ("strategic"), Category II ("important") and Category III ("other"). The aim of this group structure was to increase transparency for management and shareholders, while allocating clear responsibilities to the subsidiaries for their respective submarkets. The rapid advances in technology and the merging of previously independent communication technologies and applications as well as changes in customer requirements led Swisscom to realign their group structure on January 1, 2008 to fully focus on customer requirements. Business activities of Fixnet, Mobile and Solutions were therefore combined to form - Swisscom (Switzerland) Ltd.

At the same time, "Swisscom Participations" was created to include Alphapay AG, Billag AG, Cablex AG, Curabill AG, Minick Holding (sold in September 2008), Sicap AG, Swisscom Broadcast AG and Swisscom Real Estate AG. Swisscom Participations is not a legal entity, but is organised and managed in the same way as the strategic Group companies of Swisscom Ltd.

A diagram of the group structure is shown in Chapter "Strategy and Organisation" on page 40 of the Annual Report. Swisscom Ltd is the holding company responsible for the overall management of the Swisscom Group which includes the four divisions of Group Finance & Controlling, Group Strategy & Business Development, Group Communications and Group Human Resources. Strategic and financial management of the independently operating group companies is assured by the fact that powers and responsibilities are aligned to the Board of Directors of Swisscom AG. In addition, the CEO or CFO holds the position of Chairman of the Board of Directors of the "strategic" companies Fastweb S.p.A. and Swisscom IT Services Ltd, and the CSO (Chief Strategy Officer) of Swisscom Ltd and other representatives of Swisscom are also members of the Board. At Swisscom (Switzerland) Ltd the Board of Directors is identical to that of Swisscom Ltd. For the "important" subsidiaries, the responsibilities of the Chairman of the Board of Directors are fulfilled by the CEO of Swisscom Ltd, by the CEO of a strategic subsidiary, by the head of a Group division or by another person appointed by the CEO. Other representatives of Swisscom are also members of the Board.

A list of the group companies, including the name of the company, registered office, share capital, share of holding and segment allocation is presented in Note 41. 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, Hospitality Services Plus SA and Swisscom Central & Eastern Europe are presented as segments. Group Headquarters together with Worklink AG and Swisscom Re AG are also presented as a segment.

Swisscom Ltd, a company governed by Swiss law and headquartered in Ittigen (Canton of Berne, Switzerland), is listed in the "EU-regulated Segment" of the SIX Swiss Exchange (securities No: 874251; ISIN Code: CH0008742519; symbol: SCMN). Swisscom Ltd was delisted on the New York Stock Exchange in 2007. The delisting became effective at the end of 2007. It is therefore no longer obliged to report under the Exchange Act. Nevertheless Swisscom still attaches great importance to effective corporate governance mechanisms and high reporting standards.

The former ADR programme was accordingly converted to a Level 1 programme with over-the-counter trade (OTC) (symbol: SCMWY; Pink Sheets ID: 69769; ISIN number: CH00874251.9; CUSIP for ADR: 871013108).

At December 31, 2008, Swisscom Ltd's stock market capitalisation was CHF 17,583 million.

The shares of Fastweb S.p.A., headquartered in Milan, Italy, are listed on the Borsa Italiana (ISIN code: IT0001423562; ticker symbol FWB).

As of December 31, 2008 the stock market capitalisation of this holding was CHF 1,111 million. Swisscom Ltd holds 82.1% of shares.

Significant shareholders

Under the Telecommunications Enterprise Act (TUG), the Swiss Federal Government has a majority holding in the company in terms of both capital and votes. Swiss Confederation held 55.2% of the shares of Swisscom Ltd as of December 31, 2008, or 29,494,000 Swisscom shares.

In the Swiss Official Gazette of Commerce of July 15, 2008, Swisscom Ltd announced that, following the registration of the capital reduction in the Commercial Register and the destruction of shares, it holds 1,639,121 own registered shares in Swisscom Ltd (equivalent to 3.07%).

Cross-shareholdings

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

3 Capital structure

Capital

At December 31, 2008, Swisscom Ltd's share capital amounted to CHF 53,441,000. The shares are registered shares and each have a par value of CHF 1. The shares have been paid up in full.

Authorised and conditional capital

There is no authorised or conditional share capital.

Changes in capital

Changes in shareholder's equity of Swisscom Ltd in the individual financial statements under commercial law in the years 2006 to 2008:

CHF in millions	Share capital	General reserves	Reserve for treasury shares	Retained earnings	Total equity
Balance at January 1, 2006	**61**	**277**	**2,002**	**3,321**	**5,661**
Net income	–	–	–	1,665	1,665
Dividends paid	–	–	–	(907)	(907)
Share capital reduction	(4)	(22)	(2,002)	68	(1,960)
Purchase of treasury shares	–	–	2,212	(2,212)	–
Balance at December 31, 2006	**57**	**255**	**2,212**	**1,935**	**4,459**
Net income	–	–	–	1,276	1,276
Dividends paid	–	–	–	(881)	(881)
Balance at December 31, 2007	**57**	**255**	**2,212**	**2,330**	**4,854**
Net income	–	–	–	2,375	2,375
Dividends paid	–	–	–	(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**

On April 25, 2006, the General Meeting of Shareholders agreed to the payment of a dividend of CHF 16. A further payout also took place in the form of a further share buy-back programme via the issue of tradable put options between August 30 and September 13, 2006 on the virt-x (now SWX Europe). Swisscom repurchased a total of 4,916,618 own registered shares, or 8% of the registered share capital and voting rights. All in all shares totalling CHF 2.2 billion were bought back.

On April 24, 2007, the General Meeting of Shareholders agreed to the payment of a dividend of CHF 17 for fiscal 2006. There was no additional payout to the shareholders in 2007.

On April 22, 2008, the General Meeting of Shareholders agreed to the payment of an ordinary dividend of CHF 18 per share and a special dividend of CHF 2 per share. At the same time they resolved the reduction of the share capital by CHF 3,277,561 from CHF 56,718,561 to CHF 53,441,000 through the destruction of approximately two thirds of the shares bought back in 2006.

Shares, participation certificates and profit-sharing certificates

Each of the registered shares of Swisscom Ltd has a par value of CHF 1. Each share entitles the holder to one vote. Voting rights can only be exercised if the shareholder has been entered with voting rights in the Swisscom share register. All registered shares are eligible for dividends, with the exception of treasury shares held by Swisscom Ltd. There are no preferential rights. For further details, please refer to the Chapter "Shareholders participation" at the end.

The registered shares of Swisscom Ltd are not issued in certificate form but are held as uncertificated securities in the holdings of SIX SIS AG (registered shares with no right to printed certificates). Shareholders may at any time request Swisscom Ltd to issue a confirmation free of charge of the registered shares held by this shareholder. However, shareholders have no right to request the printing and delivery of certificates for registered shares. Swisscom Ltd may print and deliver uncertificated shares at any time. If registered shares are printed, Swisscom Ltd may issue certificates for multiple registered shares. Registered shares bear the signatures of two members of the Board of Directors; these may be facsimile signatures.

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 for the registration of trustees and nominees in the share register. To facilitate the tradability of the 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 offer the necessary assurances of proper business conduct, and must act 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 the 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 any more than 0.5% of the registered share capital of Swisscom Ltd entered in the commercial register.

No exceptions for fiduciary entry of registered shares with voting rights above the aforementioned percentage limit were granted in fiscal 2008.

Debenture bonds, convertible bonds and options

During 2007 Swisscom successfully 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, included CHF 550 million with a coupon of 3.5% and a term of six years and CHF 350 million with a term of ten years and a coupon of 3.75%. The second tranche was issued on October 22, 2007. This comprised 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 a top-up option) with a term of seven years and a coupon of 4%. The investors are entitled to sell the debenture 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 or a comparable level.

The management and employee participation schemes of Swisscom Ltd are 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 comprises nine members, none of whom has an executive role within the Swisscom Group or has held one 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.

The list below gives an overview of the composition of the Board of Directors at December 31, 2008, the functions of each member within the Board of Directors, their nationality, year first elected and remaining tenure. In addition details of their career and education as well as other activities and interest such as mandates in important companies, organisations and foundations, permanent functions in important interest groups are included.

Name	Year of birth	Position	Appointed	Appointed until
Anton Scherrer [1,2,3,4]	1942	Chairman	2005	2010
Fides P. Baldesberger [1]	1953	Member	2005	2009
Hugo Gerber [2]	1955	Member, employee representative	2006	2010
Michel Gobet [2]	1954	Member, employee representative	2003	2009
Torsten G. Kreindl [1,3]	1963	Member	2003	2009
Catherine Mühlemann [1]	1966	Member	2006	2010
Felix Rosenberg [2,3]	1941	Member, government representative	1998	2009
Richard Roy [3,4]	1955	Deputy Chairman	2003	2009
Othmar Vock [3,4]	1943	Member	2005	2009

1 Member of the Finance Committee.
2 Member of the Personnel and Organisation Committee.
3 Member of the Compensation Committee.
4 Member of the Audit Committee.

Anton Scherrer

Swiss citizen
Education: Swiss diploma in food technology ETH; Dr. sc. techn. ETH
Career: research, consultancy and management in several industrial companies and breweries in Switzerland and abroad; 1984–1991 delegate of the Board of Directors of Hürlimann Holding AG; 1991–2001 Managing Director of Migros Co-operative Union with responsibility for 14 industrial enterprises and the entire logistics; 2001–2005 President of the Head Office and of the operative committee of retail trade of the Migros Co-Operatives; until end of June 2005 President of the Board of Directors of Migrosbank, of Magazine zum Globus and the international travel company Hotelplan.
Other mandates: member of the executive committee of economiesuisse; member of the advisory committee of the corporate group Theo Müller GmbH & Co. KG, Aretsried (D) until the end of 2008; member of the Capvis Industry Advisory Board of Capvis Equity Partners AG, Zurich; member of the Board of Directors of Orior AG, Zurich; member of the Advisory Board of Agrovision, Muri; member of the Advisory Board of ETH Zurich Foundation, Zurich; member of the Advisory Board of Digma Management Consulting AG, Zurich; member of the executive committee of the Institute for Marketing and Trade at the University of St. Gallen; President of the "Marketing-Promoter-Program", Association of Friends of Research at the Institute for Marketing and Trade at the University of St. Gallen; Advisory Board of the foundation to promote the Master in Law and Economics courses at the University of St. Gallen.

Fides P. Baldesberger

Swiss citizen
Education: lic. phil. I / graduated gemologist (GG)
Career: since 1985 Managing Director and since 1987 also Chairman of the Board of Directors of Outils Rubis SA, Stabio
Other mandates: member of the foundation committee of the W. A. de Vigier foundation for the promotion of young Swiss entrepreneurs and the foundation for the International Committee of the Red Cross

Hugo Gerber

Swiss citizen
Education: diploma in postal services, management diploma IMAKA, personnel & organisational development Solothurn University of Applied Sciences, North-West Switzerland
Career: 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;
Other mandates: member of SUVA Board of Directors; member of Publica cash commission; President of the support fund for federal employees; President of ARC education institute; member of the board of Travail.Suisse and President of the Forum Politique Suisse; foundation council RUAG pension fund; member of the managing committee of Swiss Reisekasse Cooperative (REKA)

Michel Gobet

Swiss citizen
Education: degree in history
Career: Central Secretary and Deputy General Secretary of the PTT Union; since 1999 Secretary of the union Communication
Other mandates: member of Union Network International (UNI); Vice-President of the European Executive Committee for Telecommunications

Torsten G. Kreindl

Austrian citizen
Education: degree in industrial engineering; Dr. sc. techn.
Career: Chemie Holding AG; W. L. Gore & Associates Inc.; member of the Management Board of Booz Allen & Hamilton, Germany; 1996–1999 CEO of Broadband Cable Business Deutsche Telekom and Chief Executive Officer of MSG Media Services; 1999–2005 partner at Copan Inc.; since 2005 partner of the European private equity company Grazia Group Equity GmbH, Stuttgart
Other mandate: consultant to Pictet Funds, Geneva

Catherine Mühlemann

Swiss citizen
Education: lic. phil; eidg. dipl. PR consultant
Career: 1994–1997 Head of Media Research Swiss Television DRS; 1997–1999 program manager SF1 and SF2, 1999–2001 programme director TV3; 2001–2003 managing director of MTV Central; 2003–2005 Managing Director of MTV Central & Emerging Markets; 2005-2008 Managing Director of MTV Central & Emerging Markets and Viva Media GmbH (Viacom); since 2008 partner in Andmann Media Holding GmbH, Baar
Other mandates: member of the Berlin Boards (Cultural section); member of the Foundation Future Berlin, member of the management board of Rod Communication, Zurich

Felix Rosenberg

Swiss citizen
Education: degree in law (lic. iur.)
Career: 1968–1969 clerk to the local court in Baden; 1969–1974 secretary of the Finances, 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 Executive Board; 1989–1998 Chief Executive Officer of Telecom PTT and, until end of March 1998, of Swisscom
Other mandates: Chairman of the Board of Directors of Voigt AG and De Martin AG; President of the Board of Trustees of the Swiss Pro Patria Foundation

Richard Roy

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

Othmar Vock

Swiss citizen
Education: commercial diploma; MBA IMD, Lausanne; diploma in export
Career: 1975–1983 Commercial Financial Director of Ciba-Geigy Group; 1984–1990 Financial Director of Company Treasury/Controlling of the Roche Group; 1990–1993 Director of Internal auditing for the Roche Group; 1993–2004 Chief Financial Officer of Givaudan SA (formerly fragrance/flavours business unit) of the Roche Group
Other mandates: member of the Board of Directors of Ivoclar-Vivadent, Schaan; Member of the Board of Directors of Cytos AG, Schlieren; member of the Board of Directors of Balda AG, Bad Oeyenhausen (Germany) until July 2008

Composition, election and term of office

With the exception of the government representative, the Board of Directors of Swisscom Ltd is elected by the General Meeting of Shareholders. It currently comprises nine members but according to the terms of the Articles of Incorporation may comprise between seven and nine. The members are elected individually for two years. The maximum term of office of the members elected by the General Meeting is 12 years. Members who reach the age of seventy retire from the Board on the date of the next General Meeting.

Under the Articles of Incorporation of Swisscom Ltd, the Federal Government is entitled to appoint two representatives to the Board of Directors of Swisscom Ltd. Felix Rosenberg is currently the sole government representative. The maximum term of office or age limit of the representative of the Federal Government is subject to the provisions of the regulation on extraparliamentary commissions as well as governing bodies and federal agencies (Commission Regulation). Under the TUG, the employees must have appropriate representation on the Board of Directors of - Swisscom Ltd. The Articles of Incorporation state that the Board of Directors must include two employee representatives. These are currently Hugo Gerber and Michel Gobet.

Internal organisation, powers and responsibilities

The TUG 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 thus responsible for overall management and for supervision of the Group Executive Board of Swisscom Ltd. It determines strategic, organisational, budgeting and accounting guidelines, taking into account the four-year targets laid down by parliament in accordance with the TUG which the Confederation, as majority shareholders, wants to reach. The Board of Directors has delegated day-to-day business management to the CEO in accordance with the TUG, the Articles of Incorporation and the Organisational Regulations.

The Board of Directors convenes as often as business requires. In fiscal 2008 it convened for ten meetings which lasted on average 7 hours. Six telephone conferences were also held. At the beginning of 2008 a further training workshop was held for the members of the Board of Directors. Some of the members of the Board of Directors also attended lectures and seminars in Switzerland and abroad during the year. The Board of Directors also attends the annual management meeting of the - Swisscom Group which lasts a whole day.

The Board of Directors is convened by the Chairman. Should the Chairman be unavailable, the Deputy Chairman convenes the meeting. The CEO, CFO and CSO of Swisscom Ltd are always invited to the meetings of the Board of Directors. The Chairman sets the agenda for the meetings of the Board of Directors. Any board member may request the inclusion of further items on the agenda. Board members receive documents prior to the meeting to allow them to prepare their responses to items on the agenda. The Board of Directors may invite members of the Group Executive Board, senior employees of Swisscom Ltd, auditors or other specialists to participate in its meetings, thereby ensuring appropriate reporting to the 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 the general course of business and major business transactions, as well as on any measures implemented. On average 99% 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 to carry out detailed examinations of important issues. Each committee generally comprises two to four members. Each member of the Swisscom 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 board members. The duties and responsibilities of the standing committees are laid down in regulations. All minutes of the meetings of the standing 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 Fides P. Baldesberger, Catherine Mühlemann and Anton Scherrer. The CEO, CFO and the CSO regularly attend the 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 agenda. The committee met on five occasions in fiscal 2008. The meeting lasted on average 4 hours and an average of 98% of members were present at the meetings. The committee prepares all financial transactions for the attention of the Board of Directors, such as the establishment or winding-up of major Group companies, the formation or sale of important holdings, the formation or termination of strategic alliances, medium-term budgeting, and major investments or disposals, as well as giving consent to all important purchases, contracts, guarantees and letters of comfort. The Finance Committee has the last say in approving important loans 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 the meetings of the Personnel and Organisation Committee as well as other members of the Group Executive Board or project managers depending on the topic. The committee met on five occasions in fiscal 2008 and the meetings lasted between two and three hours. All members were present at the meetings. The committee prepares for the attention of the Board of Directors all organisational issues concerning the group structure and matters relating to corporate policy, personnel and salary policy, general 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 last say in approving statutes and organisational regulations passed by the strategic and important Group companies, general conditions of employment for Swisscom Ltd top management (excluding the Group Executive Board), management and employee participation schemes and profit sharing schemes at Swisscom Ltd and group companies, basic principles of pension funds and social benefits, as well as the election of the employer representative on the pension fund.

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 regularly attend the meetings. The committee met on five occasions in fiscal 2008 and the meetings lasted on average six hours. All members were present at the meetings. The members are classified as independent and have the necessary specialist skills. Othmar Vock is considered a financial expert. The committee covers all internal and external audit work as well as all subjects 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 following areas of business: the organisation of accountancy, financial controls and financial planning, appointing the auditors, reviewing the course of business, including quarterly statements and forecasts, the annual report and applications for registering shares. It is responsible for checking and assessing the qualifications, independence and performance of the external auditors, managing the share register, monitoring 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 lodged anonymously by employees in connection with external accounting, internal control systems of financial reporting and auditing of the annual accounts (whistle blowing).

Compensation Committee

For details of the Compensation Committee, please refer to the Chapter “Remuneration Report” on page 113 of the Annual Report.

Nomination Committee

This committee meets on an ad hoc basis in order to prepare for the election of new members of the Board of Directors and the Group Executive Board. The committee usually comprises the President and the chairmen of the Finance, Audit and Personnel and Organisation Committees. The committee met on two occasions in fiscal 2008. 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 can be found under www.swisscom.ch/basicprinciples.

Information instruments of the Board of Directors

The President of the Board of Directors and the CEO meet on average twice a month in order to discuss fundamental issues concerning Swisscom Ltd and the group companies.

Furthermore, the CEO reports to each meeting of the Board of Directors in detail on the general course of business and major business transactions, as well as on any measures implemented, The Board of Directors also receives a monthly report of all important key figures for the Group and all segments including important group companies. Furthermore, every quarter, the Board of Directors receives detailed information on the course of business and on the assets, financial, earning and risk position of the Group and the segments. Most importantly it receives forecasts of 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. Moreover, each member of the Board of Directors is entitled to demand information on all 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 deals with 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. Credit, market, business and operational risks are recognised through a proactive risk assessment system that takes into account internal and external events and are controlled using the most appropriate risk strategy. The system, which is allocated to the financial division, monitors the risk profile of Swisscom and is implemented and documented in accordance with internationally recognised standards and incorporating all relevant divisions.

The risk management system at Swisscom includes the following five elements:

- Identification of risks: risks of Swisscom Ltd and their group companies are identified through a comprehensive annual risk analysis (workshops and interviews). Each risk is allocated a risk owner. The risk portfolio is reviewed and updated quarterly.
- Assessment of risks: the risks identified are assessed according to the probability of occurrence and their qualitative and quantitative effects in the event of occurrence.
- Risk strategy: Swisscom has a risk strategy that supports corporate goals. Basically only those risks should be entered into where Swisscom has core competence and avoided or overcome in areas where they have no core competence.
- Implementation of the risk strategy: the risks identified are managed according to the risk strategy. The implementation of the risk strategy is regularly reviewed.
- Reporting: the Board of Directors, Audit Committee and Group Executive Board are informed about risks and their possible effects quarterly.

The most significant risks are listed in the Chapter "Risk Factors" from page 52 of the Annual Report.

Internal controlling system

Swisscom operates an internal controlling system within the framework of the risk management system with the aim of ensuring reliable internal and external financial reporting and preventing false information about business incidents (violations or errors). On the basis of the internationally recognised COSO framework, the internal controlling system guarantees the necessary workflows and instruments in order to identify and assess risks in connection with the quality of accounting in good time, and control them using appropriate measures. Internal rules and instruments such as the Code of Ethics, the Accounting Manual or the whistle-blowing platform support this target. The internal controlling system appropriately combines all the key responsible divisions, especially the Audit Committee and the Group Executive Board. Swisscom sees the internal controlling system as an ongoing task and opportunity to continually improve workflows in the areas of bookkeeping, accounting and financial reporting.

Internal auditing

In addition to its risk management responsibilities, the internal audit department also has a supervisory and controlling function. This is an essential part of the Swisscom Group's Corporate Governance and is the responsibility of Group Internal Audit. Group Internal Audit supports the Swisscom Ltd Board of Directors and the Audit Committee in observing statutory and regulatory supervision and controlling instruments. Management is shown potential areas where business processes can be improved.

Group Internal Audit is responsible for planning and carrying out audits throughout the entire Group in compliance with the guidelines for the profession. Group Internal Audit in particular carries out independent and objective audits and assessments to ensure that all internal control systems as well as risk management and control processes are efficient, compliant and effective. The results of the audit are documented and the measures implemented are monitored.

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

Group Internal Audit cooperates closely with the external auditors and exchanges information. 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 applied for.

5 Group Executive Board

Members of the Group Executive Board

Under 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. In exceptional circumstances only, temporary membership of the Board of Directors is permitted. 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 Swisscom (Switzerland) Ltd divisions.

On January 1, 2008, the Board of Directors appointed Guido Garrone, Head of Networks within Swisscom (Switzerland) Ltd, as a member of the Group Executive Board. The former provisional head of Networks, Patrice Haldemann, left the Group Executive Board at the same time.

The list below gives an overview of the composition of the Board of Directors at December 31, 2008, the year of appointment of each member and their function within the Group. In addition details of their career and education as well as other activities and interests such as mandates in important companies, organisations and foundations, permanent functions in important interest groups are included.

Members of the Group Executive Board at December 31, 2008:

Name	Born	Position	Appointed [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 Network of Swisscom (Switzerland) Ltd	January 2008
Heinz Herren	1962	Head of Small and Medium-Sized Enterprises of Swisscom (Switzerland) 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
Jürg Rötheli	1963	CEO of Swisscom Participations	April 2005
Urs Schaeppi	1960	Head of Corporate Business of Swisscom (Switzerland) Ltd	August 2007

1 Member of the Executive Board of Swisscom: Carsten Schloter since 2000; Stefan Nünlist and Jürg Rötheli since 2001; Ueli Dietiker since 2002; 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
Education: Diplom-Betriebswirt (Approx. M.A. in business administration)
Career: 1985–1992 various positions at Mercedes-Benz France SA; 1992–1994 member of the Management Board at debitel France SA; 1995–1999 various positions at Debitel Germany; 1999 member of the Management Board at Debitel AG; 2000–2001 Head of Public Com and Head of Mobil Com of Swisscom; 2001–January 2006 CEO at Swisscom Mobile AG, since January 2006 CEO at Swisscom Ltd and since January 2008 CEO of Swisscom (Switzerland) Ltd
Since March 2000 member of the Group Executive Board of Swisscom
Other mandates: President of the Board of Directors of Fastweb S.p.A

Ueli Dietiker

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

Eros Fregonas

Swiss and Italian citizen
Education: electronic engineering at the Swiss Federal Institute of Technology (ETH) in Zurich
Career: 1987–1996 Andersen Consulting, 1996–2005 CEO Boss Lab AG (now: B-Source), 2005–2007 independent consultant in the finance ad IT sector; since May 2007 CEO of Swisscom IT Services Ltd
Since May 2007 member of the Executive Board of Swisscom

Guido Garrone

Italian citizen
Education: Graduate Electronic engineering (MSEE) (Politecnico di Milano, I); post-graduate diploma in general management (ISTUD, Istituto Studi Direzionale, Stresa, Italy)
Career: 1988–1999 various positions with Sirti S.p.A, Milan, final position Head of Technology; 1999 co-founder of Fastweb S.p.A.; 1999–2007 various positions with Fastweb S.p.A., final position 2003–2007 Chief Technology Officer; since January 2008 Head of Networks at Swisscom Switzerland
Since January 2008 member of the Group Executive Board of Swisscom

Heinz Herren

Swiss citizen
Education: electrical engineering HTL
Career: 1986–1988 Hasler AG; 1998–1991 XMIT AG; 1991–1993 Ascom Telematik AG; 1993–1994 Bedag Informatik; 1994–2000 3Com Corporation; 2000–2000 Inalp Networks Inc.; 2001–2005 Head of Marketing Swisscom Fixnet Wholesale; 2005–2007 Head of Small and Medium-Sized Enterprises of Swisscom Fixnet; since August 2007 Head of Small and Medium-Sized Enterprises at Swisscom Switzerland
Since August 2007 member of the Group Executive Board of Swisscom

Stefan Nünlist

Swiss citizen
Education: degree in law (lic. iur.), attorney and notary; Wharton Advanced Management Program (University of Pennsylvania, Philadelphia, USA)
Career: 1991–1996 Federal Department of Foreign Affairs (DFA); 1997–1998 Federal Department of Economic Affairs (DEA); 1999–2000 Atel AG; since January 2001 Head of Group Communications at Swisscom Ltd
Since July 2001 member of the Group Executive Board of Swisscom
Other mandates: member of the Management Board of the Swiss Advertisers' Federation; member of the Swiss Tourism Council; member of Olten Municipal Council

Christian Petit

French citizen
Education: MBA ESSEC Cergy-Pontoise
Career: 1993–1999 Debitel France; 2000–2003 Head of Operations Swisscom Mobile AG; 2003–2006 Head of Product Marketing Swisscom Mobile; 2006–June 2007 CEO Hospitality Services Plus SA; since August 2007 Head of Residential Customers at Swisscom Switzerland
Since August 2007 member of the Group Executive Board of Swisscom

Günter Pfeiffer

German citizen
Education: doctorate in economics and business administration (University of Cologne) University of Cologne
Career: 1988–1995 Detecon, Director of Holding Projects; 1995–1996 T-Mobile, Senior Director International; 1997–1999 VEBA-Telekom, Vice-President Marketing; 2000–2004 Head of Participation Management at Swisscom Ltd; since June 2004 Head of Group Human Resources at Swisscom Ltd
Since June 2004 member of the Group Executive Board of Swisscom

Daniel Ritz

Swiss citizen
Education: Dr. oec. HSG (business administration)
Career: 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 at Swisscom Ltd
Since September 2006 member of the Group Executive Board of Swisscom
Other mandates: President of the Swiss Association of Economic Research (SGK) and member of the Board of Directors of Fastweb S.p.A.

Jürg Rötheli

Swiss citizen
Education: doctorate in law (Dr. iur.); attorney and notary; Wharton Advanced Management Program (University of Pennsylvania, Philadelphia, USA)
Career: 1993–1999 (partner since 1996) Stampfli, Keller & Partner, Solothurn; 1995–1999 General Counsel Interdiscount Holding AG, Simeco Holding AG; January 1999–June 2001 Head of Legal Department (General Counsel) of Swisscom Ltd; July 2001–March 2005 Head of Group Operations & Related Businesses of Swisscom Ltd; since April 2005 CEO Related Businesses and since August 2007 CEO Swisscom Participations. Since July 2001 member of the Group Executive Board of Swisscom
Other mandates: Board of Directors Regio Energie Solothurn

Urs Schaeppi

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

Management contracts

Neither the Swisscom Group, nor any subsidiaries belonging to the consolidated group has entered into any management contracts with third parties.

6 Shareholders' participation

Voting rights and representation restrictions, registration of nominees

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 Swisscom share register. 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 entered in the register as a shareholder or beneficial owner without voting rights for the remaining shares. This restriction of 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 voting right restriction of 5% does not apply to the Swiss Federal Government which, under the TUG, must hold 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 an amalgamation or corporate merger;
- Where shares are acquired as a result of a contribution in kind or exchange of shares;
- Where shares are acquired to establish a long-term collaboration 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 of the General Meeting, for which an absolute majority of valid votes cast would be required.

Statutory quorum requirements

The 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-mentioned statutory quorum requirements.

Convocation of shareholders and agenda

The Board of Directors must convene the 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 via unregistered or registered 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 to the Board of Directors at least 45 days prior to the General Meeting, stating the agenda item and the proposal.

Representation at the General Meeting

Shareholders may be represented at the 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, minors and wards by their legaly representative, even if these persons are not shareholders. Shareholders who send a proxy may issue instructions regarding every agenda item and also 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. He approves the motions of the Board of Directors unless instructions to the contrary are expressly given.

Registrations

The voting shares entered in the register have voting rights in the General Meeting of Shareholders. Up to and including the 2006 financial year, the register always closed at least three days prior to the General Meeting of Shareholders. Shareholders who registered their voting rights in the share register before it closed were entitled to vote. The share register was not closed before the General Meeting of Shareholders for 2007 on April 22, 2008. The shareholders who had registered their voting rights in the share register by 4 p.m. on April 18, 2008 were entitled to vote.

7 Clauses on changes of control

Obligatory offer

Provision is made in the TUG for the Swiss Federal Government 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 (BEHG) would thus not be possible without an amendment to the TUG. As a result, there are no regulations concerning “opting out” or “opting up” (BEHG Art. 22).

Clauses on takeover of control

For details of the clauses on takeover of control, please refer to the Chapter “Remuneartion Report” on page 116 of the Annual Report.

8 Auditors

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

Due to the revised auditing obligations for legal entities under Swiss private law, effective from January 1, 2008, Swisscom Ltd as a public company must now undergo a so-called ordinary audit, which must be carried out by a state supervised auditing company. The auditors appointed by the shareholders of the parent company are automatically and always responsible for auditing the consolidated annual financial statements. There is consequently no further need to appoint a special auditor for the consolidated annual financial statements.

The statutory auditors are appointed annually by the General Meeting.

KPMG Switzerland was the statutory and group auditor 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 on the New York Stock Exchange and Swisscom Ltd deregistered by the American supervisory authorities "Securities Exchange Commission (SEC)", the audit no longer has to be carried out by the subsidiary registered with the PCAOB. Since the General Meeting on April 22, 2008 the audit is performed by KPMG AG, Gümligen-Berne, Switzerland. This change has no effect on the performance of the audit. The auditor in charge of KPMG who is responsible for the auditing mandate, Hanspeter Stocker, has been in office since 2004. KPMG AG is a licensed state supervised auditing company.

Auditing remuneration and additional remuneration

The remuneration for the auditing services provided by KPMG AG in 2008 amounted to CHF 4,9 million. The remuneration for other audit services and non-audit services, especially for tax advice and other advisory services, in 2008 amounted to CHF 2,6 million.

The Audit Committee of the Board of Directors considers the following services 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 annual financial statements
– Valuation and assessment services, fairness opinions or expert reports on the valuation of contributions in kind
– Actuarial services
– Management tasks and personnel services
– Financial services
– Outsourcing internal auditing
– Development and introduction of financial information systems

The statutory auditors are permitted to provide non-audit services, especially legal advice, provided the independence of the auditors is not threatened. Tax consultancy services are only permissible if this does not lead to an audit of own operations. 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 for evaluating the auditors

The Audit Committee checks the qualifications, independence and performance of the external auditors on behalf of the Board of Directors, approves the integrated strategic audit plan of the auditors and proposes the appointment and dismissal of the auditors to be appointed or dismissed by the General Meeting of Shareholders. It defines the criteria for the annual approval of fees. The CFO reports quarterly and the auditors annually on the current orders being performed by the auditors, divided up 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 external auditors, represented by the auditor in charge and his representative, participate in the meetings of the Audit Committee, where they 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 reviews and the final annual audit, as well as on their findings in connection with accounting and the internal control system. Finally the chairman of the committee remains in close contact 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. Swisscom 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 communiqués and shareholders' letters.

Results will be published on the dates below:

– First quarter: May 6, 2009
– Half year: August 12, 2009 (half-year report)
– Third quarter: November 11, 2009
– Full year: in February/March, 2010 (annual report)

The General Meeting of Shareholders will be held on:

– April 21, 2009

The interim reports and the annual financial statements and annual report can be found on the Swisscom homepage under Investor Relations (www.swisscom.ch/financialreports) or may be ordered directly from Swisscom. Press releases, presentations and the latest financial calendar are also available on the homepage of Swisscom under Investor Relations.

Information about push and pull links for the distribution of ad-hoc communications can be found under www.swisscom.ch/adhoc.

Remuneration Report

Introduction

This renumeration report explains the compensation system for the Board of Directors and the Executive Board of Swisscom Ltd. The report will be explained to the Shareholders' Meeting under the agenda item "Approval of the annual financial statements".

The report is based on No. 5 of the Directive on Information relating to Corporate Governance issued by the SIX Swiss Exchange. Swisscom also complies with the currently valid standards of the Swiss Code of Best Practice for Corporate Governance including Appendix 1 on the recommendations for compensation for members of the Board of Directors and the Executive Board. Compensation and participation in accordance with Article 663b^{bis} and Article 663c sect. 3 of the Swiss Code of Obligations are also listed and commented on in the individual annual financial statements on pp. 202 to 2009.

For further information on personnel policy please refer to the personnel section in the Sustainability Report on page 213.

General principles governing remuneration and compensation

Uniform principles of compensation exist within the Swisscom Group, although the dynamics of the labour market allow a certain degree of flexibility. Pay at Swisscom is based on four factors: position, individual performance, the success of the company and the labour market. This approach takes into consideration the interests of the employees, the investors and the company and is systematic, transparent and of long-term relevance.

Swisscom offers competitive pay in order to attract highly qualified and motivated specialised personnel and managers and to encourage them to enter into a long-term commitment to the company. The variable performance-related component offers an additional incentive and is primarily based on the degree to which overriding targets for instance such as customer loyalty are met. It motivates employees and top management to make a contribution to the long-term success of the company. The management share participation scheme "Management Incentive Plan") which is compulsory for members of the Board of Directors and – with one exception – for members of Group Executive Board creates an additional incentive. The plan means that they directly participate financially in the medium term performance of Swisscom shares. The previous possibility for other members of the management and employees subject to the collective employment agreement to participate in share participation schemes "Management Incentive Plan" and "Top-Share", respectively, has been suspended for the reporting year.

The management and employee participation schemes of Swisscom Ltd are described in Note 11 to the consolidated financial statements.

Decision-making powers

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

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

The Board of Directors approves the personnel and salary policy for the whole group, together with the general conditions of employment for 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 101.

Compensation for the members of the Board of Directors and the Group Executive Board

The Board of Directors lays down the compensation for each member of the Board of Directors and the CEO, as well as the total compensation for the Group Executive Board, on the basis of the compensation rule for the members of the Board of Directors, the directives adopted by the Compensation Committee for the variable performance-related component for members of the Group Executive Board and the preliminary guidance of the Compensation committee. The Compensation committee decides upon the individual remuneration for the other members of the Group Executive Board at its own discretion within the framework of the overall compensation fixed by the Board of Directors.

Compensation Committee

The Compensation Committee is chaired by the Vice-President of the Board of Directors, Richard Roy. The other members are the chairmen of the Finance Committee (Torsten G. Kreindl), Audit Committee (Othmar Vock) and Personnel and Organisation Committee (Felix Rosenberg). Anton Scherrer as President of the Board of Directors attends committee meetings but has no voting rights. All members are independent.

The committee met on two occasions in fiscal 2008. All members were present at the meetings, which lasted approximately two hours. The CEO and the 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.

Compensation for the Board of Directors

The compensation reflects the level of responsibility and the scope of activities performed by each member of the Board of Directors, as well as the economic situation and the success of the company. It is reviewed annually in December for the following year. It is presented in the compensation rules which the Board of Directors revised formally at July 1, 2008. In the first quarter of 2008, the Board of Directors appointed Towers Perrin to review the remuneration paid since 2002 with regard to its current appropriateness. Towers Perrin offers advice in the field of executive compensation all over the world. Listed companies belonging to the Swiss Market Index without financial services as well as selected government-related enterprises were used as benchmarks. This review showed that the basic salary was in line with market standards, but that overall compensation was slightly below this level. In December 2008, however, the Board of Directors decided not to change the compensation.

The compensation plan provides for a basic salary component for the President of CHF 385,000 net and for the other members of the Board of Directors of CHF 110,000 net. Additional compensation is also paid for specific duties (individual allowances). The Vice-President of the Board of Directors and the chairmen of the committees are entitled to an additional compensation of CHF 20,000, and the members of the committees receive an additional CHF 10,000 net. The state representative receives an additional compensation of CHF 40,000 net for his special duties. Meeting attendance fees are also paid (half a day: CHF 500 / whole day: CHF 750). Expenses are paid on the basis of actual expenditure. No significant fringe benefits are paid.

The members of the Board of Directors are obliged to draw 25% of their basic salary plus individual allowances in shares. Swisscom then increases the amount invested in shares by 50%. The compensation (without meeting attendance fees) is thus made up of a 66% cash portion and a 33% share portion. 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 each reporting year are presented 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 allocated. In April 2008, 1,845 shares were allocated to the members of the Board of Directors (previous year 1,528 shares) for a tax value of CHF 304 per share (previous year CHF 368). The market value was CHF 363 per share (previous year CHF 441).

The disclosure of fringe benefits and expenses complies with fiscal law, such that neither fringe benefits nor expenses are set off against the compensation presented.

The individual compensation made to the members of the Board of Directors for the financial years 2008 and 2007 are presented in the tables below, broken down into individual components:

	Base and additional compensation			
2008, CHF in thousands	**Compensation in cash**	**Share-based payments**	**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 of the members of the Board of Directors	**1,208**	**671**	**225**	**2,104**

	Base and additional compensation			
2007, CHF in thousands	**Compensation in cash**	**Share-based payments**	**Meeting attendance fees**	**Total 2007**
Anton Scherrer	335	186	78	599
Fides P. Baldesberger	98	54	24	176
Hugo Gerber	98	54	21	173
Michel Gobet	98	54	22	174
Torsten G. Kreindl	114	63	25	202
Catherine Mühlemann	90	54	22	166
Felix Rosenberg	145	81	28	254
Richard Roy	114	63	21	198
Othmar Vock	114	63	26	203
Total compensation of the members of the Board of Directors	**1,206**	**672**	**267**	**2,145**

Compensation for members of the Group Executive Board

In line with Swisscom's general compensation policy, compensation for the Group Executive Board consists of a basic salary component and a variable performance-related component as well as fringe and additional benefits (especially company car and pension).

The Compensation Committee arranges an annual review of the compensation of the members of the Group Executive Board using benchmarks. In 2008 the comparative studies carried out by the well-known consultancy firms Towers Perrin (26 of the 50 biggest Swiss companies in all sectors), Hewitt (35 European telecommunications companies) and Watson Wyatt (208 companies operating in Switzerland) were again taken as benchmarks to assess the basic salaries. These provide a good basis for a representative comparison. When evaluating these benchmarks, the sector, revenue, number of employees and location were all taken into account. Overall the analysis again revealed that salaries for comparable management positions had risen by 8% over the last three years.

The Compensation Committee reviews individual remuneration of members of the Group Executive Board only every three years. The amount of the remuneration depends on the market value of the position, the function and also takes into account individual performance. In the reporting year the basic salary of some members of the Group Executive Board was slightly adjusted on January 1, 2008 to bring them into line with standard market salary levels. The change in the Group Executive Board (replacement of the temporary Head of Networks) also led to an increase in the remuneration presented.

The incentive targets underlying the variable performance-related component are approved annually in December by the Board of Directors subject to an application by the Compensation Committee. The incentive targets set for the reporting year are based on planning figures for 2008 for the Swisscom Group. As in the past year, the main criteria are customer loyalty, net revenue, the EBITDA margin and operative free cash flow. The weighting also remains unchanged. Customers' confidence in Swisscom and customer loyalty are of central importance for the long-term development of the corporate value, at least in the Swiss core business. Customer loyalty to the Swisscom Group is given a 30% weighting and is made up of customer satisfaction and the willingness of residential customers in the mobile, fixed and Internet sectors to recommend Swisscom. Market performance is primarily reflected in financial terms in net revenue and is allocated a 20% weighting in the target system. Net revenue and customer loyalty therefore make up 50% of the incentive. The remaining 50% is based on the financial figures EBITDA margin (20%) and operative free cash flow (30%). Swisscom consequently gives central significance to continuity and a more balanced relationship between market performance and financial performance.

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 reach their targets. The size of the variable performance-related component paid depends on the degree to which targets have been met. The Board of Directors may take into account special factors such as unscheduled disposals. If targets are exceeded, additional remuneration up to a maximum of double the variable performance-related component figure may be paid.

The variable performance-related component is fixed in March of the following year on the basis of the incentive targets fixed in the year under review. Apart from one 100% cash payment, to all other members of the Group Executive Board 75% of the variable performance-related component is paid out 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 presented share-based compensation for the year under review is equivalent to 25% of the variable performance-related component for 2008, increased by 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 relates to the purchase date (usually three weeks before allocation) or to the cut-off date if treasury shares are allocated. Shares for the year under review will be allocated in April 2009. A total of 2,184 shares with a tax value of CHF 304 and a market value of CHF 363 per share were allocated to members of the Group Executive Board in April 2008 for the 2007 financial year. In April 2007 1,920 shares with a tax value of CHF 368 and market value of CHF 441 per share were allocated for the 2006 financial year.

The incentive targets were reached in the reporting year as set forth below: Net revenue, the EBITDA margin and operative free cash flow were exceeded, whereas the customer loyalty was improved, but the aimed target was not completely achieved. The disclosure of fringe benefits and expenses complies with fiscal law. The fringe benefits presented therefore only includes a share in a company car. The presentation of pension contributions (amounts which give rise to or increase pension benefits) comprises all savings and risk contributions paid by the employer to the pension fund, including proportionate contributions in order to build up reserves for fluctuation in asset value.

The following table shows the total compensation paid to the members of the Group Executive Board for the financial years 2008 and 2007, broken down into individual components and including the highest amount paid to one member.

CHF in thousands	Total Group Executive Board 2008	Total Group Executive Board 2007	Thereof Carsten Schloter 2008	Thereof Carsten Schloter 2007
Fixed compensation in cash	5,593	4,585	770	770
Variable compensation in cash	3,257	2,483	658	577
Compensation in non-cash	68	74	7	7
Share-based payments	1,126	985	261	228
Severance payments	–	2,346	–	–
Pension contributions	1,163	1,013	122	122
Total compensation of the members of the Group Executive Board	**11,207**	**11,486**	**1,818**	**1,704**

Clause on takeover of control

The employment contracts of members of the Group Executive Board include a twelve-month notice period. In addition to the statutory benefits in their employment contract, members of the Group Executive Board are entitled to a termination payment equal to their annual salary (including variable performance-related component) if a new majority shareholder and/or a new Chairman of the Board of Directors terminates the employment relationship within twelve months of the takeover. Members of the Group Executive Board who are also members of the management of strategic group companies affected by a takeover of control have the same rights. The employment contracts with the other members of the management do not include a clause on takeover of control.

The clause on takeover of control was deleted without replacement in the employment contracts of all members of the Group Executive Board on January 1, 2009.

Additional compensation

The members of the Group Executive Board are not entitled to separate compensation if they fulfil any mandates of the Board of Directors either inside or outside the Swisscom Group. During 2008 no additional compensation or remuneration was paid to members of the Board of Directors or the Group Executive Board.

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

In the year under review no additional compensation or remuneration was paid to former members of the Board of Directors or the Group Executive Board. Neither was any compensation paid to persons closely associated with members of the Board of Directors or the Group Executive Board.

Loans

During 2008 Swisscom did not provide guarantees or grant loans, advances or credit facilities of any kind either to former or current members of the Board of Directors and persons close to them, nor to members of the Group Executive Board and persons close to them. Nor are there any receivables of any nature whatsoever outstanding.

Management transactions

Since July 1, 2005 Swisscom Ltd has reported to the SIX Swiss Exchange any transactions in Swisscom shares and options undertaken by members of the Board of Directors and the Group Executive Board, stating the name and position of the transacting person. Transactions exceeding a threshold value of CHF 100,000 within one calendar month for each person liable to disclose are published anonymously by the SIX Swiss Exchange on their website. SIX Swiss Exchange does not publish any collective announcements of transactions below the threshold value of CHF 100,000 in one calendar month.

The blocked and non-blocked shares held by the members of the Board of Directors and the Group Executive Board and related persons as of December 31, 2008 and 2007 are listed in the table below:

Number	Shares 31.12.2008	Options 31.12.2008	Shares 31.12.2007	Options 31.12.2007
Members of the Board of Directors				
Anton Scherrer	1,108	–	596	–
Fides P. Baldesberger	408	–	260	–
Hugo Gerber	281	–	133	–
Michel Gobet	648	–	500	–
Torsten G. Kreindl	316	–	143	–
Catherine Mühlemann	271	–	123	–
Felix Rosenberg	1,762	–	1,540	–
Richard Roy	693	–	520	–
Othmar Vock	494	–	321	–
Total shares and options of the members of the Board of Directors	**5,981**	**–**	**4,136**	**–**
Members of the Group Executive Board				
Carsten Schloter (CEO)	2,684	–	2,051	–
Ueli Dietiker	1,807	–	1,409	–
Eros Fregonas	265	–	–	–
Guido Garrone	–	–	–	–
Patrice Haldemann	–	–	77	–
Heinz Herren	226	–	143	–
Stefan Nünlist	314	–	245	–
Christian Petit	416	–	287	–
Günter Pfeiffer	306	–	225	–
Daniel Ritz	259	–	53	–
Jürg Rötheli	750	–	599	33,000 [1]
Urs Schaeppi	728	–	461	–
Total shares and options of the members of the Group Executive Board	**7,755**	**–**	**5,550**	**33,000**

1 Call options exercisable from April 30, 2006 to April 25, 2008 at a ratio of 1:100. The exercise price was CHF 417.90.

The voting rights do not exceed 0.005% of the share capital by any person obliged to disclose.

Consolidated Financial Statements

Consolidated income statement

CHF in millions, except per share amount	Note	2008	2007
Net revenue	6,7	**12,198**	**11,089**
Goods and services purchased	8	(2,750)	(2,348)
Personnel expenses	9,10,11	(2,466)	(2,442)
Other operating expenses	12	(2,647)	(2,229)
Capitalised costs and other income	13	454	431
Operating income (EBITDA)		**4,789**	**4,501**
Depreciation, amortisation and impairment	23,24	(2,149)	(1,986)
Operating income (EBIT)		**2,640**	**2,515**
Gain on sale of subsidiaries	5	–	162
Financial income	14	143	250
Financial expense	14	(631)	(441)
Share of profit of investments in associates	25	47	32
Income before income tax expense		**2,199**	**2,518**
Income tax expense	15	(448)	(447)
Net income		**1,751**	**2,071**
Net income attributable to equity holders of Swisscom Ltd	31	1,756	2,068
Net (loss) income attributable to minority interests	31	(5)	3
Basic and diluted earnings per share (in CHF)	16	**33.90**	**39.92**

Consolidated balance sheet

CHF in millions	Note	31.12.2008	31.12.2007
Assets			
Current assets			
Cash and cash equivalents	17	958	957
Trade and other receivables	18	2,798	2,890
Other financial assets	19	170	151
Inventories	20	188	156
Current tax assets	15	38	57
Other non-financial assets	21	334	421
Non-current assets held for sale	22	16	15
Total current assets		**4,502**	**4,647**
Non-current assets			
Property, plant and equipment	23	8,070	8,315
Goodwill and other intangible assets	24	8,915	9,435
Investments in associates	25	285	257
Other financial assets	19	853	917
Deferred tax assets	15	58	65
Other non-financial assets	21	55	40
Total non-current assets		**18,236**	**19,029**
Total assets		**22,738**	**23,676**
Liabilities and equity			
Current liabilities			
Financial liabilities	26	216	869
Trade and other payables	27	2,186	2,287
Current tax liabilities	15	163	248
Provisions	28	482	384
Other non-financial liabilities	30	619	656
Total current liabilities		**3,666**	**4,444**
Non-current liabilities			
Financial liabilities	26	11,576	11,445
Defined benefit obligation	10	428	618
Provisions	28	715	660
Deferred tax liabilities	15	407	312
Other non-financial liabilities	30	183	193
Total non-current liabilities		**13,309**	**13,228**
Total liabilities		**16,975**	**17,672**
Equity			
Share capital	31	53	57
Additional paid-in capital	31	370	370
Retained earnings	31	6,611	7,364
Treasury shares	31	(738)	(2,213)
Other reserves	31	(907)	(4)
Equity attributable to equity holders of Swisscom Ltd		**5,389**	**5,574**
Equity attributable to minority interests	31	374	430
Total equity		**5,763**	**6,004**
Total liabilities and equity		**22,738**	**23,676**

Consolidated cash flow statement

CHF in millions	Note	2008	2007
Cash flow from operating activities			
Net income		1,751	2,071
Share of profit of investments in associates	25	(47)	(32)
Income tax expense	15	448	447
Depreciation, amortisation and impairment	23,24	2,149	1,986
Expense for share-based payments	11	6	9
Gain on sale of property, plant and equipment	13	(15)	(38)
Loss an sale of property, plant and equipment	12	9	39
Gain on sale of subsidiaries	5	–	(162)
Financial income	14	(143)	(250)
Financial expense	14	631	441
Change in operating assets and liabilities	34	(277)	(453)
Income taxes paid	15	(401)	(469)
Cash flow provided by operating activities		**4,111**	**3,589**
Cash flow from investing activities			
Capital expenditure	23,24,34	(2,050)	(2,025)
Proceeds from sale of property, plant and equipment		26	56
Acquisition of Fastweb, net of cash and cash equivalents acquired	5	–	(5,002)
Acquisition of other subsidiaries, net of cash and cash equivalents acquired	5	(47)	(29)
Proceeds from sale of subsidiaries, net of cash and cash equivalents sold	5	4	804
Acquisition of investments in associates	25	(4)	(9)
Proceeds from investments in associates		2	–
Investments in other current financial assets		(218)	(148)
Proceeds from other current financial assets		359	137
Investments in other non-current financial assets		(3)	(11)
Proceeds from other non-current financial assets		13	8
Interest received		111	265
Dividends received	25	9	4
Cash flow used in investing activities		**(1,798)**	**(5,950)**
Cash flow from financing activities			
Issuance of financial liabilities		525	15,431
Repayment of financial liabilities		(1,240)	(11,375)
Interest paid		(436)	(496)
Dividends paid to equity holders of Swisscom Ltd	31	(1,036)	(881)
Dividends paid to minority interests	31	(12)	(101)
Purchase of treasury shares for share-based payments	11	(6)	(9)
Other cash flow from financing activities		(78)	75
Cash flow (used in) provided by financing activities		**(2,283)**	**2,644**
Net increase in cash and cash equivalents		**30**	**283**
Cash and cash equivalents at beginning of year		957	673
Currency translation of cash and cash equivalents		(29)	1
Cash and cash equivalents at end of year		**958**	**957**

Consolidated statement of recognised income and expense

CHF in millions	Note	2008	2007
Currency translation adjustments on foreign operations	31	(793)	16
Cumulative currency translation gains on foreign operations transferred to income statement	31	–	(40)
Cumulative currency translation losses on foreign operations transferred to income statement	31	4	–
Change in fair value of available-for-sale financial assets	31	14	–
Gains and losses from available-for-sale financial assets transferred to income statement	31	(14)	–
Change in fair value of cash flow hedges	31	(168)	(3)
Ineffective portion of cash flow hedges transferred to income statement	31	6	–
Income tax effect on income and expenses directly recognised in equity	31	12	–
Income and expenses directly recognised in equity, net		**(939)**	**(27)**
Net income	31	1,751	2,071
Total recognised income and expense		**812**	**2,044**
Attributable to equity holders of Swisscom Ltd	31	853	2,042
Attributable to minority interests	31	(41)	2

Notes to the consolidated financial statements

This financial report is a translation from the original German Version. In case of inconsistency the German version prevails.

1 General information

The Swisscom Group (referred to as Swisscom) offers telecommunication services primarily in Switzerland and Italy. A more detailed description of Swisscom's business activities can be found in Notes 3.16 and 6.

The consolidated financial statements of Swisscom as at December 31, 2008 comprise Swisscom Ltd, the parent company, and its subsidiaries as well as Swisscom's interest in associates. A list of the subsidiaries and associates is presented in Note 41.

Swisscom Ltd is a limited company incorporated in Switzerland and domiciled in Ittigen (Berne). The registered address is: Swisscom Ltd, Alte Tiefenaustrasse 6, 3048 Worblaufen. Swisscom Ltd is listed in the EU-regulated segment of the SIX Swiss Exchange in Zurich. On December 31, 2008, the Swiss Confederation (the "Confederation") as majority shareholder held 55.2% of the shares of Swisscom Ltd. The Confederation is obliged by law to remain the majority shareholder of Swisscom.

The Swisscom Board of Directors approved these consolidated financial statements on March 3, 2009. The consolidated financial statements must be approved at the General Meeting of Shareholders of Swisscom Ltd on April 21, 2009.

2 Basis of preparation

The consolidated financial statements of Swisscom have been prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and comply with Swiss law.

The reporting period covers twelve months. These consolidated financial statements are presented in Swiss Francs (CHF). Unless otherwise stated all amounts are quoted in millions of Swiss Francs.

The balance sheet is classified based on maturity. 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 expenses.

The consolidated financial statements have been prepared under the historical cost convention, except where a standard or an interpretation requires a different measurement method.

Preparing the consolidated financial statements in accordance with IFRS requires management to make estimates. Furthermore the application of uniform, groupwide, accounting policies requires assumptions to be made by management. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates could have a significant impact on the financial statements are disclosed in Note 4.

Any changes in the applicable accounting policies are applied retrospectively, unless the transitional provisions of the standards or interpretations require prospective application or retrospective application is not practicable.

3 Summary of significant accounting policies

The following accounting policies were applied uniformly for the parent Swisscom Ltd and its subsidiaries.

3.1 Consolidation

Subsidiaries

Subsidiaries are all entities which are controlled by Swisscom. Control exists when Swisscom has the power to govern the financial and operating policies. Control is generally presumed where Swisscom Ltd directly or indirectly holds more than one half of the voting rights or potential voting rights that are currently exercisable.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany balances and transactions, income and expense, holdings and dividends as well as unrealised gains and losses are eliminated in full. Unrealised losses may be an indication of impairment of an asset which has been transferred internally and an impairment test may be required.

Minority interests are presented within equity separately from the equity attributable to Swisscom Ltd shareholders. The minority share in net income or loss is presented in the consolidated income statement as a component of the consolidated net income or loss.

The balance sheet date for all subsidiaries is December 31.

No significant restrictions exist in connection with the transfer of funds from the subsidiaries to the parent company.

Purchases and disposals of minority interests in subsidiaries

Purchases from minority interests are accounted for using the purchase method. If the costs of acquisition are higher than the relevant share acquired of the carrying value of net assets of the subsidiary, the difference is allocated to goodwill. Assets, liabilities and contingent liabilities are not re-measured at the fair value, but presented at their previous carrying value. If minority interests of consolidated subsidiaries are disposed of, without surrendering control, the difference between the proceeds from the sale and the carrying value, including goodwill, is presented as a gain or loss in the income statement.

Where minority interests in Swisscom are held by third parties, and those shares carry a put-option, the minority interests are classified as financial liabilities.

Investment in associates

Associates are all entities over which Swisscom has significant influence but does not have control. Investments in associates are accounted for using the equity method. This is generally the case in companies where Swisscom Ltd holds between 20% and 50% of the voting power or potential voting rights currently exercisable. Under the equity method, investments in associates are initially recognised at cost on the acquisition date. Any difference between the share of the fair values of the acquired net assets and the purchase price is goodwill. In the reporting period following the acquisition, the carrying value of investments is adjusted for Swisscom's share of profit less their share in dividends distributed. Unrealised gains and losses from transactions with associates are eliminated to the extent of the interest in the associate.

3.2 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items and liabilities in foreign currencies are translated at the exchange rate at the balance sheet date. Non-monetary items are translated using the exchange rate at the date of the transaction. Translation differences are recognised in the income statement.

The consolidated financial statements are presented in Swiss francs. Assets and liabilities of foreign operations reporting in a functional currency other than Swiss francs are translated at the exchange rates at the balance sheet date. The income statement and the cash flow statement are translated at the average rate of exchange for the year. Translation differences are recognised directly in equity.

On disposal of a foreign operation, the cumulative exchange differences previously included in the foreign currency translation reserve in equity are transferred to profit or loss as part of the gain or loss on sale.

The exchange rates relevant to the consolidated financial statements were:

	31.12.2008	Average 2008	31.12.2007	Average 2007
1 EUR	1.49	1.58	1.65	1.65
1 GBP	1.56	1.98	2.25	2.40
1 USD	1.07	1.08	1.13	1.19
100 HUF	0.56	0.63	0.65	0.66

3.3 Cash and cash equivalents

Cash includes petty cash, cash at banks and cash on deposit. Cash equivalents include term deposits with financial institutions, with original maturities of three months or less. Cash and cash equivalents are recognised at amortised cost.

3.4 Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost less any allowance for doubtful debts. The allowance is recognised using allowance accounts. Non-recoverable receivables are derecognised.

All factored receivables that are not eligible for derecognition remain in the Group's consolidated financial statements although they have been sold from a legal point of view. Factored receivables are therefore included under assets and a financial liability of the same amount is recognised.

3.5 Other financial assets

Other financial assets are classified 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 appropriate classification of its financial assets at the time of purchase and re-evaluates such classification on a regular basis. Swisscom applies trade date accounting for regular purchases and sales of financial assets. Theses financial assets are initially recognised at fair value, including transaction costs. Transaction costs relating to financial assets at fair value through profit or loss are expensed immediately.

Financial assets will be partially or fully derecognised if Swisscom's rights to cash flows of a financial asset either expired or have been transferred and Swisscom neither retaining any risks and rewards in connection with these assets nor has any entitlement to remuneration from them.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are assets either held for trading, derivatives other than hedging instruments or designated as such when initially recognised. They are measured at their fair value. Any gains or losses resulting from the subsequent measurement are recognised in the income statement. - Swisscom has classified only derivatives in this category.

Held-to-maturity investments

Held-to-maturity investments are fixed term financial assets for which Swisscom has the ability and intention to hold to maturity. After their initial recognition, at fair value, financial assets are measured at amortised cost using the effective interest method less impairment. Foreign exchange gains and losses are recognised in the income statement. Financial assets from cross-border lease agreements are disclosed under held-to-maturity investments.

Loans and receivables

After their initial recognition, at fair value, loans and receivables are measured at amortised cost using the effective interest method less impairment. Foreign exchange gains and losses are recognised in the income statement. This position primarily contains term deposits with original maturity of more than three months which Swisscom provides directly to or over a sub-participation agent to 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 measured at fair value. Fair value changes are recognised directly in equity. Foreign exchange gains and losses on available-for-sale debt instruments are recognised in the income statement. When the available-for sale financial asset is sold, impaired or otherwise disposed of, the cumulative gains and losses that had been recognised directly in equity should be recycled to the income statement and presented as financial income or expense. If the fair value of an unlisted equity instrument cannot be reliably assessed, the shares are measured at amortised cost less impairment.

3.6 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes all costs of purchase and costs of conversion as well as other costs in connection with bringing the inventories to their present location and condition as intended by management. The cost of inventories is assigned by using the weighted average cost formula. Write-downs are included for inventories that are difficult to sell. Inventories which can not be sold anymore are fully written off.

3.7 Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation. The cost of property, plant and equipment comprises the purchase price and 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, as well as estimated costs for dismantling and restoration of the site. The costs of self-constructed assets include directly attributable costs as well as indirect costs of material, manufacture and administration directly related to the assets. Borrowing costs are not capitalised, but recognised in the income statement.

Costs of replacements, renewals or renovation of property, plant and equipment are capitalised as replacement investments, if a future economic benefit is probable and the costs can be measured reliably. The carrying amount of the parts replaced is derecognised. Maintenance and repair not capitalised are charged to the income statement as incurred.

Depreciation 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:

	Years
Buildings and leasehold improvements	10 to 40
Cable	15 to 20
Ducts	40
Transmission and switching equipment	4 to 15
Other technical equipment	3 to 15
Other facilities	3 to 15

When material parts of property, plant and equipment comprises individual components for which different useful lives are appropriate, each component is depreciated separately. The estimated useful lives and residual values are reviewed at least annually and, if necessary, adjusted. In 2008 the useful life of ducts was changed. See Note 23.

Capitalised leasehold improvements and installations in leased buildings are depreciated over the shorter of their estimated useful life and the remaining term of the lease.

The carrying amount of an item of property, plan and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses arising on the disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item of property, plant and equipment. They are recognised in the income statement within 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 include the purchase price and directly attributable costs to the acquisition. The purchase price includes the amount of cash paid as well as the fair value of the assets given, liabilities incurred or assumed, as well as own equity instruments given. At the acquisition date, all identifiable assets and liabilities that satisfy the recognition criteria are allocated at their fair values. The difference between the cost of acquisition and the fair value of the identifiable assets and liabilities recognised is accounted as goodwill after taking into account any minority interests. Any negative difference is reassessed and then recognised immediately in the income statement. Goodwill acquired in connection with a business combination is presented under intangible assets. Goodwill is not amortised but tested for impairment at least annually. Where an entity is disposed of, the carrying amount of the goodwill is derecognised and presented as a component of the gain or loss on disposal, respectively.

Research and development costs

Research costs are not capitalised but expensed as incurred. Development costs are capitalised under intangible assets if they can be identified as an intangible asset that is expected to generate probable future economic benefit and the costs of this asset can be measured reliably. Development costs that do not satisfy the requirements for capitalisation are expensed as incurred. The capitalised development costs are amortised using the straight-line method over their estimated useful life. The estimated useful lives are reviewed at a minimum annually on the balance sheet date and, if necessary, adjusted.

Other intangible assets

Mobile license fees, software and other intangible assets are presented at cost less accumulated depreciation. Intangible assets resulting from business combinations, such as brand and customer relationships, are presented at market value less accumulated depreciation. Scheduled depreciation of mobile license fees is based on the term of the contract and begins as soon as the network is ready for operation, unless for any reason a different useful life applies.

Useful lives of intangible assets

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

	Years
Software	3 to 7
Customer relationships	7 to 11
Brand	5 to 10
Other intangible assets	3 to 12

The estimated useful lives are reviewed at least once annually 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 held for sale and which represents a separate major line of business or geographical area of operation or a subsidiary acquired exclusively with a view to 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 a "discontinued operation".

A non-current asset (or a disposal group) is classified as held for sale if its carrying amount is recovered mainly through a sale transaction rather than through continuing use. Non-current assets or disposal groups that are classified as held for sale are presented in the balance sheet separately under current assets at the lower of carrying amount or fair value less costs to sell. Any impairment resulting from the initial classification is recognised in the income statement. Assets classified as held for sale and disposal groups are no longer depreciated.

3.10 Impairments

Impairments of financial assets

At the end of each balance sheet date, the carrying amounts of the financial assets for which the change in fair value is not recognised in the income statement are assessed for any objective evidence of impairment. An impairment loss is recognised where there is objective evidence of impairment, such as where the borrower is in bankruptcy, default or other significant financial difficulty.

The impairment of a financial asset measured at amortised cost is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.

A significant or prolonged decline in the fair value of an available-for-sale financial asset below its cost will be considered as objective evidence of impairment. In the event of impairment the losses are removed from equity and recognised as financial expense.

Individually significant financial assets are assessed for possible impairment at the end of each balance sheet date on an individual basis. Trade receivables are grouped on the basis of similar credit risk characteristics, assessed for allowance and adjusted if necessary. When assessing the estimated future cash flows in the portfolio, loss history will be taken into account as well as agreed conditions of payment.

Allowance on trade and other receivables is recognised as other operating expenses. Allowance on other financial assets is recognised as financial expense. In the event of an impairment of financial assets available-for-sale, the cumulative loss that had been recognised directly in equity will be removed from equity and recognised in the income statement.

If, at a later balance sheet date, the fair value objectively increases, due to events occurring after the impairment was recognised, the previously recognised impairment loss will be reversed. The reversal of impairment for financial assets measured at amortised cost will be recognised in the income statement. In the event of impairment of an investment in an equity instrument classified as available-for-sale, the reversal of impairment is recognised directly in equity.

Impairment of goodwill

For the purposes of the impairment test, goodwill is allocated to cash generating units. The impairment test will be performed in the fourth quarter after completion of business planning. If there is any indication during the year that goodwill might be impaired, then 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 the carrying amount. The recoverable amount is the higher of fair value less cost to sell and value in use. The method used to test impairment is described in Note 24. Any impairment loss recognised in prior periods for goodwill may not be reversed in later periods.

Impairment of property, plant and equipment and other intangible assets

If indications exist that an asset may be impaired, Swisscom determines the estimated recoverable amount. An impairment loss is recognised if the recoverable amount of an asset, which is the higher of fair value less cost to sell and value in use, is lower than the carrying amount.

3.11 Leases

A lease is a finance lease when substantially all of the risks and rewards incidental to ownership of the leased asset are transferred from the lessor to the lessee by the agreement. The leased assets are initially recorded at the lower of the fair value and the present value of the minimum lease payments and are depreciated over the shorter of the assets useful lives and the lease. Interest on the lease instalments is recognised 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 allocated accordingly. Gains on sale and leaseback transactions resulting in finance leases are deferred and released over the lease term as other income, while losses on sale and leaseback transactions are recognised immediately.

Leases which do not transfer all the risks and rewards of ownership are classified as operating leases. Payments are recorded in the income statement using the straight-line method over their estimated useful lives. Gains and losses on sale and leaseback transactions are recorded immediately in the income statement.

3.12 Financial liabilities

Financial liabilities are initially measured at fair value less direct transaction costs and subsequently at amortised cost using the effective interest method.

3.13 Trade and other payables

Trade payables and other payables are recorded at amortised cost.

3.14 Provisions

Provisions are recognised when Swisscom has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation. Provisions are discounted if the effect is material.

Provisions for termination benefits

Costs relating to the implementation of workforce reduction measures are recognised in the income statement in the period when management commits itself to a plan and if it is probable that a liability has been incurred and the amount can be reliably estimated. A liability is recognised only when implementation of the plan has commenced or the persons affected have been advised in detail of the main terms of the reduction measure. Commencement of implementation is considered equivalent to a public announcement and/or communication to personnel organisations.

Provisions for dismantling and restoration

Swisscom has a legal obligation in Switzerland to dismantle transmitter stations and to restore the property owned by third parties, on which the stations were situated, to their original state. The costs associated with dismantling these stations are capitalised in the carrying amount of property, plant and equipment and depreciated over the life of the asset. The total provision required to dismantle and restore these sites, discounted to its present value, is recognised under long-term provisions. If 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 asset. The amount deducted from the cost of the related asset shall not exceed its carrying amount. Any excess is recognised immediately in the income statement.

3.15 Treasury shares

Treasury shares are presented as a reduction in equity. Gains or losses on the sale of treasury shares are also recognised as changes to shareholders' equity within retained earnings.

3.16 Net revenue

General

Net revenue is measured at the fair value of the consideration received without value added tax, price reductions, quantity discounts and other reductions in the proceeds. Swisscom recognises net revenue when it expects a future benefit from the transaction and the amount can be reliably estimated.

When Swisscom acts as the principal, revenue is recorded on a gross basis. However, when Swisscom acts as an agent or broker on behalf of third parties, revenue is reported net of direct costs.

Where a contractual arrangement consists of more than one component, revenue shall be determined separately for each identifiable component. Total arrangement consideration relating to the multi-element contract is allocated among the different units based on their relative fair values. If the fair value of outstanding services can be measured reliably but the fair value for services already rendered cannot be determined, the value of the services rendered will be calculated using the net-residual value method.

Services according to segments

Residential Customers

The "Residential Customers" segment mainly comprises access fees for broadband access services, wireline and mobile subscriptions as well as national and international telephone and data traffic for residential customers. The "Residential Customers" segment also includes value-added services and TV services, sells customer equipment and operates a directories database.

Small and Medium-Sized Enterprises

The segment "Small and Medium-Sized Enterprises" primarily comprises fixed broadband access services, wireline and mobile subscriptions as well as national and international telephony and data traffic for small and medium-sized enterprises.

Corporate Business

The segment "Corporate Business" provides complete communication solutions for business customers. The product range in the field of business ICT infrastructure covers everything from individual products through to complete solutions.

Wholesale

"Wholesale" comprises mainly the use of Swisscom fixed and mobile networks by other telecommunication providers and the use of third party networks by Swisscom. It also consists of roaming by 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 providers.

Networks

"Networks" primarily plans, operates and maintains Swisscom's network infrastructure and related IT systems, both for wireline and mobile telephony. It also includes the supporting functions for Swisscom Switzerland, mainly consisting of the finance, human resources and strategy departments.

Fastweb

"Fastweb" is the second-largest wireline provider of broadband telecommunication 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 services on the basis of an MVNO contract (mobile virtual network operator). They also provide a wide range of network services and customised solutions.

Other operating segments

The segment "Other operating segments" mainly comprises Swisscom IT Services, Swisscom Participations, Hospitality Services and Swisscom Central & Eastern Europe (Air Bites).

Swisscom IT Services provides IT services. Its core business fields include the integration and operation of complex IT infrastructures.

Swisscom Participations comprises 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 charges on behalf of the government. Cablex AG operates in the field of construction and maintenance of fixed and mobile networks in Switzerland, mainly in the field of telecommunication. Alphapay AG and Curabill AG are collection agencies specialised in claims management for third parties. Sicap develops and operates mobile radio applications for GSM operators.

Hospitality Services offers guests and customers in the hotel and congress sector in Europe and North America Internet-based services.

Swisscom Central & Eastern Europe (Air Bites) provides broadband services for residential customers and small and medium-sized enterprises in eastern European cities, especially in Rumania, Bulgaria and the Ukraine.

Revenue generated from services
Wireline

Wireline services primarily include access services to residential and corporate customers, national and international telephony traffic in respect of residential and business customers, the use of Swisscom's wireline network by other telecommunication providers and payphone services, operator services and prepaid calling cards. The segment also provides leased lines, sells customer equipment and operates a directories database.

Installation and/or connection fees are deferred and recorded over the minimum term of the contract in a linear fashion. If no minimum contract term has been agreed, the revenue will be recorded on the date of installation and/or connection. Revenue from telephony is recorded at the time the call is made. Revenue from the sale of prepaid call cards is deferred and recorded on the basis of the actual minutes used or when it expires. Revenue from leased lines is recorded over the rental period. Revenue from the sale of equipment is recorded at the time of delivery.

Mobile

Mobile services consist principally of mobile telephony, which includes domestic and international traffic for calls made in Switzerland or abroad by Swisscom's customers and roaming by foreign operators whose customers use Swisscom's networks. It also consists of value-added services numbers, data traffic as well as the sale of mobile handsets. Connection fees are deferred and recorded over the minimum term of the contract in a linear fashion. If no minimum contract length has been agreed, the revenue will be recorded 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 rates agreed in the contract, at the time the services were used. The gross amount is presented. Value-added services such as text or multimedia news, as well as the sale of equipment, are recorded at the time the service is provided or the equipment is delivered.

Broadband

Broadband services include broadband and narrowband Internet access lines for residential and corporate customers as well as broadband Internet access lines for wholesale.

Fees in connection with the provision of these services are deferred and recognised over the minimum term of the contract on a straight line basis. If no minimum contract length has been agreed, the revenue will be recognised on the date of installation or connection.

IP-TV

In the TV sector revenue is generated from IP-TV services and video on demand for residential and corporate customers.

Revenue from TV services contains one-off installation and connection charges and regular subscription fees. Installation and connection fees related to installation are deferred and recorded over the minimum term of the contract on a straight line basis. If no minimum contract length has been agreed, the revenue will be recorded on the date of installation or connection.

Communication and IT solutions

Services in the field of communication and IT solutions primarily include consultancy and implementation as well as maintenance and operation of communication infrastructures. Other business fields include applications and services as well as the integration, operation and maintenance of data networks and outsourcing services.

Revenue from customer-specific production contracts are accounted for using the percentage-of-completion-method which is based on the ratio of costs incurred to the estimated overall costs. Revenue for long-term outsourcing contracts is recorded based on services provided to the customer. Start-up and integration costs of new outsourcing transactions are capitalised as other assets and recorded as expense over the contract period. Revenue from maintenance is recorded equally over the term of the maintenance contracts.

3.17 Customer acquisition costs

Swisscom pays commissions to dealers for the acquisition and retention of Swisscom customers. The amount of commission payable is dependent on the type of subscription. Customer acquisition costs are recorded immediately in the income statement.

3.18 Share-based payments

Compensation cost for shares issued to employees, members of the Group Executive Board and of the Board of Directors is measured at the grant date, this being the date the shares are issued, as the excess of the quoted market price of Swisscom's shares over the purchase price. These costs are recorded as personnel expenses in the period the entitlement arose.

3.19 Post-employment benefits

The defined benefit obligation and the pension costs are determined on an actuarial basis using the projected unit credit method, which reflects service rendered by employees' to the date of valuation and incorporates assumptions concerning employees projected salaries. The latest actuarial valuation was performed using data as at December 31, 2008. Current service costs are charged to the income statement in the periods in which the services are rendered. The effects of changes in actuarial assumptions are charged or credited to the income statement over a period approximating the average expected remaining service period of participating employees. The portion of actuarial gains and losses recorded is defined as the excess of the cumulative unrecorded actuarial gains and losses at the previous year's balance sheet date over the greater of 10% of the present value of the defined benefit obligation or 10% of the fair value of plan assets. Past service cost, attributable to 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 immediately vest, the costs associated with the amendment are recorded immediately in the income statement.

3.20 Capitalised costs and other income

Costs to be capitalised and expensed in future periods are recognised in the income statement as other operating income with a corresponding amount included in expenses, such that the net effect on income is zero.

Other income is recognised when the inflow of proceeds or of other economic benefits is probable.

3.21 Financial income and financial expense

Financial income primarily includes interest income, income from dividends, 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 and gains from hedge transactions recorded in the income statement. Interest income is recognised in the income statement using the effective interest method. Income from dividends is recognised on the date that the right to receive payment is established.

Financial expense primarily includes interest expenses, adjustments of present value of provisions, changes in the fair value of financial assets at fair value through profit or loss, impairments on other financial assets as well as losses on hedge transactions recorded in the income statement. Interest expenses are recognised in the income statement using the effective interest method.

Foreign exchange gains and losses are presented on a net basis.

3.22 Income taxes

Income taxes include all current and deferred taxes which are based on taxable profit. Taxes which are not based on taxable profit such as taxes on property and capital are recorded as other operating expenses.

Deferred taxes are determined using the liability method whereby deferred tax is recorded on all temporary differences. Temporary differences arise between the tax carrying amount (or tax base) of an asset or liability and its carrying amount in the financial statement that will result in taxable or deductible amounts in future periods when the carrying amount is recovered or settled. Deferred tax assets and liabilities are determined using the tax rates that are expected to apply when the temporary difference is reversed. Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax liabilities on undistributed profits of group companies are only recognised if the distribution of profits is to be made in the foreseeable future.

Current and/or deferred tax assets and liabilities are offset when they relate to the same tax authority and tax subject.

3.23 Derivative financial instruments

Derivatives are initially and subsequently measured at fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged and the intention regarding its purchase or issue. On the date a derivative contract is entered into, Swisscom designates certain derivatives as either a hedge of the fair value of an asset or liability (fair value hedge) or a hedge of the exposure to variability in cash flows on forecast transactions (cash flow hedge).

Changes in the fair value of derivatives that are designated as fair value hedges are recognised in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives that are designated as cash flow hedges are recognised in the hedge reserves in equity. If a hedge of a forecast transaction results in the recognition of a non-financial asset or liability, the gains and losses previously recognised in equity are removed from equity and included in the initial cost of the asset or liability.

If a hedge of a forecast transaction results in the recognition of a financial asset or liability, the associated gains or losses that were previously recognised in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. Otherwise, amounts deferred in equity are recognised in the income statement and classified as revenue or expense in the same period or periods during which the hedged forecast transaction affects profit or loss.

Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recorded immediately in the income statement.

Swisscom documents at the inception of each transaction the relationship between the derivative financial instruments and the underlying transactions, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific forecast transactions. Swisscom also documents its assessment, both at the inception of the hedge and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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 and willing parties in an arm's length transaction. The fair value is determined based on quoted prices or by using valuation techniques such as discounted cash flow analysis. If the notes to the consolidated financial statements do not specify otherwise, the fair value on the balance sheet date corresponds more or less to the carrying value presented in the balance sheet.

3.25 New and amended accounting policies

Amended International Financial Reporting Standards and Interpretations which are effective for this accounting period

The following new and amended International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) are mandatory for accounting periods beginning on or after January 1, 2008 but have no impact on Swisscom's consolidated financial statements:

- IFRIC 11/IFRS 2 "Group and treasury share transactions"
- IFRIC 12 "Service concession arrangements"
- IFRIC 14/IAS 19 "The limit on a defined benefit asset, minimum funding requirements and their interaction"
- IAS 39 (revised) "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" (effective from July 1, 2008) includes changes to the reclassification rules.

International Financial Reporting Standards early adopted by Swisscom

IFRS 8 "Operating Segments" (effective from January 1, 2009): IFRS 8 will replace the former standard IAS 14 "Segment reporting". The new standard requires that segment reporting must follow the management approach. As a result of the realignment of its business activities in the Swiss core business, Swisscom adjusted its operating segments since the beginning of 2008 and early adopted IFRS 8 from the beginning of January 1, 2008. Reporting is now be done based on the following operating segments "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business", "Wholesale", "Networks", "Fastweb", "Other operating segments" and "Group Headquarters". The previous year's figures have been restated accordingly. See Note 6.

Amended International Financial Reporting Standards and Interpretations, not yet effective

The following standards and interpretations published up to the end of 2008 are mandatory for theGgroup's accounting periods beginning on or after January 1, 2009 or later:

IFRS 1 "First-time adoption of IFRS" (effective from January 1, 2009): the content remains unchanged. The changes concern solely the formal structure of IFRS 1. The change in the standard does not have any impact on Swisscom's consolidated financial statements since they are not applying the International Financial Reporting Standards for the first time.

IFRS 1 "First-time adoption of IFRS" and IAS 27 (revised) "Consolidated and separate financial statements" (effective from January 1, 2009): the standard foresees changes in the measurement of costs of acquiring an interest in a subsidiary, associate or joint venture in the separate financial statements of the parent company. The change in the standard does not have any impact on the consolidated financial statements since Swisscom is not applying the International Financial Reporting Standards for the first time.

IFRS 2 (Amendment) "Share-based payment" (effective from January 1, 2009): the amended standard deals with changes in respect of vesting conditions and cancellations. Swisscom does not expect the application of this interpretation to have any material impact on its consolidated financial statements.

IFRS 3 (revised) "Business combinations" (effective from July 1, 2009): IFRS 3 (revised) includes some main changes to the existing requirements of the accounting treatment of business combinations. Swisscom will apply IFRS 3 (revised) for business combinations with acquisition date after January 1, 2010.

IAS 1 (revised) "Presentation of financial statements" (effective from January 1, 2009): the revised standard foresees new amended titles for the components of the financial statements. These are not mandatory, however. A balance sheet is also to be presented at the beginning of the comparative period if comparative information is restated or reclassified. Swisscom will apply the amendments to IAS 1 (revised) from January 1, 2009.

IAS 23 (Amendment) "Borrowing costs" (effective from January 1, 2009): The amendment requires that companies capitalise borrowing costs that are directly attributable to the acquisition or conversion of a qualifying asset. The option of recognising borrowing costs as an expense in the period in which they are incurred is eliminated by this revision. Swisscom will apply IAS 23 (revised) from January 1, 2009.

IAS 27 (revised) "Consolidated and separate financial statements" (effective from July 1, 2009): IAS 27 (revised) includes changes to the existing requirements of accounting for decreases of ownership interest and for purchasing minority interest. Swisscom will apply the revised standard for financial years beginning on or after July 1, 2009.

IAS 32 (Amendment) "Financial instruments: Presentation" and IAS 1 (Amendment) "Presentation of financial statements" (effective from January 1, 2009): IAS 32 (revised) involves changes in the treatment of financial instruments with the right to put the instrument back or imposing obligations in the event of liquidation. Swisscom does not expect the application of this interpretation to have any material impact on its consolidated financial statements.

IAS 39 (revised) "Financial instruments: Recognition and measurement" (effective from January 1, 2009): IAS 39 includes supplements to the application guidelines concerning the designation of inflation risks as an underlying transaction as well as the designation of a unilateral risk in an underlying transaction. Swisscom does not expect the application of this interpretation to have any material impact on their consolidated financial statements.

IFRIC 13 "Customer loyalty programmes" (effective from July 1, 2008): IFRIC 13 addresses how points and free or discounted goods or services awarded as part of a customer loyalty programme should be presented. Swisscom does not expect the application of this interpretation to have any influence on its consolidated financial statements

IFRIC 15 "Agreements for construction of real estate" (effective from January 1, 2009): IFRIC 15 provides guidance on how to determine whether companies involved in the construction of real estate should apply IAS 11 "Construction contracts" and/or IAS 18 "Revenue". Swisscom does not expect this interpretation to have any influence on its consolidated financial statements.

IFRIC 16 “Hedges of a net investment in a foreign operation” (effective from October 1, 2008): IFRIC 16 defines which risks qualify as a hedged risk in hedges of net investments and where, within a group, hedging instruments are to be held. Swisscom does not expect this interpretation to have any influence on its reporting since it does not hold any hedges of net investments in a foreign operation.

IFRIC 17 “Distributions of non-cash assets to owners” (effective from July 1, 2009): IFRIC 17 addresses how an entity should measure distributions of assets other than cash when it pays dividends to its owners. Swisscom does not expect the application of this interpretation to have any material impact on its consolidated financial statements.

IFRIC 18 “Transfers of assets from customers” (effective for transfers of assets from July 1, 2009): IFRIC 18 clarifies the treatment where an entity receives assets from a customer. Swisscom will review its financial statements with respect to this new interpretation.

“Improvements to IFRSs” (effective from January 1, 2009): the “Improvements to IFRSs” comprise minor amendments to various IFRS standards. Swisscom does not expect the application of this interpretation to have any impact on its consolidated financial statements.

Changes in presentation

Wherever necessary, the previous year’s figures will be adjusted for the purposes of comparison with the current year.

Changes in presentation of the consolidated cash flow statement

From the financial year 2008, for the purposes of more relevant presentation, interest received and paid is presented under cash flow from investing and cash flow from financing activities, respectively. The previous year’s figures have been reclassified accordingly.

Changes in presentation of accruals for unused holiday and overtime

From the financial year 2008, for the purpose of more relevant presentation, accruals for unused holiday and overtime are presented under other non-financial liabilities. The previous year’s figures have been reclassified accordingly.

4 Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements depends on estimates and assumptions in connection with accounting policies in which management can exercise a certain degree of judgement.

When applying the relevant standards to the consolidated financial statements, assumptions and estimates must be made about the future that may have a significant influence on the amount and presentation of assets and liabilities, income and expense as well as the information in the notes. The estimates used in the consolidated financial statements and valuations are based on past experience and other factors which are deemed appropriate under the given circumstances. The accounting policies, key estimates and assumptions which may have a significant influence on the amounts recognised in the consolidated financial statements are listed below.

Goodwill

On December 31, 2008, the carrying amount of goodwill from acquisitions totalled CHF 6,633 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, discount rates (WACC) and long-term growth rates. The significant assumptions are disclosed in Note 24. Changes to the assumptions may result in an impairment loss in subsequent years.

Pension obligations

The defined benefit obligations are calculated on the basis of various financial and actuarial assumptions. The key assumptions for assessing these obligations are the discount rate, future salary and pension increases as well as the expected return on plan assets. As of December 31, 2008, the underfunding amounted to CHF 1,045 million, whereby only CHF 428 million was recorded as an obligation in the consolidated balance sheet. A reduction in the discount rate of 0.5% would result in an increase in the obligation of CHF 510 million. An increase in average future salary of 0.5% would result in an increase in the obligation of CHF 64 million. A reduction in the expected return of 0.5% would result in an increase in annual pension costs of CHF 30 million. See Note 10.

Provision for dismantling and restoration

A provision has been recognised for costs incurred in connection with dismantling and restoring mobile stations and broadcasting stations of Swisscom Broadcast. As of December 31, 2008, the carrying amount of this provision totalled CHF 435 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 38 million. A prolongation of the period until dismantling by 10 years would result in a decrease in the provision of CHF 104 million. See Note 28.

Interconnection proceedings Swisscom Switzerland

Since 2000 Swisscom has been involved in several proceedings with regard to interconnection prices. Swisscom has recognised a provision and an allowance for doubtful debts on the basis of its own estimate of the expected outcome. On December 31, 2008, provisions recognised amounted to CHF 284 million. Further development of the proceedings or a decision by the Federal Court may result in a different assessment of the financial consequences in subsequent years and require an increase or decrease of the recorded provisions. See Note 28.

Proceedings before the Competition Commission (WEKO)

WEKO is currently leading various proceedings against Swisscom. The individual proceedings are described in Note 29. In case Swisscom has violated Antitrust Law, WEKO is entitled to impose monetary sanctions. Based upon its legal assessment, Swisscom considers it unlikely that WEKO will impose sanctions. Consequently no provisions were recognised in the 2008 consolidated financial statements in connection with these proceedings. Further development of the proceedings may result in a different assessment of the financial consequences in the subsequent years and require the recognition of a provision.

Allowances for doubtful debts

Bad debt allowances are recognised for doubtful receivables in order to record foreseeable losses arising from events such as a customer's insolvency. As of December 31, 2008, the carrying amount of allowances on trade and other receivables totalled CHF 239 million. In determining the amount of the bad debt allowance several factors are considered. These include the ageing of trade receivables balances, the current solvency of the customer and the historical write-off experience. The actual write-offs might be higher than expected if the actual financial situation of the customer is worse than originally expected. See Note 18.

Deferred taxes

The recognition and measurement of deferred tax assets and liabilities is based on the judgement of management. Deferred tax assets on tax loss carry-forwards are only capitalised if it is probable that they can be used. Whether or not they can be used depends on whether tax loss carry-forwards can be offset against future taxable gains. In order to assess the probability of their future use, estimates must be made of various factors such as future operating results. If the actual values differ from the estimates, this can lead to a change in the assessment of recoverability of the deferred tax assets. On December 31, 2008, deferred tax assets recognised amounted to CHF 412 million. See Note 15.

Useful lives of tangible assets

As of December 31, 2008, the carrying amount of tangible assets totalled CHF 8,070 million. Management's assessment of the useful life of an item of tangible asset is based on the expected use of the asset, the expected physical wear and tear on the asset, technological developments as well as past experience with comparable assets. A change in the useful life of an asset may have an effect on the future amount of depreciation recognised in the income statement. See Notes 3.7 and 23.

Application of SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease"

In the years 1999, 2000 and 2002 Swisscom entered into cross-border lease agreements. Swisscom defeased a major part of the lease obligations through highly rated financial assets and payment undertaking agreements. The financial assets were irrevocably placed with trusts. Pursuant to SIC 27, these financial assets and payment undertaking agreements were set off in the balance sheet against liabilities in the same amount as the criteria for offsetting assets and liabilities were fulfilled. The applicability of SIC 27 was assessed at inception of the transaction. In case of an early termination, additional obligations can arise from these cross-border agreements, which shall be accounted for under IAS 37, IAS 39 or IFRS 4, depending on the terms and conditions. Due to the long-term nature of the contracts, the future development of the counterparties' credit rating cannot be foreseen. See Note 26.

Cash-generating units for fixed and mobile networks

The recoverability of the carrying amounts of fixed and mobile networks is assessed on the level of cash-generating units in accordance with IAS 36 "Impairment of Assets". Management is of the opinion that fixed and mobile networks should be treated as separate integral units and must therefore be classified as two independent cash-generating units. In order to test recoverability, individual network elements or regions are not separately assessed as cash flows cannot be allocated accordingly.

Sale and long-term leaseback of buildings

In 2001, Swisscom sold 196 buildings and entered into long-term leaseback agreements for some of these buildings. Some of the leaseback agreements were classified as finance leases in accordance with IAS 17 "Leases". In the opinion of management, buildings classified as finance leases are special properties. The nature of these buildings is such that they cannot be used by other tenants unless major changes are made.

5 Changes in scope of consolidation

Payments totalling CHF 47 million were made in 2008 for the acquisition of group companies. This is made up of CHF 12 million for deferred purchase price payments and CHF 35 million for subsidiaries acquired in 2008. The newly acquired companies are aggregated in the financial statements as non-significant acquisitions.

A list of the consolidated subsidiaries and investments in associates is presented in Note 41.

Business combinations in 2008

On January 1, 2008, Swisscom Directories acquired a 100% stake in local.ch AG from PubliGroup. Local.ch AG is a regional search engine in Switzerland.

On June 23, 2008, Swisscom Switzerland completed the acquisition of 100% stake 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 on the acquisition of their sales outlets in Switzerland. The acquisition was completed on July 1, 2008 following the approval of the Competition Commission (WEKO) on June 3, 2008.

At the end of 2008 Swisscom acquired all shares in coComment B.V. Holding. coComment offers web services for the management of commentaries in the Internet, such as blogs.

The aggregated allocation of the purchase price to the net assets is presented below:

CHF in millions	Pre-acquisition carrying amount	Adjustments	Carrying amount on acquisition
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 obligation	(1)	–	(1)
Net identifiable assets and liabilities	**(14)**	**7**	**(7)**
Minority interests			3
Goodwill			39
Purchase consideration/cash outflow			**35**

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

Business combinations in 2007

In 2007 investments in the acquisition of subsidiaries less cash and cash equivalents totalled CHF 5,031 million. An amount of CHF 5,002 million was paid for the acquisition of an 82.1% share in Fastweb. A total of CHF 9 million was paid in 2007 for the business combinations of a number of smaller companies. Investments in the acquisition of subsidiaries also include payments of contingent consideration amounting to CHF 20 million for acquisitions in prior years.

Acquisition of an 82.1% share in Fastweb S.p.A. (Italy)

On April 10, 2007, Swisscom made a friendly takeover bid for a 98.26% share in Fastweb S.p.A. (Fastweb). Fastweb is the second-largest fixed network operator and leading provider of IP-based services in Italy. Swisscom offered Fastweb shareholders EUR 47.00 per share. In total Swisscom acquired 82.1% of the shares. On May 22, 2007, the acquisition was completed for a purchase price of EUR 3,082 million (CHF 5,105 million). The acquisition costs include transaction costs directly attributable to the business combination of EUR 24 million (CHF 40 million). Fastweb is included in the consolidated financial statements from the date of the acquisition and is presented as a separate segment.

The acquisition costs are allocated to Fastweb's net assets as presented below:

CHF in millions	Pre-acquisition carrying amount	Adjustments	Carrying amount on acquisition
Cash and cash equivalents	103	–	103
Trade and other receivables	848	(7)	841
Property, plant and equipment	2,924	(248)	2,676
Intangible assets	690	1,346	2,036
Deferred tax assets	632	(654)	(22)
Other current and non-current assets	415	–	415
Financial liabilities	(1,906)	(13)	(1,919)
Trade and other payables	(1,029)	–	(1,029)
Provisions	(163)	–	(163)
Defined benefit obligation	(35)	–	(35)
Dividend liability	(497)	408	(89)
Other short- and long-term liabilities	(291)	–	(291)
Net identifiable assets and liabilities	**1,691**	**832**	**2,523**
Equity attributable to minority interests			(379)
Goodwill			2,961
Purchase consideration			**5,105**
Cash and cash equivalents acquired			(103)
Cash outflow			**5,002**

Goodwill relates mainly to the future growth and the synergies expected in the areas of procurement and technology. The brand, customer relationships and the distribution network were recognised separately from goodwill as intangible assets. On March 23, 2007 the General Meeting of Shareholders had agreed to pay Fastweb shareholders a dividend of EUR 3.77 per share in October 2007. The total dividend payment amounted to EUR 300 million (CHF 497 million). Of this EUR 54 million (CHF 89 million) was paid to minority shareholders. In connection with the acquisition, the dividend attributable to Swisscom was eliminated out of the liability in the purchase price allocation.

Other business combinations in 2007

In August and December 2007 Comit acquired a 100% share in two companies in Switzerland, IFBS AG and Talkfinance AG. IFBS AG was merged with Comit AG after the acquisition.

Swisscom Central and Eastern Europe AG acquired a 100% share in several small companies in Rumania and the Ukraine in December 2007.

The acquisition costs for these business combinations totalled CHF 9 million. The allocation of acquisition costs to the net assets taken over led to intangible assets of CHF 10 million, other assets of CHF 1 million and liabilities of CHF 2 million. Intangible assets include primarily contractual customer relationships. The amortisation started from the date of acquisition over the estimated remaining term of the customer relationships. Net cash outflow from these business combinations in 2007 totalled CHF 8 million. The amount is comprised of acquisition costs of CHF 9 million less a payment of contingent consideration of CHF 1 million. No cash and cash equivalents were acquired in connection with these business combinations.

Effects on the 2007 income statement

The effects of all the business combinations on Swisscom's 2007 consolidated income statement are presented in the table below:

CHF in millions	Net revenue	Net loss
Fastweb	1,473	(98)
Other	2	–
Total net revenue and net income (net loss) from date of acquisition	**1,475**	**(98)**

The consolidated financial statements comprise amortisation on recognised intangible assets of CHF 137 million based on the purchase price allocation of Fastweb. If the business combinations had been completed at the beginning of 2007, the effect on Swisscom's 2007 income statement would have been as follows:

CHF in millions	Pro-forma net revenue	Pro-forma net income (net loss)
Fastweb	2,359	(393)
Other	6	–
Total pro-forma net revenue and net loss from subsidiaries acquired	**2,365**	**(393)**
Net revenue and net income without subsidiaries acquired	10,723	1,849
Total pro-forma net revenue and net income of Swisscom	**13,088**	**1,456**

Disposal of subsidiaries in 2007 and 2008

On September 1, 2008, Swisscom sold all its shares in Minick Holding AG to the German Net Mobile AG. The purchase price was paid in equity instruments of Net Mobile AG. A goodwill impairment of CHF 7 million resulted from the transaction.

At the end of 2008 Swisscom Central & Eastern Europe sold all its shares in Air Bites Polska sp. z.o.o.

In 2007 Swisscom sold its card business (Accarda), the Hungarian subsidiary Antenna Hungária and the business activities of Infonet Switzerland. These sales generated a net cash inflow in 2007 of CHF 804 million.

On May 8, 2007, Swisscom agreed the sale of Antenna Hungária with the French company Télédiffusion de France (TDF) for a price of EUR 328 million (CHF 543 million). The transaction was completed on July 19, 2007 after approval by the Hungarian competition authorities. The pre-tax gain from the sale amounts to CHF 157 million. The gain includes gains from currency translation of CHF 40 million which was previously presented under consolidated equity. Tax of CHF 1 million was payable on the sale of Antenna Hungária Zrt.

On July 2, 2007, Swisscom sold its card business (Accarda) to the Maus Group. A goodwill impairment of CHF 8 million resulted from the transaction.

The business activities of Infonet Switzerland were sold to British Telecom on December 1, 2007. The pre-tax gain from the sale amounts to CHF 5 million.

The companies and activities sold are no longer presented in the consolidated financial statements from the date the transaction was completed.

The aggregated carrying amount of the net assets sold and minority holdings as well as aggregated net cash received from the sales of subsidiaries in 2007 and 2008 are presented in the table below:

CHF in millions	2008	2007
Cash and cash equivalents	4	40
Trade and other receivables	7	407
Property, plant and equipment	4	229
Goodwill and other intangible assets	4	202
Deferred tax assets	2	4
Other current and non-current assets	1	12
Trade and other payables	(10)	(127)
Current tax liabilities	–	(1)
Provisions	–	(2)
Defined benefit obligation	–	(2)
Deferred tax assets	–	(17)
Other short- and long-term liabilities	(1)	(9)
Equity attributable to minority interests	–	(4)
Total net assets and minority interests sold	**11**	**732**
Purchase price	**17**	**846**
Deferred payment of purchase price	–	(2)
Purchase price paid in equity instruments	(9)	–
Cash and cash equivalents sold	(4)	(40)
Cash inflow	**4**	**804**

6 Segment information

As a result of the realignment of its business activities in the core business in Switzerland, Swisscom has adjusted the segment information for 2008 and is applying IFRS 8 "Operating Segments" earlier than required from January 1, 2008. According to IFRS 8 the definition of reportable operating segments is based on the management approach. Accordingly, external segment reporting is based on the internal organisational and management structure, as well as internal reports to the Chief Operation Division Maker. Swisscom's Chief Operation Decision Maker is the Board of Directors of Swisscom Ltd.

Reporting is now divided into the segments "Residential Customers", "Small and Medium-Sized Enterprises", "Corporate Business", "Wholesale" and "Networks" which belong to Swisscom Switzerland, and "Fastweb", "Other operating segments" and "Group Headquarters". The previous year's figures have been reclassified accordingly.

The business divisions of Swisscom Switzerland are disclosed as individual operating segments. The supporting functions of financing, human resources and strategy of the former three group companies have been centralised in the division "Networks" during the course of the reorganisation. Revenue and segment results correspond to the internal reporting system. No respective 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 the Wholesale division therefore correspond to a contribution margin before network costs. Network costs are planned, monitored and controlled by the Networks division. The Networks segment is managed as a cost centre. Consequently no revenue is credited to the Networks segment. The segment result of the segment Networks consists of operating expenses and depreciation and amortisation less capitalised costs and other income. The segment result of Swisscom Switzerland adds up to the operating result (EBIT) for Swisscom Switzerland.

Swisscom completed the acquisition of Fastweb on May 22, 2007. Fastweb is included in the consolidated financial statements as a separate segment from this date and is reported as one single unit to Swisscom's Board of Directors. Fastweb is the second-largest fixed network operator and leading provider of IP-based services in Italy.

The segment "Other operating segments" mainly comprises Swisscom IT Services, Swisscom Participations, Hospitality Services and Swisscom Central & Eastern Europe (Air Bites). Swisscom IT Services comprises the group companies Swisscom IT Services AG and Comit AG. Swisscom Participations comprises Swisscom Broadcast AG, Swisscom Immobilien AG, Cablex AG, Billag AG, Alphapay AG and Curabill AG, the Sicap group as well as the Minick group until its sale in September 2008. Antenna Hungária and Accarda were included in Swisscom Participations until their sale in July 2007.

"Group Headquarters" comprises group headquarter divisions and the employment company Worklink AG.

The services offered by each operating segment are described in Note 3.16. The segment result of the segments "Fastweb", "Other operating segments" and "Group Headquarters" adds up to the operating result (EBIT).

This comprises net revenue from external customers and other segments less segment expenses and amortisation and impairments on property, plant and equipment and intangible assets. Segment expenses include goods and services purchased personnel costs and other operating costs less capitalised costs and other income.

The Group Headquarters segment does not charge management fees for the financial management services. Equally the Networks segment does not charge network costs to other segments. Other intersegment services are settled at market prices. Intragroup gains and losses may occur as a result of billing intersegment services and sales of assets. These are eliminated in the consolidated financial statements and disclosed in segment reporting in the column "Elimination".

Segment assets include all operating assets required by a segment for their operations. Segment assets include primarily trade receivables, inventories, property, plant and equipment and intangible assets. In line with IFRS 8, goodwill was reallocated to the segments using a relative value approach.

Segment capital expenditures include all additions to property, plant and equipment and other intangible assets.

31.12.2008, CHF in millions	Swisscom Switzerland	Fastweb	Other	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	8,596	2,698	903	1	–	12,198
Intersegment net revenue	83	–	928	5	(1,016)	–
Net revenue	**8,679**	**2,698**	**1,831**	**6**	**(1,016)**	**12,198**
Segment result	**2,742**	**37**	**47**	**(185)**	**(1)**	**2,640**
Financial income and financial expense, net	–	–	–	–	–	(488)
Share of profit of investments in associates	–	–	–	–	–	47
Income before income tax expense	**–**	**–**	**–**	**–**	**–**	**2,199**
Income tax expense	–	–	–	–	–	(448)
Net income	**–**	**–**	**–**	**–**	**–**	**1,751**
Segment assets	10,810	7,827	1,829	471	(577)	20,360
Investments in associates	267	–	12	6	–	285
Non-current assets held for sale	–	–	16	–	–	16
Assets not allocated	–	–	–	–	–	2,077
Total assets	**11,077**	**7,827**	**1,857**	**477**	**(577)**	**22,738**
Capital expenditure in tangible and other intangible assets	1,175	691	187	10	(13)	2,050
Depreciation and amortisation	1,047	827	209	9	(15)	2,077
Impairment	4	–	68	–	–	72
Gain (loss) on disposal of property, plant and equipment, net	(3)	–	9	–	–	6
Share of profit of investments in associates	45	1	–	1	–	47

31.12.2008, CHF in millions	Residential	Small & Medium-Sized Enterprises	Corporate Business	Whole-sale	Networks	Elimi-nation	Total Swisscom Switzerland
Net revenue from external customers	4,771	1,098	1,733	994	–	–	8,596
Intersegment net revenue	377	56	155	697	–	(1,202)	83
Net revenue	**5,148**	**1,154**	**1,888**	**1,691**	**–**	**(1,202)**	**8,679**
Segment result	**2,844**	**842**	**871**	**591**	**(2,408)**	**2**	**2,742**
Segment assets	3,490	829	1,256	464	4,774	(3)	10,810
Investments in associates	189	–	–	78	–	–	267
Total assets	**3,679**	**829**	**1,256**	**542**	**4,774**	**(3)**	**11,077**
Capital expenditure in tangible and other intangible assets	162	7	78	–	927	1	1,175
Depreciation and amortisation	69	1	42	–	938	(3)	1,047
Impairment	–	–	1	–	3	–	4
Gain (loss) on disposal of property, plant and equipment, net	–	–	1	–	(4)	–	(3)
Share of profit of investments in associates	23	–	–	22	–	–	45

31.12.2007, CHF in millions, restated	Swisscom Switzerland	Fastweb	Other	Group Head-quarters	Elimi-nation	Total
Net revenue from external customers	8,610	1,473	1,004	2	–	11,089
Intersegment net revenue	83	–	940	4	(1,027)	–
Net revenue	**8,693**	**1,473**	**1,944**	**6**	**(1,027)**	**11,089**
Segment result	**2,712**	**(22)**	**18**	**(187)**	**(6)**	**2,515**
Gain on sale of subsidiaries	–	–	–	–	–	162
Financial income and financial expense, net	–	–	–	–	–	(191)
Share of profit of investments in associates	–	–	–	–	–	32
Income before income tax expense	**–**	**–**	**–**	**–**	**–**	**2,518**
Income tax expense	–	–	–	–	–	(447)
Net income	**–**	**–**	**–**	**–**	**–**	**2,071**
Segment assets	10,598	8,954	1,906	364	(565)	21,257
Investments in associates	238	1	12	6	–	257
Non-current assets held for sale	–	–	15	–	–	15
Assets not allocated	–	–	–	–	–	2,147
Total assets	**10,836**	**8,955**	**1,933**	**370**	**(565)**	**23,676**
Capital expenditure in tangible and other intangible assets	1,241	568	238	–	(22)	2,025
Depreciation and amortisation	1,167	520	233	3	(10)	1,913
Impairment	7	–	66	–	–	73
Gain (loss) on disposal of property, plant and equipment, net	(25)	–	24	–	–	(1)
Share of profit of investments in associates	31	(1)	–	2	–	32

31.12.2007, CHF in millions, restated	Residential	Small & Medium-Sized Enterprises	Corporate Business	Whole-sale	Networks	Elimi-nation	Total Swisscom Switzerland
Net revenue from external customers	4,787	1,072	1,715	1,036	–	–	8,610
Intersegment net revenue	383	56	153	720	–	(1,229)	83
Net revenue	**5,170**	**1,128**	**1,868**	**1,756**	**–**	**(1,229)**	**8,693**
Segment result	**2,980**	**804**	**846**	**638**	**(2,550)**	**(6)**	**2,712**
Segment assets	3,294	843	1,184	421	4,863	(7)	10,598
Investments in associates	174	–	–	64	–	–	238
Total assets	**3,468**	**843**	**1,184**	**485**	**4,863**	**(7)**	**10,836**
Capital expenditure in tangible and other intangible assets	154	6	49	5	1,030	(3)	1,241
Depreciation and amortisation	43	1	39	–	1,085	(1)	1,167
Impairment	–	–	7	–	–	–	7
Gain (loss) on disposal of property, plant and equipment, net	–	–	–	–	(25)	–	(25)
Share of profit of investments in associates	12	–	–	19	–	–	31

Information on geographical regions

Swisscom's operations are focused mainly in Switzerland, where it provides a full range of telecommunication services. Business activity abroad mainly comprises 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 the hotel industry in virtually the whole of Europe and the USA.

Net revenue and assets are classified according to regions. Net revenue and assets are allocated according to the registered office of the group company in question.

	2008		2007	
CHF in millions	Net revenue	Assets	Net revenue	Assets
Switzerland	9,384	12,670	9,410	12,342
Italy	2,707	7,830	1,482	8,959
Other countries Europe	94	167	182	222
Other countries	13	14	15	13
Not allocated	–	2,057	–	2,140
Total	**12,198**	**22,738**	**11,089**	**23,676**

Significant customers

Swisscom has a large number of customers. There are no significant relationships to individual customers.

7 Net revenue

	2008	2007
Net revenue from services	11,598	10,563
Net revenue from sale of trade goods	591	512
Net revenue from lease of intangible assets	9	14
Total net revenue	**12,198**	**11,089**

Details of Swisscom's business activities are contained in Notes 3.16 and 6.

8 Goods and services purchased

CHF in millions	2008	2007
Raw material and supplies	44	23
Services purchased	374	317
Customer premises equipment and trade goods	753	676
National traffic fees	349	433
International traffic fees	448	448
Traffic fees of foreign operations	782	451
Total goods and services purchased	**2,750**	**2,348**

9 Personnel expense

CHF in millions	2008	2007
Salaries and wages	1,999	1,921
Social security expenses	225	213
Expense for defined benefit plans. See Note 10.	104	163
Expense for defined contribution plans. See Note 10.	16	8
Expense for share-based payments. See Note 11.	6	9
Salaries and wages of the employment company Worklink	29	44
Other personnel expense	87	84
Total personnel expense	**2,466**	**2,442**

Termination benefits programmes

Swisscom tries to help the personnel affected by downsizing mainly through two programmes incorporated in a social compensation plan: the outplacement programme PersPec and the employment company Worklink AG.

Outplacement programme

In the outplacement programme, employees are trained for new jobs and receive assistance in finding new employment within Swisscom or outside the Group. The length of the outplacement programme depends on age, length of service and the applicable social plan. At the end of 2008, 39 full-time equivalent employees participated in the programme (previous year 50 full-time equivalent employees). In connection with this programme, Swisscom incurred expenses of CHF 7 million in 2008 (previous year CHF 11 million). The expense relates only to the costs for those employees who are not expected to continue working for Swisscom after the outplacement programme.

Employment company Worklink AG

Depending on the relevant social plan, age and length of service, certain employees affected by downsizing are entitled to transfer to Worklink AG after participating in the outplacement programme. Most of the participants are entitled to remain in Worklink AG until the age of 60 in accordance with the terms of the social plan, after which they are eligible for early retirement.

Worklink AG seeks to hire out these employees to third parties on a temporary basis. The employees receive an average of 70% of the last salary before they are transferred to Worklink AG. The total salaries and wages for Worklink participants in 2008 were CHF 29 million (previous year CHF 44 million).

10 Post-employment benefits

Defined contribution plans

Expenses for defined contribution plans totalled CHF 16 million (previous year CHF 8 million).

Defined benefit plans

Swisscom has a defined benefit plan for employees in Switzerland called “comPlan”. In addition, Swisscom has a defined benefit obligation for former employees of PUBLICA, “Altrentner PUBLICA”, and for Fastweb. Expenses for defined benefit plans totalled CHF 104 million (previous year CHF 163 million).

comPlan

The majority of Swisscom’s employees are insured for the risks of old age, death and disability by Swisscom’s own pension plan, comPlan. The comPlan pension fund has the legal form of a foundation.

Under this plan the retirement benefit is determined by the amount in the employee’s retirement savings account at the time of retirement. The standard retirement age is 65. The annual pension is calculated by multiplying the retirement savings account by a conversion rate set by the foundation at the time of retirement.

If an employee retires at the normal retirement age of 65, the savings account is converted into a retirement pension at a rate of 6.8%.

Employees qualify for early retirement at the earliest on their 58th birthday. In this case their savings account is converted into a retirement pension at a lower rate in line with the longer pension expectancy and lower retirement savings. The pension is paid until the death of the retired employee. The conversion rates are higher for a transitional phase until the end of 2009. Employees may choose to take their entire pension or part thereof in the form of a capital payment.

The ordinary employer contributions include risk contributions of 3% and credits to the employee's retirement savings account of 5% to 13% of the insured salary depending on age. In addition, Swisscom has also committed to pay additional contributions of 3.0% of the total insured salary to comPlan from 2006 to 2010 in order to build up reserves for fluctuations in asset value. The contributions to build up these reserves will be approximately CHF 250 million by the year 2010. Should comPlan's return on asset be sufficient to build up these reserves, Swisscom's additional contributions can be used to fund the ordinary employer contributions or other pension benefits.

Retired employees of PUBLICA

Former employees of Swisscom and its predecessor PTT Telecom who retired before January 1, 1999 are insured with the government's pension plan PUBLICA. Swisscom does not bear any risks in connection with the pensioners in the PUBLICA plan, but, in accordance with a contract with the government, has an obligation for pension indexation, if this cannot be covered by PUBLICA's own funds. Swisscom also pays contributions towards administration charges. At 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. Swisscom must finance any extraordinary pension increases from its own capital reserves. In order to assess the actual obligation, 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, is CHF 2,822 million gross (previous year CHF 3,150 million). Of this, obligations for pension increases and administrative costs amount to CHF 37 million (previous year CHF 149 million). Since Swisscom bears neither investment nor demographic risks (in particular no risks in connection with longevity), the pension obligation recognised by Swisscom includes only future pension indexation and administrative costs. However, the gross obligation of CHF 2,822 million is used as a basis to determine the corridor for amortising the unrecognised actuarial gains or losses. At December 31, 2008, included in the present value of PUBLICA's pension obligations are unrecognised actuarial gains of CHF 272 million (previous year CHF 157 million). These are within the corridor of 10% and are therefore not amortised.

Fastweb

Employees at Fastweb have acquired future pension benefits up to the end of 2006. These pension benefits are presented in the balance sheet as defined benefit obligation.

Pension cost and status of pension plans

Pension cost from defined benefit plans are presented in the table below:

CHF in millions	2008	2007
Current service cost	168	213
Interest cost on projected defined benefit obligation	251	209
Expected return on plan assets	(311)	(270)
Gain from plan amendments	–	(3)
Amortisation of retroactive plan amendments	(4)	(4)
Amortisation of actuarial loss	–	18
Total pension cost from defined benefit plans	**104**	**163**

The movement in comPlan's plan assets and defined benefit obligation over the year is presented in the table below:

CHF in millions	2008	2007
Defined benefit obligation		
Balance at beginning of year	**7,537**	**8,165**
Current service cost	168	213
Interest cost on projected defined benefit obligation	244	204
Plan participants' contribution	134	132
Benefits paid	(337)	(278)
Actuarial gains	(705)	(870)
Disposal of subsidiaries	(1)	(29)
Additions from business combinations	4	–
Defined benefit obligation at end of year	**7,044**	**7,537**
Plan assets		
Balance at beginning of year	**6,863**	**6,745**
Expected return on plan assets	311	270
Employer contribution	291	289
Plan participants' contribution	134	132
Benefits paid	(337)	(278)
Actuarial losses	(1,200)	(272)
Disposal of subsidiaries	–	(23)
Additions from business combinations	3	–
Plan assets at end of year	**6,065**	**6,863**
Defined benefit obligation, net, at end of year	**979**	**674**
Unrecognised actuarial losses	(890)	(395)
Unrecognised prior service cost	1	4
Recognised defined benefit obligation at end of year	**90**	**283**

The movement in PUBLICA's defined benefit obligation over the year is presented in the table below:

CHF in millions	2008	2007
Defined benefit obligation		
Balance at beginning of year	**149**	**177**
Interest cost on defined benefit obligation	5	4
Contributions paid	(1)	(1)
Actuarial gains	(116)	(31)
Defined benefit obligation at end of year	**37**	**149**
Defined benefit obligation, net, at end of year	**37**	**149**
Unrecognised actuarial gains	272	157
Recognised defined benefit obligation at end of year	**309**	**306**

The movement in Fastweb's defined benefit obligation over the year is presented in the table below:

CHF in millions	2008	2007
Defined benefit obligation		
Balance at beginning of year	**29**	**–**
Business combinations Fastweb	–	35
Interest cost on projected defined benefit obligation	2	1
Benefits paid	(2)	(7)
Recognised defined benefit obligation at end of year	**29**	**29**

Changes in recognised defined benefit obligations are presented in the table below:

CHF in millions	2008	2007
Movements in the obligation recognised on the balance sheet		
At beginning of year	**618**	**719**
Pension cost, net	104	163
Employer contribution and benefits paid	(295)	(297)
Disposal of subsidiaries	–	(2)
Additions from business combinations	1	35
Balance at end of year	**428**	**618**

Unrecognised actuarial losses of comPlan in 2008 of net CHF 890 million exceeded the present value of the defined benefit obligation by more than 10%. The excess amount of CHF 186 million will be recognised straight line as pension cost over the average remaining working lives of the employees of 10 years. In 2007 pension cost included an amount of CHF 18 million from the amortisation of actuarial losses from the prior periods.

In 2009 Swisscom expects to pay ordinary employer contributions of CHF 272 million into the pension plans. This includes the contributions of CHF 51 million in order to build up reserves for fluctuations in asset value.

The plan assets include Swisscom Ltd shares with a fair value of CHF 3.8 million (previous year CHF 3.7 million). The effective return on plan assets was a loss of CHF 889 million (previous year minus CHF 2 million).
The table below presents a breakdown of the various types of investment in which comPlan assets are invested as well as the investment strategy:

	Target	31.12.2008	31.12.2007
Debt instruments	56,0%	67,9%	58,1%
Equity instruments	26,0%	18,4%	27,2%
Real estate	8,0%	5,3%	7,1%
Cash and cash equivalents and other assets	10,0%	8,4%	7,6%
Total plan assets	100,0%	**100,0%**	**100,0%**

Actuarial assumptions

The following significant assumptions were used in the actuarial valuations:

	2008	2007
Assumptions comPlan		
Discount rate at December 31	3,61%	3,31%
Rate of increase in compensation levels	2,24%	2,24%
Long-term rate of return on plan assets	4,50%	3,96%
Rate of increase in pension	0,1%	0,5%
Assumptions PUBLICA		
Discount rate at December 31	3,61%	3,31%
Rate of increase in pension	0,1%	0,5%
Assumptions Fastweb		
Discount rate at December 31	4,75%	4,80%
Rate of increase in compensation levels	3,00%	3,00%

Additional information about the defined benefit obligation and plan assets

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

CHF in millions	2008	2007	2006	2005	2004
Defined benefit obligations	(7,110)	(7,715)	(8,342)	(7,991)	(7,259)
Plan assets	6,065	6,863	6,745	6,264	5,209
Underfunding	**(1,045)**	**(852)**	**(1,597)**	**(1,727)**	**(2,050)**
Experience adjustments on defined benefit obligations	(7)	(9)	15	22	(6)
Experience adjustments on plan assets	(1,200)	(272)	72	469	64

11 Share-based payments

CHF in millions	2008	2007
Expense for share purchase scheme TopShare	4	7
Expense for Management Incentive Plan (MIP)	4	4
Adjustments from previous year	(2)	(2)
Total expense for share-based payments	**6**	**9**

Swisscom offers two share-based remuneration plans to its employees, management, members of the Group Executive Board and Board of Directors, the share purchase scheme Top Share and the Management Incentive Plan (MIP).

TopShare

TopShare is a voluntary share purchase scheme available to all employees, except management, members of the Executive Board and Board of Directors. Employees may purchase up to ten shares at preferential conditions, below the market price. In 2008, 6,124 employees participated in this share purchase scheme (previous year 6,597 employees). The shares purchased are subject to a one-year blocking period from the grant date, after which time they can be freely disposed of. The shares are vested upon grant date. The difference between the market value and the consideration received from employees is recognised under personnel expenses.

The market and offering price, the number of shares allocated and the expense recorded are:

Year of allocation	Number of allocated shares	Market price in CHF	Offering price in CHF	Cost in CHF millions
2008	57,289	363	290	4
2007	62,765	441	330	7

Management Incentive Plan (MIP)

The Management Incentive Plan (MIP) is a share plan for management, members of the Group Executive Board and Board of Directors. For members of management the scheme is voluntary. They may invest 25% of their variable bonus. Swisscom makes a contribution of 30% of the amount invested by management.

Participation in the programme is compulsory for members of the Board of Directors and Group Executive Board. The members of the Group Executive Board must invest 25% of their individual bonus each year. Share-based payments of the members Group Executive Board bases on the variable compensation of the previous financial year. Compensation is determined in March of the following year and the shares are allocated in April. The estimated difference between market value and tax value of the shares is recognised as personnel expense which will be allocated in April 2009 for the financial year 2008.

33% of the base and additional compensation (not including meeting allowances) of the members of the Board of Directors is paid out in shares. The number of shares allocated is calculated based on their tax value. The tax value per share amounted to CHF 304 (previous year CHF 368). The shares are subject to a blocking period of three years from the grant date. The shares are vested upon grant date. The expense for share-based payments to the Group Executive Board is equal to the difference between the market value and the tax value of the allocated shares. For the Board of Directors the market value of the allocated shares is recognised as share-based payments.

Expense in connection with the Management Incentive Plan (MIP) in 2007 and 2008 is presented in the table below:

2008	Number of allocated shares	Market price in CHF	Invested amount in CHF	Cost 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**

2007	Number of allocated shares	Market price in CHF	Invested amount in CHF	Cost in CHF millions
Members of the Board of Directors	1,528	441	–	0.7
Members of the Group Executive Board	1,920	441	–	0.8
Other executives	17,864	441	283	2.8
Total	**21,312**	**441**	**–**	**4.3**

12 Other operating expense

CHF in millions	2008	2007
Rent	355	277
Repair and maintenance	287	267
Loss on sale of property, plant and equipment	9	39
Energy	98	96
Information technology cost	181	174
Advertising and promotion	213	218
Commissions	443	364
Contractors and consultancy expenses	329	293
Allowances for bad debt	152	42
Reversal of provisions relating to interconnection proceedings of Swisscom Switzerland	(18)	(91)
General and administration expenses	217	204
Other operating expenses	381	346
Total other operating expenses	**2,647**	**2,229**

For further information about the recognition and reversal of provisions for interconnection proceedings of Swisscom Switzerland, see Note 28.

13 Capitalised costs and other income

CHF in millions	2008	2007
Capitalised costs	269	264
Gain on sale of property, plant and equipment	15	38
Income from employment company Worklink (personnel hire)	9	11
Compensation payment from Telecom Italia in connection with proceedings about unfair solicitation of customers	48	–
Reversal of provisions and allowances for bad debts from interconnection proceedings of Fastweb	–	66
Other income	113	52
Total capitalised costs and other income	**454**	**431**

Capitalised costs include personnel costs for the installation of technical equipment, the construction of network infrastructure and the development of software for internal use.

This includes a one-off amount of EUR 30 million (CHF 48 million) recorded in the second quarter of 2008 by Fastweb, resulting from a compensation payment by Telecom Italia. This payment was based on an agreement between Fastweb and Telecom Italia in connection with the proceedings about unfair solicitation of customers by Telecom Italia.

Following legal proceedings of Fastweb with Telecom Italia, provisions and allowances of CHF 66 million could be reversed in the fourth quarter of 2007.

14 Financial income and financial expense

CHF in millions	2008	2007
Financial income		
Interest income	113	136
Interest on provisions relating to interconnection proceedings of Swisscom Switzerland	14	–
Change in discount rate of provisions	–	30
Foreign exchange gains	–	84
Other financial income	16	–
Total financial income	**143**	**250**
Financial expense		
Interest expense	(434)	(396)
Present value adjustment on provisions	(12)	(3)
Recognition of provisions for cross-border lease agreements	(126)	–
Interest on provisions relating to interconnection proceedings of Swisscom Switzerland	–	(1)
Foreign exchange losses	(8)	–
Other financial expenses	(51)	(41)
Total financial expense	**(631)**	**(441)**
Financial income and financial expense, net	**(488)**	**(191)**

In 2008 Swisscom concluded an agreement on the premature termination of approximately three quarters of the cross-border lease volume. As a result of this termination, provisions of CHF 126 million were recognised in the second quarter of 2008. See Note 26.

In 2007 and 2008 ComCom issued new decisions in connection with prices for interconnection services. As a result of these rulings, provisions of CHF 23 million (previous year CHF 18 million) could be reversed in 2008. The reversal of interest for interconnection proceedings was recorded under interest on provisions for interconnection proceedings. See Note 28.

Foreign currency gains in 2007 include gains on foreign currency transactions of CHF 72 million in connection with the acquisition of Fastweb.

Swisscom records provisions for the dismantling of transmitter stations. The provision is based on estimated future costs of dismantling and is discounted using an average discount rate. An adjustment to these provisions of CHF 45 million has arisen as a result of the change in the interest rates in 2007. Of this, CHF 15 million was recognised in the capitalised dismantling costs and CHF 30 million as financial income. See Note 28.

Interest income in 2007 includes an amount of CHF 13 million due to the ineffective portion of hedging instruments and the termination of hedging instruments from cash flow hedges.

Net interest expense was as follows:

CHF in millions	2008	2007
Interest income		
Interest income on cash and cash equivalents	13	15
Interest income on held-to-maturity investments	67	66
Interest income on other financial assets	33	55
Total interest income	**113**	**136**
Interest expense		
Interest expense on bank loans, bonds and private placements	(312)	(268)
Interest expense on financial liabilities from cross-border lease agreements	(79)	(92)
Interest expense on finance lease liabilities	(32)	(35)
Interest expense on other financial liabilities	(11)	(1)
Total interest expense	**(434)**	**(396)**
Net interest expense	**(321)**	**(260)**

15 Income taxes

CHF in millions	2008	2007
Current income tax expense	318	469
Adjustments of current income tax expense of prior periods	25	(7)
Deferred income tax expense	105	(15)
Total income tax expense	**448**	**447**

In addition, an income tax expense of CHF 12 million was recognised directly in equity (previous year no income tax expense). See Note 31.

The applicable tax rate for the following analysis of income tax expense is the weighted-average income tax rate calculated on the basis of the operating companies in Switzerland. The applicable income tax rate is 21.1% (previous year 22.1%).

The decrease in the applicable income tax rate is due to lower tax rates in several Swiss cantons.

CHF in millions	2008	2007
Income before income tax expense	2,199	2,518
Expected income tax rate	21,1%	22,1%
Income tax expense at the expected income tax rate	**464**	**556**
Reconciliation to the effective income tax expense		
Effect of share of profit of investments in associates	(7)	(7)
Effect of deferred taxes due to change in tax rate	(3)	(10)
Effect of use of different income tax rates in Switzerland	15	(118)
Effect of use of different income tax rates in foreign countries	(21)	26
Effect of tax losses not recognised	28	48
Effect of recognition and offset of income losses not recognised in prior years	(33)	(6)
Effect of tax assets written off	22	16
Effect of impairment of goodwill	4	2
Effect of exclusively taxable deductible expense	(70)	–
Effect of non-taxable income and non-deductible expense	24	(53)
Effect of income tax of prior periods	25	(7)
Total income tax expense	**448**	**447**
Effective income tax rate	20,4%	17,8%

Current tax assets and liabilities have developed as follows:

CHF in millions	2008	2007
Current tax liabilities, net		
Balance at beginning of year	**191**	**213**
Recognised in income statement	343	462
Recognised in equity	(10)	–
Income taxes paid	(401)	(469)
Change in scope of consolidation	–	(15)
Currency translation adjustments	2	–
Balance at end of year	**125**	**191**
Thereof current tax assets	38	57
Thereof current tax liabilities	(163)	(248)

Deferred tax assets and liabilities have developed as follows:

CHF in millions	31.12.2008 Assets	Liabilities	Net amount	31.12.2007 Assets	Liabilities	Net amount
Trade and other receivables	37	–	37	56	(3)	53
Property, plant and equipment	–	(163)	(163)	73	(182)	(109)
Intangible assets	–	(564)	(564)	–	(610)	(610)
Defined benefit obligation	39	–	39	71	–	71
Tax losses	313	–	313	382	–	382
Other	23	(34)	(11)	60	(94)	(34)
Total tax assets (tax liabilities)	**412**	**(761)**	**(349)**	**642**	**(889)**	**(247)**
Deferred tax assets in the balance sheet			58			65
Deferred tax liabilities in the balance sheet			(407)			(312)

Changes in the deferred tax assets and liabilities have developed as follows:

CHF in millions	Balance at 31.12.2007	Recognised in income statement	Recognised in equity	Currency translation adjust-ments	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 obligation	71	(41)	–	9	39
Tax losses	382	(34)	–	(35)	313
Other	(34)	19	2	2	(11)
Total	**(247)**	**(105)**	**2**	**1**	**(349)**

CHF in millions	Balance at 31.12.2006	Recognised in income statement	Change in scope of consoli-dation	Currency translation adjust-ments	Balance at 31.12.2007
Trade and other receivables	(2)	(48)	103	–	53
Property, plant and equipment	(253)	40	104	–	(109)
Intangible assets	(71)	149	(685)	(3)	(610)
Defined benefit obligation	84	(16)	3	–	71
Tax losses	31	(109)	459	1	382
Other	(40)	(1)	7	–	(34)
Total	**(251)**	**15**	**(9)**	**(2)**	**(247)**

Deferred tax assets relating to unused tax loss carry-forwards and deductible temporary differences are recognised if it is probable that they can be offset against future taxable profits or other temporary differences. At December 31, 2008, various subsidiaries capitalised deferred tax assets on tax loss carry-forwards and other temporary differences totalling CHF 412 million (previous year CHF 642 million) since it was foreseeable that tax loss carry-forwards could be offset against future taxable profits. In addition tax loss carry-forwards and other temporary differences of CHF 37 million (previous year CHF 381 million) were capitalised by subsidiaries who presented a loss in 2007 or 2008. On the basis of the approved business plans of these subsidiaries, Swisscom expects that the tax loss carry-forwards and other temporary differences can be offset against future taxable profits.

Tax loss carry-forwards and other temporary differences on which no deferred tax assets were recognised amounted to:

CHF in millions	31.12.2008	31.12.2007
Expiration within 1 year	44	605
Expiration within 1 to 2 years	58	38
Expiration within 2 to 3 years	29	57
Expiration within 3 to 4 years	63	59
Expiration within 4 to 5 years	79	106
Expiration within 5 to 6 years	202	84
Expiration within 6 to 7 years	179	107
Expiration without limitation	136	128
Total tax losses not recognised	**790**	**1,184**

Fastweb accounted for CHF 98 million of the tax loss carry-forwards not recognised on December 31, 2008 (previous year CHF 708 million).

No deferred tax liabilities were recognised on retained earnings from subsidiaries as of December 31, 2008 (previous year CHF 8 million).

16 Earnings per share

Basic earnings per share are calculated by dividing net income attributable to equity holders of Swisscom Ltd by the weighted average number of shares outstanding, excluding treasury shares.

CHF in millions, except where indicated	2008	2007
Net income attributable to equity holders of Swisscom Ltd	1,756	2,068
Weighted average of outstanding shares (number)	51,792,567	51,801,943
Basic and diluted earnings per share (in CHF)	**33.90**	**39.92**

Swisscom has no share options and appreciation rights outstanding which led to a dilution of earnings per share.

17 Cash and cash equivalents

CHF in millions	31.12.2008	31.12.2007
Cash deposits	743	578
Short-term deposits	215	379
Total cash and cash equivalents	**958**	**957**

The weighted-average effective interest rate on short-term deposits in CHF was 2.18% (previous year 2.46%) and in EUR 4.19% (previous year no short-term deposits in EUR) respectively. The average maturity for short-term deposits in CHF was 22 days (previous year 44 days) and in EUR 29 days (previous year no short-term deposits in EUR).

18 Trade and other receivables

CHF in millions	31.12.2008	31.12.2007
Billed revenue	2,588	2,801
Accrued revenue	373	352
Allowance for bad debts	(225)	(311)
Total trade receivables, net	**2,736**	**2,842**
Receivables from collecting activities	24	12
Receivables from construction contracts	33	15
Other receivables	19	37
Allowance for bad debts	(14)	(16)
Total other receivables	**62**	**48**
Total trade and other receivables	**2,798**	**2,890**

All trade and other receivables are due within one year.

Trade receivables are subject to a policy of active credit risk management which focuses on the assessment of country risk, ongoing credit risk evaluation and monitoring procedures over receivables. There is no significant concentration of credit risk due to Swisscom's large number of customers and their geographical spread. Risks and exposures are continuously monitored by country and by class of counterparty.

The geographical distribution of trade receivables is as follows:

CHF in millions	31.12.2008	31.12.2007
Billed and accrued revenue		
Switzerland	1,922	1,959
Italy	1,023	1,171
Other countries	16	23
Total billed and accrued revenue	**2,961**	**3,153**
Allowance for bad debts		
Switzerland	(58)	(75)
Italy	(165)	(232)
Other countries	(2)	(4)
Total allowance for bad debts	**(225)**	**(311)**
Total trade receivables, net	**2,736**	**2,842**

Analysis of maturity and allowances for doubtful debts

The due dates of trade receivables and allowances for doubtful debts on trade receivables are set out below:

CHF in millions	Gross amount 31.12.2008	Allowance for bad debts 31.12.2008	Gross amount 31.12.2007	Allowance for bad debts 31.12.2007
Not past due	2,081	38	2,049	47
Past due up to 3 months	412	9	532	5
Past due 4 to 6 months	127	9	82	4
Past due 7 to 12 months	105	17	86	12
Past due over 1 year	236	152	404	243
Total	**2,961**	**225**	**3,153**	**311**

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

CHF in millions	Trade receivables	Other receivables
Balance at December 31, 2006	**149**	**30**
Additions	59	5
Amounts written off	(147)	(2)
Reversal of unused allowances	(44)	(1)
Change in scope of consolidation	294	(16)
Balance at December 31, 2007	**311**	**16**
Additions	168	–
Amounts written off	(205)	–
Reversal of unused allowances	(28)	(2)
Currency translation adjustments	(21)	–
Balance at December 31, 2008	**225**	**14**

Construction contracts

Information on open construction contracts at the end of the year is as follows:

CHF in millions	2008	2007
Contract cost of current projects	127	102
Recognised gains less losses	13	(2)
Contract cost including gains and losses, net	**140**	**100**
Less progress billings	(113)	(93)
Total net receivables from construction contracts	**27**	**7**
Thereof receivables from construction contracts	33	15
Thereof liabilities from construction contracts	(6)	(8)
Received prepayments	12	7

Net revenue of CHF 140 million (previous year CHF 84 million) was recorded on construction contracts in 2008.

19 Other financial assets

CHF in millions	Loans and receivables	Held-to-maturity	Available-for-sale	Derivative financial instruments	Total
Balance at December 31, 2006	**165**	**1,125**	**8**	**8**	**1,306**
Additions	146	84	8	–	238
Disposals	(142)	(263)	–	–	(405)
Change in scope of consolidation	3	–	–	–	3
Change in fair value recognised in equity	–	–	–	10	10
Change in fair value recognised in income statement	–	(84)	–	–	(84)
Balance at December 31, 2007	**172**	**862**	**16**	**18**	**1,068**
Additions	152	67	158	–	377
Disposals	(144)	(69)	(161)	–	(374)
Impairment	(4)	–	–	–	(4)
Change in fair value recognised in equity	–	–	14	(14)	–
Change in fair value recognised in income statement	–	(52)	–	8	(44)
Balance at December 31, 2008	**176**	**808**	**27**	**12**	**1,023**
Less current portion	(147)	(7)	(7)	(9)	(170)
Total other non-current financial assets	**29**	**801**	**20**	**3**	**853**

Loans and receivables

Fixed-term deposits on December 31, 2008 totalled CHF 143 million (previous year CHF 141 million). In order to secure liabilities in connection with cross-border lease agreements, term deposits totalling CHF 139 million (previous year CHF 136 million) could not be freely disposed of on December 31, 2008.

Held-to-maturity investments

On December 31, 2008, held-to-maturity investments 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 investments in equity instruments.

Shares not quoted on the stock exchange are usually recognised at cost since the fair value cannot be reliably determined. On December 31, 2008, the carrying amount of investments in shares recognised at cost totalled CHF 14 million (previous year CHF 10 million).

Derivative financial instruments

Derivative financial instruments comprise cross-currency interest rate swaps, interest rate swaps and forward exchange contracts. No derivatives resulting from cross-border lease agreements were presented under derivatives on December 31, 2008 (previous year CHF 2 million). On December 31, 2008, the positive market value of the other derivatives amounted to CHF 12 million (previous year CHF 16 million). See Note 33.

20 Inventories

CHF in millions	31.12.2008	31.12.2007
Raw material and supplies	12	47
Customer premises equipment and trade goods	195	134
Finished and unfinished goods	2	26
Total inventories, gross	**209**	**207**
Allowance for obsolete and slow-moving items	(21)	(51)
Total inventories, net	**188**	**156**

Inventories amounting to CHF 797 million (previous year CHF 699 million) were included in goods and services purchased.

21 Other non-financial assets

CHF in millions	31.12.2008	31.12.2007
Accrual for prepaid expenses	92	83
VAT receivable	110	189
Prepayments	70	93
Other assets	62	56
Total current and non-current financial assets	**334**	**421**
Accrual for prepaid expenses	37	15
Other assets	18	25
Total non-current non-financial assets	**55**	**40**

VAT receivables from Fastweb of CHF 83 million are pledged as security for bank loans (previous year CHF 97 million).

22 Non-current assets held for sale

Non-current assets held for sale include the carrying amount of property of CHF 16 million from the segment "Other" (previous year CHF 15 million) which is expected to be sold within the next twelve months.

In 2008 non-current assets held for sale were sold for a total of CHF 10 million (previous year CHF 42 million). The gain of CHF 7 million from the sales (previous year CHF 35 million) is recorded under capitalised costs and other income.

Property with a carrying amount of CHF 5 million classified as non-current assets held for sale could not be sold as planned and therefore was reclassified to property, plant and equipment. Depreciation of the reclassified property amounts to CHF 1 million.

23 Property, plant and equipment

CHF in millions	Land and buildings	Technical equipment	Other assets	Prepayments and assets under construction	Total
At cost					
Balance at December 31, 2006	**2,879**	**19,175**	**2,654**	**395**	**25,103**
Additions	10	1,073	202	355	1,640
Adjustments of dismantlement and restoration costs	–	(15)	–	–	(15)
Disposals	(27)	(388)	(141)	(15)	(571)
Reclassification to non-current assets held for sale	(46)	–	–	–	(46)
Other reclassifications	1	284	184	(474)	(5)
Additions from business combinations	96	2,438	28	114	2,676
Disposal of subsidiaries	(105)	(148)	(62)	(6)	(321)
Currency translation adjustments	6	5	4	–	15
Balance at December 31, 2007	**2,814**	**22,424**	**2,869**	**369**	**28,476**
Additions	11	1,043	190	303	1,547
Adjustments of dismantlement and restoration costs	–	90	–	–	90
Disposals	(14)	(849)	(245)	–	(1,108)
Reclassification to non-current assets held for sale	(3)	(3)	–	–	(6)
Other reclassifications	(1)	253	95	(347)	–
Disposal of subsidiaries	–	(6)	(4)	–	(10)
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					
Balance at December 31, 2006	**2,071**	**15,541**	**1,696**	**–**	**19,308**
Depreciation	35	1,188	279	–	1,502
Disposals	(18)	(375)	(130)	–	(523)
Reclassification to non-current assets held for sale	(42)	–	–	–	(42)
Other reclassifications	–	1	(1)	–	–
Disposal of subsidiaries	(11)	(62)	(19)	–	(92)
Currency translation adjustments	1	5	2	–	8
Balance at December 31, 2007	**2,036**	**16,298**	**1,827**	**–**	**20,161**
Depreciation	32	1,189	299	–	1,520
Impairment	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	–	–
Disposal of subsidiaries	–	(3)	(3)	–	(6)
Currency translation adjustments	(1)	(51)	1	–	(51)
Balance at December 31, 2008	**2,050**	**16,615**	**1,907**	**–**	**20,572**
Carrying amount					
At December 31, 2008	**747**	**6,008**	**996**	**319**	**8,070**
At December 31, 2007	**778**	**6,126**	**1,042**	**369**	**8,315**
At December 31, 2006	**808**	**3,634**	**958**	**395**	**5,795**

As a result of a regulatory decision by the Federal Communications Commission (ComCom) on December 17, 2007 concerning interconnection prices, the useful lives of ducts were reviewed in the first quarter of 2008. In the past Swisscom has applied a useful life of 20 years for ducts. The useful lives of ducts have been adjusted in line with the review from 20 years to 40 years. The change was implemented prospectively from January 1, 2008. The impact on depreciation in 2008 amounted to CHF 120 million.

Impairments of property, plant and equipment are a result of a change of future cash flows from continuing use of the asset or for the disposal of the asset. In 2008 impairment amounted to CHF 43 million (previous year no impairment).

For further information on adjustments for costs of dismantling and restoration see Note 28.

As of December 31, 2008, property with a carrying amount of CHF 12 million (previous year CHF 14 million) was pledged to secure mortgages.

On December 31, 2008, the carrying amount of property, plant and equipment classified as financial lease amounted to CHF 469 million (previous year CHF 467 million).

24 Goodwill and other intangible assets

CHF in millions	Goodwill	Internally generated software	Customer relation-ships	Brand	Other intangible assets	Total
At cost						
Balance at December 31, 2006	**4,169**	**306**	**63**	**6**	**754**	**5,298**
Additions	–	41	–	–	344	385
Disposals	–	(5)	–	–	(6)	(11)
Purchase price adjustments	(3)	–	–	–	–	(3)
Reclassifications	(6)	44	–	–	(33)	5
Additions from business combinations	2,961	20	1,408	364	254	5,007
Disposal of subsidiaries	(162)	–	(41)	–	(36)	(239)
Currency translation adjustments	2	–	–	–	–	2
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 business combinations	39	4	–	–	4	47
Disposal of subsidiaries	(36)	–	–	–	(14)	(50)
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 amortisation and impairment						
Balance at December 31, 2006	**–**	**250**	**9**	**1**	**312**	**572**
Amortisation	–	51	106	24	230	411
Impairment	49	–	3	–	21	73
Disposals	–	(5)	–	–	(5)	(10)
Disposal of subsidiaries	(8)	–	(10)	–	(19)	(37)
Balance at December 31, 2007	**41**	**296**	**108**	**25**	**539**	**1,009**
Amortisation	–	70	162	36	289	557
Impairment	19	–	4	–	6	29
Disposals	(13)	(27)	–	–	(32)	(72)
Reclassifications	–	(2)	–	–	2	–
Disposal of subsidiaries	(36)	–	–	–	(10)	(46)
Currency translation adjustments	–	(2)	(21)	(4)	(22)	(49)
Balance at December 31, 2008	**11**	**335**	**253**	**57**	**772**	**1,428**
Carrying amount						
At December 31, 2008	**6,633**	**134**	**1,034**	**276**	**838**	**8,915**
At December 31, 2007	**6,920**	**110**	**1,322**	**345**	**738**	**9,435**
At December 31, 2006	**4,169**	**56**	**54**	**5**	**442**	**4,726**

On December 31, 2008, other intangible assets included advance payments made of CHF 285 million (previous year CHF 171 million).

As of December 31, 2008, accumulated impairments on goodwill of CHF 11 million were recorded. The accumulated impairments result from the goodwill impairment test at Sicap on December 31, 2008. On September 1, 2008, Swisscom sold all its shares in Minick Holding AG to the German Net Mobile AG. A goodwill impairment of CHF 7 million resulted from the transaction.

Goodwill from the acquisition of investments in associates is disclosed under investments in associates.

Impairment test of goodwill

Goodwill is allocated to the cash-generating units according to their business activities. Goodwill acquired in a business combination is allocated to the cash-generating units that are expected to benefit from the synergies of the combination.

As a result of the realignment of their business activities in the core business in Switzerland, Swisscom has adjusted the segment information for 2008 so that goodwill amounting to CHF 3,693 million resulting from the repurchase of a 25% interest in Swisscom Mobile was reclassified and allocated to the customer segments of Swisscom Switzerland using a relative value approach.

The allocation of goodwill to the cash-generating units is as follows:

CHF in millions	31.12.2008	31.12.2007
Residential	2,461	2,393
Small & Medium-Sized Enterprises	645	645
Corporate Business	716	716
Wholesale	45	45
Cash-generating units of Swisscom Switzerland	**3,867**	**3,799**
Fastweb	2,627	2,957
Other cash-generating units	139	164
Total goodwill	**6,633**	**6,920**

Apart from goodwill, there are no intangible assets with indefinite useful lives.

Goodwill was tested in the fourth quarter after business planning had been completed. The recoverable amount of a cash-generating unit was determined based on its value in use, using the discounted cash flow (DCF) method. These discounted cash flow calculations use cash flow projections that are based on the business plan approved by management covering a three-year period. Cash flows beyond the detailed period are extrapolated using appropriate growth rates. The growth rates applied are the growth rates normally assumed for the country or market. The key assumptions used for value-in-use calculation are as follows:

Information in %	WACC pre-tax	WACC post-tax	Growth rate
Cash-generating units of Swisscom Switzerland	7.03	5.30	(1.0)
Fastweb	11.10	8.47	1.0
Other cash-generating units	6.72–12.05	5.56–10.02	1.0–2.5

The application of pre- or post-tax discount rates (WACC pre-tax and WACC post-tax) both result in the same value in use. The discount rates used take into consideration the specific risks relating to the corresponding cash-generating unit.

The cash flow projections and management assumptions are supported by external sources of information.

The key assumptions for the impairment test at Sicap, Swisscom Switzerland and Fastweb are presented below:

Sicap

The test at the cash-generating unit Sicap led to an impairment of goodwill of CHF 15 million. Since business did not develop as well as originally expected, the forecasted free cash flows had to be reduced compared with the previous year. As a result, the calculated value in use of CHF 6 million was CHF 15 million lower than the carrying amount. The value in use was calculated on the basis of the three-year business plans drawn up by management. The post-tax WACC is 7.62% and the corresponding pre-tax WACC 7.99%. The terminal value of free cash flows was calculated using a growth rate of 1.5%.

Swisscom Switzerland

The cash-generating units of Swisscom Switzerland include the operating segments “Residential Customers”, “Small and Medium-Sized Enterprises”, “Corporate Business” and “Wholesale”. The impairment test of goodwill relates to these cash-generating units. The recoverable amount was determined based on its value in use, using the discounted cash flow (DCF) method. These discounted cash flow calculations use cash flow projections that are based on the business plan approved by management covering a three-year period. Free cash flows beyond the detailed period are extrapolated using a negative long-term growth rate of –1.0%. On December 31, 2008, the recoverable amount at all cash-generating units, based on its value in use, was higher than the carrying amount relevant for the impairment test. Swisscom believes that no reasonably possible changes in key assumptions would cause the carrying amount of the cash-generating unit to exceed its recoverable amount.

Fastweb

The impairment test was based on the business plan covering a five-year period. The business plan takes into consideration past experiences 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 2013 are considered to be a reliable basis for calculating the terminal value.

The post-tax discount rate (WACC post-tax) is 8.47%, and the corresponding pre-tax discount rate (WACC pre-tax) is 11.10%. The terminal value of free cash flows after the detailed planning period was calculated using a growth rate of 1.0%. The growth rate applied represents the growth rates normally assumed for the country or market, which are based on past experience and forecasts, supported 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 December 31, 2008, the impairment test did not indicate the need for an impairment of goodwill. The recoverable amount exceeds the carrying amount by EUR 622 million or CHF 924 million. The discount rate and the forecast growth in revenue have a significant influence on the sensitivity of the impairment test. For the detailed planning period covering five years, an average annual growth in revenue of 7.2% was forecasted. If the average annual growth in revenue declined by 0.7%, the recoverable amount associated with Fastweb would equal its carrying amount. If the post-tax discount rate changed from 8.47% to 9.37%, the value in use would equal the carrying amount.

25 Investments in associates

CHF in millions	2008	2007
Carrying amount		
Balance at beginning of year	**257**	**221**
Additions	4	9
Disposals	(5)	(3)
Dividends received	(9)	(4)
Share of profit	47	32
Change in scope of consolidation	–	1
Currency translation adjustments	(9)	1
Balance at end of year	**285**	**257**

Investments in associates primarily include PubliDirect, Cinetrade, and Belgacom International Carrier Services.

In 2008 Swisscom acquired a 100% share in local.ch AG from the PubliDirect. Swisscom also acquired the remaining shares in coComment B.V. in 2008. In 2007 Swisscom acquired shares in the associate companies Transmedia, coComment and Bytek.

In 2008 the 33% share in Rai Click S.p.A. was sold. The 30% share in Sportradio.ch AG was sold in 2007.

Dividends received totalled CHF 9 million (previous year CHF 4 million) and are attributable mainly to the dividend paid by PubliDirect (previous year AUCS).

The following schedule provides selected aggregated key data of investments in associates and joint ventures:

CHF in millions	2008	2007
Income statement		
Net revenue	2,068	1,994
Operating expenses	(1,935)	(1,889)
Operating income	133	105
Net income	**117**	**79**
Balance sheet at end of year		
Current assets	1,131	889
Non-current assets	186	214
Current liabilities	(761)	(631)
Non-current liabilities	(27)	(29)
Equity	**529**	**443**

26 Financial liabilities

CHF in millions	31.12.2008	31.12.2007
Bank loans	–	570
Financial liabilities from cross-border lease agreements	9	18
Finance lease liabilities	9	122
Other interest bearing financial liabilities	147	124
Deferred payment of purchase price of business combinations	12	16
Derivative financial instruments. See Note 33.	39	19
Total current financial liabilities	**216**	**869**
Bank loans	6,140	6,601
Bonds	2,032	1,510
Private placements	1,339	1,427
Financial liabilities from cross-border lease agreements	1,087	1,159
Finance lease liabilities	493	487
Other interest bearing financial liabilities	25	12
Deferred payment of purchase price of business combinations	3	14
Derivative financial instruments. See Note 33.	457	219
Other non-interest bearing financial liabilities	–	16
Total non-current financial liabilities	**11,576**	**11,445**
Total financial liabilities	**11,792**	**12,314**

Terms and conditions of bonds, bank loans and private placements

Terms and conditions of bonds, bank loans and private placements are as follows:

CHF in millions	Currency	Effective interest rate	Due within	31.12.2008 Face value	31.12.2008 Carrying amount	31.12.2007 Face value	31.12.2007 Carrying amount
Bank loans	CHF	2,84%	2009–2012	6,150	6,140	7,189	7,171
Bonds	CHF	3,65%	2010–2017	2,000	2,032	1,500	1,510
Private placements	CHF	1,41%	2017–2019	600	590	600	602
Private placements	EUR	3,27%	2010–2014	743	749	827	825
Financial liabilities from cross-border lease agreements	USD	6,64%	2010–2028	1,088	1,096	1,173	1,177
Finance lease liabilities	CHF	6,65%	2012–2063	503	502	607	609
Other interest bearing financial liabilities	CHF EUR	3–6%	2009–2014	172	172	136	136
Total				**11,256**	**11,281**	**12,032**	**12,030**

Bank loans

On December 31, 2008, the carrying amount of bank loans amounted to CHF 6,140 million (previous year CHF 7,171 million). Of this, CHF 2,750 million is due for repayment in 2011 and CHF 3,400 million in 2012. The interest rate risk has been hedged for CHF 2,935 million of the long-term variable loans through an interest rate swap and designated as cash flow hedges for hedge accounting. The term of the hedge is the same as the term of the secured loan. In connection with the outstanding loans, transaction costs of CHF 11 million (previous year CHF 17 million) were capitalised at the end of 2008. The transaction costs will be recorded in the income statement over the term of the bank loan using the effective interest method. The bank loans are due for immediate repayment if the share capital of the Confederation in Swisscom falls below 35% or if another shareholder can exercise control over Swisscom.

Bonds

On September 17, 2008, Swisscom issued a bond for a value of CHF 500 million with a term of 7 years and an interest rate of 4.0%. During 2007 Swisscom placed bonds on the Swiss domestic market for a value of CHF 1,500 million. The first tranche issued on July 19, 2007, included CHF 550 million with an interest rate of 3.5% 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 on October 22, 2007. This comprises CHF 350 million with an interest rate of 3.25% and a term of 3 years and a CHF 250 million top-up of the 10-year bond issued in July with an interest rate of 3.75%. The investors are entitled to sell the bonds back to Swisscom if a shareholder other than the Swiss Confederation holds a majority share in Swisscom and at the same time the company's rating falls below BBB–.

Private placements

In 2007 Swisscom took out private placements to raise financing of CHF 600 million and EUR 500 million. The Swiss franc denominated placement is made up of three tranches with terms of 10, 11 and 12 years. The private placement denominated in euros is divided up into 6 tranches with terms of 3, 6 and 7 years and for each term one tranche with a fixed rate of interest and one with a variable rate. The entire euro placement was hedged into variable Swiss franc placements through interest currency swaps. The exchange of the fixed-rate euro into variable Swiss franc placements qualifies as a fair value hedge. As of December 31, 2008, transactions costs of EUR 1 million (previous year EUR 1 million) were recognised in connection with the euro denominated private placement. The transaction costs will be released through the income statement over the term of the private placement using the effective interest method. The investors are entitled to sell the euro private placements back to Swisscom if the Swiss Confederation's share in Swisscom falls below 35% and at the same time the company's rating falls below BBB–. The private placements of CHF 600 million may become due for immediate repayment if the share capital of the Confederation in 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 cross-border lease agreements, under the terms of which parts of its fixed and mobile networks were to be sold or leased long-term to US trusts and leased back with terms of up to 99 years. Swisscom has an early buyout option on these assets after a contractually agreed period.

The financial liabilities are based on lease and leaseback transactions from the years 1999, 2000 and 2002. The sale and leaseback transactions from the year 1997 are presented as finance lease obligations.

Swisscom defeased a major part of the lease obligations through highly rated financial assets and several payment undertaking agreements. The financial assets were irrevocably placed with trusts. The payment undertaking agreements were signed with financial institutions with a high credit standing. In accordance with Interpretation SIC 27 "Evaluating the substance of transactions involving the legal form of a lease", these financial assets or payment undertaking agreements and the liabilities in the same amount are offset and not presented in the balance sheet. One of the transactions entered into in 2000 does not meet the offsetting conditions of SIC 27 and is consequently reported in the balance sheet as a long-term financial asset and the corresponding lease obligation presented as a long-term financial liability.

As of December 31, 2008, the financial assets and liabilities resulting from these transactions including interest totalled USD 3,503 million (CHF 3,745 million) and USD 3,240 million (CHF 3,457 million) respectively. Of this amount USD 2,482 million (CHF 2,649 million) are not recognised in the balance sheet in accordance with SIC 27. Of the liabilities reported in the amount of CHF 1,097 million (previous year CHF 1,177 million), CHF 808 million (previous year CHF 862 million) are covered by financial assets.

Swisscom concluded an agreement on the premature termination of three quarters of the cross-border lease volume. The completion of the termination agreements by the relative parties is subject to official approval. As a result of the termination of the agreements, provisions of CHF 126 million were recognised in the second quarter of 2008. Through the takeover of financial assets in connection with the termination agreements in the second half of 2008, provisions were increased by CHF 132 million on December 31, 2008. These provisions were recognised as financial expense. In previous years, income from completion of the terminated transactions totalling CHF 177 million (CHF 255 million for the total transactions) was recorded as financial income on the transaction date in accordance with SIC 27. Since official approval by Congrossional Joint Committee had not yet been granted when the annual financial statements were drawn up on December 31, 2008, the termination agreement could not be completed.

Through the termination of the agreements, liabilities and assets from the continued cross-border lease agreements will be reduced to USD 870 million (CHF 937 million) and USD 772 million (CHF 823 million) respectively. Should the termination of the agreement not be implemented, Swisscom would potentially have to replace the assets serving to secure the leasing liabilities, which would add around another CHF 252 million to the above mentioned costs for the termination of the agreements.

Swisscom is exposed to market-related risks in connection with cross-border lease agreements. One particular risk lies in the credit standing of the counterparties in which investments were made. Swisscom must fulfil the agreed rating requirements for financial assets with a nominal value of USD 98 million (CHF 104 million) including interest incurred up to December 31, 2008. All the rating requirements are fulfilled. It is possible that the contractual rating requirements will no longer be fulfilled until the agreements expire. In such case, the financial assets are to be replaced by assets with the required minimum rating. Swisscom would then incur costs amounting to the difference between the market value of the existing and the new financial assets.

Other market risks in connection with cross-border lease agreements are interest rate and foreign exchange risks, although most of these risks have been hedged through interest rate and currency swaps.

Future minimum lease payments resulting from cross-border lease agreements are due as follows:

CHF in millions	31.12.2008	31.12.2007
Within 1 year	15	106
Within 1 to 2 years	106	16
Within 2 to 3 years	95	118
Within 3 to 4 years	50	107
Within 4 to 5 years	100	59
After 5 years	2,259	2,608
Total future minimum lease payments	**2,625**	**3,014**
Less future finance costs	(1,537)	(1,841)
Total present value of financial liabilities from cross-border lease agreements	**1,088**	**1,173**
Fair value adjustments	8	4
Total financial liabilities from cross-border lease agreements	**1,096**	**1,177**
Less current portion	(9)	(18)
Total non-current financial liabilities from cross-border lease agreements	**1,087**	**1,159**

Finance lease liabilities

In addition to the cross-border lease agreements described above, Swisscom concluded two agreements in 2001 for the sale of property. At the same time Swisscom entered into long-term agreements to lease back part of the sold property. A number of the leaseback agreements qualify as finance leases. The gain of CHF 127 million on the sale of these properties has been deferred and will be released to the income statement as other income over the individual lease terms. In 2008, CHF 2 million (previous year CHF 2 million) of the deferred gain was reversed. The minimum lease payments relating to these leaseback agreements are included in the table below. The remaining buildings have been leased back under operating leases over periods ranging from 5 to 20 years. See Note 35. In 2008, contingent rental payments of CHF 3 million (previous year CHF 2 million) were recorded as rental expense. Future minimum lease payments relating to these transactions fall due as follows:

CHF in millions	31.12.2008	31.12.2007
Within 1 year	45	156
Within 1 to 2 years	48	41
Within 2 to 3 years	45	41
Within 3 to 4 years	49	41
Within 4 to 5 years	30	41
After 5 years	1,258	1,295
Total future minimum lease payments	**1,475**	**1,615**
Less future finance costs	(972)	(1,008)
Total present value of finance lease liabilities	**503**	**607**
Accrued interest expense	(1)	2
Total finance lease liabilities	**502**	**609**
Less current portion	(9)	(122)
Total non-current finance lease liabilities	**493**	**487**

The present value of minimum lease payments on December 31, 2007 and 2008 was as follows:

CHF in millions	31.12.2008	31.12.2007
Within 1 year	14	120
Within 1 to 2 years	17	9
Within 2 to 3 years	15	10
Within 3 to 4 years	20	10
Within 4 to 5 years	5	11
After 5 years	432	447
Total present value of finance lease liabilities	**503**	**607**

Other financial liabilities

Other financial liabilities as of December 31, 2008 include financial liabilities of CHF 89 million (previous year CHF 105 million) which are secured by property with a net carrying amount of CHF 12 million (previous year CHF 14 million) and VAT receivable with a carrying amount of CHF 83 million (previous year CHF 97 million).

27 Trade and other payables

CHF in millions	31.12.2008	31.12.2007
Invoices received	1,378	1,460
Goods and services received not invoiced	489	471
Total trade payables	**1,867**	**1,931**
Liabilities from collection activities	20	21
Liabilities from construction contracts	6	8
Other payables	293	327
Total other payables	**319**	**356**
Total trade and other payables	**2,186**	**2,287**

28 Provisions

CHF in millions	Termination benefits	Disman-tlement and restoration costs	Regulatory proceedings	Cross-border lease agreements	Other	Total
Balance at December 31, 2006	**58**	**378**	**484**	**–**	**185**	**1,105**
Additions	18	–	42	–	99	159
Present value adjustments	–	10	1	–	(8)	3
Reversal of unused provisions	(19)	(45)	(133)	–	(17)	(214)
Utilisation	(23)	–	(80)	–	(67)	(170)
Change in scope of consolidation	–	–	99	–	62	161
Balance at December 31, 2007	**34**	**343**	**413**	**–**	**254**	**1,044**
Additions	20	83	56	258	62	479
Present value adjustments	–	10	(14)	–	2	(2)
Reversal of unused provisions	(16)	(1)	(52)	–	(97)	(166)
Utilisation	(16)	–	(90)	–	(44)	(150)
Currency translation adjustments	–	–	(1)	–	(7)	(8)
Balance at December 31, 2008	**22**	**435**	**312**	**258**	**170**	**1,197**
Less current portion	(21)	(8)	(91)	(258)	(104)	(482)
Total non-current provisions	**1**	**427**	**221**	**–**	**66**	**715**

Provisions for termination benefits

Provisions for termination benefits include costs for the programmes defined in the social plans of 2001 and 2006. For further information see Note 9. Non-current provisions are expected to be due in 2010.

Provisions for dismantling and restoration

Provisions for dismantling and restoration relate to the dismantling of mobile stations and Swisscom Broadcast broadcasting stations and the restoration of property owned by third parties on which the transmitters are located.

In 2008 dismantling and restoration costs for Swisscom Broadcast's broadcasting stations were reassessed on the basis of an external report. Provisions were increased by CHF 92 million as a result of this reassessment.

The provision is based on future estimated costs and is discounted using a discount rate of 3.34% (previous year 3.20%). The present value adjustment arising from the change in the discount rate is CHF 9 million (previous year CHF 45 million). In 2008, adjustments of CHF 90 million (previous year CHF 15 million) were recorded under the dismantling costs capitalised in property, plant and equipment, and CHF 7 million (previous year CHF 30 million) recognised in the income statement.

Non-current provisions are expected to be due after 2020.

Provisions for regulatory proceedings

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

Provisions for interconnection and other access services in accordance with the revised Swiss Telecommunications Law (FMG)

Swisscom provides interconnection services to other telecommunications service providers in Switzerland. Interconnection regulates the joint switching of Swisscom's networks and those of other telecommunication providers. Since 2000 Swisscom has calculated its interconnection prices in accordance with the long run incremental costs (LRIC) of providing the service.

The revised Swiss Telecommunications Law (FMG) together with the regulations on its implementation oblige Swisscom, with effect from April 1, 2007, to offer other access services to the other providers of telecommunications services at prices calculated in line with the long run incremental costs (LRIC) prescribed by the law, with the exception of prices for fixed access lines.

In 2000 two telecommunications service providers filed petitions with the Federal Communications Commission (ComCom) demanding that the interconnection prices charged by Swisscom be reduced.

On November 6, 2003, ComCom issued a decision, requiring Swisscom to lower interconnection prices for these two telecommunications service providers with retroactive effect for the years 2000 to 2003 by 25% to 35%, depending on the product. Swisscom lodged an appeal against the ComCom decision with the Federal Court.

On October 1, 2004, the Federal Court issued a decision overturning the previous decision by ComCom on procedural grounds and remanding the petitions for a rehearing before ComCom to reconsider the pricing issues. On June 10, 2005, ComCom issued a new decision, largely identical to that of November 6, 2003. ComCom reduced Swisscom's interconnection prices for the years 2000 to 2003 by around 30% (depending on the product) and ordered that a clause be included in the interconnection agreement with one petition regulating the retrospective effect of decisions by the authorities on parties not involved in the proceedings (retrospective third party clause). Swisscom lodged administrative appeals against this new decision with the Federal Court.

In 2004 the two petitioners together with two other telecommunications service providers filed petitions with ComCom, demanding that cost-orientated prices be fixed on the basis of costs in 2004. The two new petitioners also applied for a retroactive reduction from the year 2000. These four proceedings have currently been suspended pending an enforceable ruling on prices for the years 2000 to 2003.

On April 21, 2006, the court decided that no fault could be found with ComCom's price fixing for the years 2000 to 2003. However, the court criticised the method used by the authorities to fix prices for interconnection services as unviable and referred the matter back to ComCom for new calculations. The court also rejected Swisscom's appeal against the retrospective third party clause imposed by ComCom. On August 30, 2006, ComCom recalculated the prices for interconnection services for the years 2000 to 2003 in line with the Federal Court's decision and issued a new decision. This did not lead to any significant price changes in comparison with the decision of June 10, 2005.

Swisscom has recognised provisions for the lower interconnection price ruling by ComCom. As a result of the Federal Court decision on April 21, 2006, regarding the retrospective third party clause, there is a risk that other providers who have previously accepted the prices, will now demand that Swisscom reduces its prices retroactively. Provisions were therefore created for this risk in 2006.

On December 17, 2007, in two of the four proceedings opened in 2004, ComCom recalculated the prices for interconnection services for the years 2004 to 2006 in line with the Federal Court's decision and issued a new decision. ComCom reduced the interconnection prices for Swisscom for the years 2004 to 2006 by an average of 15% to 20%. Swisscom has accepted the price reductions and is not lodging an appeal with the Federal Court. Moreover these two proceedings, as well as the two other pending proceeding have been extended to include the years 2007 and 2008. As a result of ComCom's decision in December 2007, provisions of CHF 109 million were reversed in the fourth quarter of 2007. On October 9, 2008, ComCom recalculated the prices for interconnection services for the years 2007 and 2008 and issued a new decision. ComCom reduced the interconnection prices for Swisscom for the years 2007 to 2008 by an average of 30%. Furthermore ComCom is of the opinion that the new prices are to be applied retrospectively for all other telecommunications service providers (retrospective third party clause). At the same time ComCom issued a decision on prices for all unbundled access lines and collocation services. Prices for these services were also reduced. On December 23, 2008, ComCom issued two further decisions in connection with fixed access lines for all types of connection. Prices were also reduced for these services. Swisscom accepts the price reductions ordered by ComCom for interconnection, wholly unbundled access lines and the fixed access lines and is not appealing to the next instance in connection with this decision. Swisscom has lodged an appeal with the Federal Administrative Court concerning the reduction in collocation prices ordered and the injunctions in connection with the retrospective third party clause.

As a result of the decision, the previous provisions were reassessed. As a result of this reassessment, provisions of CHF 23 million were reversed in the third quarter of 2008. On December 31, 2008, provisions for the current interconnection and access services proceedings involving Swisscom (Switzerland) Ltd amounted to CHF 296 million.

The remaining liabilities are expected to be paid between 2009 and 2011.

Provisions for interconnections Fastweb

Fastweb provides interconnection services for other telecommunications companies, in particular Telecom Italia. Telecom Italia has complained about 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) passed a ruling on prices for 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 before August 4, 2006 was reassessed and EUR 26 million (CHF 42 million) of it reversed. In June 2008 an agreement with Telecom Italia could be finalised. As a result of the agreement provisions of EUR 11 million (CHF 18 million) could be reversed. Provisions at December 31, 2008 amounted to EUR 11 million (CHF 16 million) and cover the remaining risks related to the implementation of the agreement.

Provisions for cross-border lease agreements

Provisions were recognised in 2008 in connection with the early termination of three quarters of the cross-border lease volume. See Note 26.

Other provisions

Other provisions include provisions for environmental risks and contractual risks, as well as provisions for compensation. Non-current provisions are expected to fall due between 2010 and 2013.

29 Contingent liabilities

Competition Commission proceedings

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

Competition Commission proceedings – mobile termination fees

In October 2002, the Competition Commission (WEKO) initiated proceedings against Swisscom in accordance with Antitrust Law in connection with mobile termination prices. In several draft decisions issued to Swisscom, the Secretariat of the Competition Commission stated that it believes that Swisscom has a dominant market position and has violated Swiss Antitrust Law by demanding disproportionately high termination fees compared with competitors. The Competition Commission therefore applied for sanctions of CHF 489 million to be imposed on Swisscom.

The proposed fines relate to the period from April 1, 2004 (when a new amendment to the Swiss Antitrust Law entered into effect) to May 31, 2005 (when Swisscom lowered its mobile termination fee from CHF 0.335 to CHF 0.20).

Swisscom is of the view that it did not hold a dominant market position in the market for mobile termination and that its tariffs for mobile termination were not abusive. Prior to lowering its mobile termination fee on June 1, 2005, Swisscom's fee was approximately 10% lower than the fee charged by its competitors. In addition, as Swisscom customers place a higher volume of calls to its competitors' networks than vice versa, Swisscom makes net payments to these mobile network operators.

On February 5, 2007, WEKO issued an injunction. They claimed that Swisscom is dominant in the market and has abused this position in violation of Swiss Antitrust Law by demanding disproportionately high termination fees from its competitors and particular end consumers during the period April 1, 2004 to May 31, 2005. The reasoning was identical to that of the previous injunctions. As a result of this alleged illegal behaviour WEKO has imposed a direct sanction of CHF 333 million. The price development after June 1, 2005 is subject 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 demanded back from Vodafone.

Swisscom refutes the accusation that it has abused its dominant market position and opposes the sanction and appealed to the Federal Administrative Court on March 19, 2007.

In view of its legal assessment Swisscom is of the opinion that it is unlikely that sanctions will be imposed and has therefore not recognised any provisions in the consolidated financial statements as at December 31, 2007 and 2008. If the court rules that Swisscom has abused the market, civil claims could be asserted against the company. Swisscom considers it unlikely that such civil claims could be asserted.

Investigation into the relationship between ADSL wholesale and retail prices

On October 20, 2005, WEKO launched an investigation into Swisscom Ltd and Swisscom (Switzerland) Ltd in connection with alleged abuse of their dominant market position. Swisscom is said to have set such high prices for ADSL pre-services in favour of Internet service providers that no scope is left for an adequate profit margin in relation to the end-customer prices charged by Swisscom (price squeezing). Swisscom refutes the fact that it has a market-dominant position and rejects 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 an adequate profit margin.

On November 12, 2008, the WEKO Secretariat provided Swisscom with its draft decision for the imposition of sanctions on the grounds that Swisscom has abused their market-dominant position in ADSL services with a request for comment. WEKO has asked for a sanction of approximately CHF 237 million.

On February 12, 2009, the Federal Administrative Court ruled that Swisscom must offer bit-stream access to other telecommunication service providers. Even if in this proceeding the question of a market-dominant position in the wholesale market for broadband services was affirmed, Swisscom rejects the accusation of price squeezing and of any inappropriate conduct. Swisscom is of the opinion that the prices for their ADSL pre-services leave their ADSL competitors enough scope for an adequate profit margin.

In view of its legal assessment Swisscom is of the opinion that it is unlikely that sanctions will be imposed and has therefore not recognised any provisions in the consolidated financial statements as at December 31, 2007 and 2008.

If the court rules that Swisscom has abused the market, civil claims could be asserted against the company. Swisscom considers it unlikely that such civil claims could be asserted.

Regulatory proceedings

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

Swisscom provides access services for other providers of telecommunication services in Switzerland in accordance with the revised Swiss Telecommunications Law (FMG). On October 9, 2008, ComCom fixed the prices for the wholly unbundled subscriber connection and collocation and reduced prices for these services. On December 23, 2008, ComCom issued two further decisions in connection with billing of subscriber lines for all types of connection and also lowered the prices. As a result of the decision, the previous provisions were reassessed and adjusted. See Note 28.

Further proceedings concerning access services in accordance with the revised Swiss Telecommunications Law (FMG) are also pending with ComCom. The outcome of the investigation and the extent of the financial effect of a decision by ComCom are still uncertain.

Cross-border lease agreements

Contingent liabilities resulting from cross-border lease agreements see Note 26.

30 Other non-financial liabilities

CHF in millions	31.12.2008	31.12.2007
Deferred revenue	337	351
VAT payable	86	99
Prepayments	47	66
Other current non-financial liabilities	149	140
Total current and non-current financial liabilities	**619**	**656**
Deferred gain on sale and leaseback of real estate	111	113
Other non-current non-financial liabilities	72	80
Total non-current other non-financial liabilities	**183**	**193**

Deferred revenue mainly comprises deferred payments for prepaid cards and prepaid subscriptions fees.

The reversal of the deferred gain on sale and leaseback transactions (buildings) over the lease term is recorded under capitalised costs and other income. See Note 13.

31 Equity

Equity attributable to equity holders of Swisscom Ltd:

CHF in millions	Share capital	Capital reserves	Retained earnings	Treasury shares	Other reserves	Attributable to equity holders of Swisscom
Balance at December 31, 2006	**57**	**370**	**6,177**	**(2,213)**	**22**	**4,413**
Income and expenses directly recognised in equity, net	–	–	–	–	(26)	(26)
Net income attributable to equity holders of Swisscom Ltd	–	–	2,068	–	–	2,068
Total recognised income and expenses	**–**	**–**	**2,068**	**–**	**(26)**	**2,042**
Dividends paid	–	–	(881)	–	–	(881)
Purchase of treasury shares for share-based payments	–	–	–	(37)	–	(37)
Sale of treasury shares for share-based payments	–	–	–	37	–	37
Balance at December 31, 2007	**57**	**370**	**7,364**	**(2,213)**	**(4)**	**5,574**
Income and expenses directly recognised in equity, net	–	–	–	–	(903)	(903)
Net income attributable to equity holders of Swisscom Ltd	–	–	1,756	–	–	1,756
Total recognised income and expenses	**–**	**–**	**1,756**	**–**	**(903)**	**853**
Dividends paid	–	–	(1,036)	–	–	(1,036)
Share capital reduction	(4)	–	(1,471)	1,475	–	–
Purchase of treasury shares for share-based payments	–	–	–	(31)	–	(31)
Sale of treasury shares for share-based payments	–	–	(2)	31	–	29
Balance at December 31, 2008	**53**	**370**	**6,611**	**(738)**	**(907)**	**5,389**

Share capital and treasury shares

As of December 31, 2008, shares issued totalled 53,441,000 (previous year 56,718,561). The reduction in share capital is the result of a decision of the General Meeting of Shareholders on April 22, 2008 to destroy two thirds of the shares bought back in 2006. The capital reduction of 3,277,561 to 53,441,000 shares was effected in July 2008. Each share has a par value of CHF 1. All issued shares are fully paid. Each share entitles the holder to one vote.

Swisscom offers two share plans to its non-management employees, management, members of the Group Executive Board and Board of Directors. In 2008 shares with a fair value totalling CHF 29 million (previous year CHF 37 million) were granted as part of these two schemes. The participants invested a total of CHF 23 million (previous year CHF 28 million) for the share-based payment plans. In 2008 expenses for share-based payments of CHF 6 million (previous year CHF 9 million) were recognised. See Note 11.

Changes in treasury shares are presented in the table below:

	Number	Average price in CHF	CHF in millions
Balance at December 31, 2006	**4,916,618**	**450**	**2,213**
Purchase	84,150	441	37
Sale	(290)	441	–
Sale of treasury shares for share-based payments	(83,767)	441	(37)
Balance at December 31, 2007	**4,916,711**	**450**	**2,213**
Share capital reduction	(3,277,561)	450	(1,475)
Purchase	85,679	363	31
Sale of treasury shares for share-based payments	(85,329)	363	(31)
Balance at December 31, 2008	**1,639,500**	**450**	**738**

After deduction of treasury shares of 1,639,500 (previous year 4,916,711), shares outstanding at December 31, 2008 totalled 51,801,500 (previous year 51,801,850 shares).

Other reserves

CHF in millions	Hedge reserve	Fair value reserve	Cumulative translation adjustments	Total other reserves
Balance at December 31, 2006	**(5)**	**–**	**27**	**22**
Currency translation adjustments	–	–	17	17
Cumulative currency translation gains on foreign operations transferred to income statement	–	–	(40)	(40)
Change in fair value of cash flow hedges	11	–	–	11
Ineffective portion of cash flow hedges transferred to income statement	(14)	–	–	(14)
Balance at December 31, 2007	**(8)**	**–**	**4**	**(4)**
Currency translation adjustments	–	–	(757)	(757)
Cumulative currency translation losses on foreign operations 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)**

The hedging reserves comprise the changes in the fair value of hedging instruments which were designated as cash flow hedges.

The fair value reserves comprise the changes in the fair value of available-for-sale financial assets.

Reserves for cumulative translation adjustments comprise the differences from the currency translation of the financial statements of subsidiaries and associates from the functional currency into Swiss francs. On December 31, 2008, cumulative translation losses at Fastweb amounted to CHF 736 million (previous year CHF 6 million).

Equity attributable to minority interests

CHF in millions	2008	2007
Balance at beginning of year	**430**	**67**
Net income attributable to minority interests	(5)	3
Dividends paid	(12)	(12)
Change in scope of consolidation	(3)	373
Currency translation adjustments	(36)	(1)
Balance at end of year	**374**	**430**

The increase in minority interests from the acquisition of subsidiaries is a result of the acquisition of Fastweb on May 22, 2007. On the date of acquisition, dividends due to minority shareholders amounted to CHF 89 million (EUR 54 million) which was presented in the acquisition balance sheet as a liability. The dividend was paid in the fourth quarter of 2007. The payment is presented in the cash flow under dividend payments to minority shareholders. See Note 5.

32 Dividends

Distributable reserves are determined based on equity as reported in the statutory financial statements of Swisscom Ltd (holding company) in accordance with Swiss law and not on the equity as reported in the consolidated balance sheet. At December 31, 2008, Swisscom Ltd's distributable reserves amounted to CHF 3,943 million. The dividend must be proposed by the Board of Directors and approved by the Shareholders' Meeting. The dividend proposed for the 2008 financial year is not recognised as a liability in these consolidated financial statements. Own shares are not eligible for dividend payments.

Swisscom paid the following dividends in 2007 and 2008:

	2008	2007
Number of registered shares eligible for dividends (in thousands)	51.801	51.802
Dividend per registered share (in CHF)	20.00	17.00
Dividends paid (CHF in millions)	**1,036**	**881**

The Board of Directors will propose an ordinary dividend of CHF 19 per share for the 2008 financial year at the Shareholders' Meeting on April 21, 2009, amounting to a total distribution of CHF 984 million. The dividend is expected to be paid on April 24, 2009.

33 Financial risk management and supplementary information about financial instruments

Swisscom's operative and financial activities expose it to a variety of financial risks. The most significant financial risks for Swisscom include the effects of foreign currency risks and interest risks as well as credit risks and liquidity risks.

Swisscom's financial risk management follows fixed guidelines with the aim of minimising potential adverse effects on the financial performance of Swisscom. More specifically these guidelines describe risk limits for approved financial instruments and also lay down procedures for risk monitoring. These guidelines forbid the use of derivative financial instruments for speculation. Financial risk management, with the exception of credit risk management from business operations, is carried out by the Group Treasury department. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units. The risk management process requires regular reports on the development of financial risk to the management.

Market value risks

Foreign exchange risk

Swisscom is exposed to foreign exchange risk from its international operations and these can have an effect on the Group's financial result and equity. One type of foreign exchange risk is transaction risk which arises as a result of currency fluctuations between the date of agreement and the actual cash flow. The main currencies affected are USD and EUR. The aim of Swisscom's foreign exchange risk management policy is to limit the volatility of scheduled cash flows. Swisscom primarily uses various hedge transactions in order to minimise the risk arising from cash flows and funds held in foreign currency. As of December 31, 2008 Swisscom has not hedged any translation risks through financial instruments. Swisscom uses various forward exchange contracts and options to cover its transaction risks.

Swisscom hedges its long-term payment obligations from debt financing in EUR and its long-term leasing commitments in USD.

The following currency risks and hedge transactions for foreign currency exposure existed on December 31, 2008:

2008, CHF in 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	**(860)**	**(615)**	**(37)**
Gross forecasted cash flows exposure in the next 12 months	**(595)**	**(500)**	**–**
Forward currency contracts	208	55	–
Currency swaps	100	320	–
Forward exchange contracts	74	–	–
Currency swaps	743	281	–
Total derivatives	**1,125**	**656**	**–**
Net exposure	**(330)**	**(459)**	**(37)**

The following currency risks and hedge transactions for foreign currency exposure existed on December 31, 2007:

2007, CHF in millions	EUR	USD	Other
Cash and cash equivalents	14	12	–
Trade and other receivables	15	15	1
Other financial assets	1	863	3
Financial liabilities	(833)	(1,480)	–
Trade and other payables	(51)	(11)	(1)
Gross exposure	**(854)**	**(601)**	**3**
Gross forecasted cash flows exposure in the next 12 months	**(778)**	**(299)**	**–**
Forward currency contracts	471	199	–
Currency swaps	8	–	–
Currency swaps	827	364	–
Total derivatives	**1,306**	**563**	**–**
Net exposure	**(326)**	**(337)**	**3**

Sensitivity analysis

The following sensitivity analysis shows the effects on income statement if 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.

CHF in millions	31.12.2008	31.12.2007
Impact on income statement from following items		
Balance sheet items		
EUR volatility of 9.2% (previous year 3.6%)	79	31
USD volatility of 17.95% (previous year 8.5%)	110	51
Hedges for balance sheet items		
EUR volatility of 9.2% (previous year 3.6%)	(68)	(30)
USD volatility of 17.95% (previous year 8.5%)	(50)	(31)
Planned cash flows		
EUR volatility of 9.2% (previous year 3.6%)	55	28
USD volatility of 17.95% (previous year 8.5%)	90	25
Hedges for future cash flows		
EUR volatility of 9.2% (previous year 3.6%)	(35)	(17)
USD volatility of 17.95% (previous year 8.5%)	(64)	(17)

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

Interest rate risk

Interest rate risks arise from fluctuation in interest rates, which could have a negative impact on the financial position of Swisscom. Changes in interest rates cause variation in interest income and expense and the fair value of financial assets, liabilities and hedging instruments. Swisscom actively manages the interest rate risks. The aim of Swisscom's interest rate risk management policy is to limit the volatility of scheduled cash flows. Swisscom utilises interest rate swaps to hedge its interest rate risk.

Structure of interest-bearing financial instruments:

CHF in millions	31.12.2008	31.12.2007
Interest bearing financial liabilities		
Financial liabilities with fixed interest	4,054	3,766
Financial liabilities with variable interest	7,182	8,264
Total interest bearing financial liabilities	**11,236**	**12,030**
Interest bearing financial assets		
Financial assets with fixed interest	(807)	(862)
Financial assets with variable interest	(1,126)	(1,122)
Total interest bearing financial assets	**(1,933)**	**(1,984)**
Total interest bearing financial assets and liabilities, net	**9,303**	**10,046**
Breakdown in variable and fixed interest		
Variable interest	6,056	7,142
Fixed with interest rate swaps	(3,024)	(3,045)
Variable with interest rate swaps	113	126
Variable interest, net	**3,145**	**4,223**
Fixed interest	3,247	2,904
Fixed with interest rate swaps	3,024	3,045
Variable with interest rate swaps	(113)	(126)
Fixed interest, net	**6,158**	**5,823**
Total interest bearing financial assets and liabilities, net	**9,303**	**10,046**

Sensitivity analysis

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

	Income statement		Equity	
CHF in millions	Increase 100 base points	Decrease 100 base points	Increase 100 base points	Decrease 100 base points
31. December 2008				
Variable financing	(61)	61	–	–
Interest rate swaps	29	(29)	94	(98)
Cash flow sensitivity, net	**(32)**	**32**	**94**	**(98)**
31. December 2007				
Variable financing	(71)	71	–	–
Interest rate swaps	29	(29)	106	(112)
Cash flow sensitivity, net	**(42)**	**42**	**106**	**(112)**

Credit risk

Credit risks from business activities

Swisscom is exposed to credit risk arising from its business activities and financing. 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. Outstanding accounts are also continually monitored. Credit risks are taken into account through individual and general allowances for bad debts. The danger of cluster risks is minimised by the large number of customers.

With reference to financial assets that are neither impaired nor in default, there are no indications on the balance sheet date that debtors will default on their payment obligations.

For further information on financial assets see notes 17, 18 and 19.

Credit risks from financial transactions

Swisscom is exposed to the risk of default on derivative financial instruments and financial assets. A guideline has been drawn up laying down the requirements to be fulfilled by counterparties for derivative financial instruments and financial assets. Specific limits for individual counterparties have also been fixed. These limits and credit assessments are reviewed regularly. Swisscom signs netting agreements in line with the ISDA (International Swaps and Derivatives Association) with the counterparty in order to control the risk inherent in derivatives. See Note 26 for more information on credit risks in connection with cross-border lease transactions.

The carrying amount of financial assets corresponds to the credit risk and is presented in the table below:

CHF in millions	Note	31.12.2008	31.12.2007
Cash and cash equivalents	17	958	957
Trade and other receivables	18	2,798	2,890
Loans and receivables	19	176	172
Held-to-maturity investments	19	808	862
Derivative financial instruments	19	12	18
Total carrying amount of financial assets		**4,752**	**4,899**

The carrying amount of cash and cash equivalents and other financial assets and corresponding Standard & Poor's ratings of counterparties is presented in the table below:

CHF in millions	31.12.2008	31.12.2007
AA+	41	102
AA	–	183
AA–	95	162
A+	345	461
A	209	29
A–	24	2
Without rating, with state guarantee	365	–
Without rating	902	1,086
Total	**1,981**	**2,025**

Non-rated holdings include financial assets from cross-border lease agreements totalling CHF 808 million (previous year CHF 862 million). See Note 19.

Liquidity risk

Careful cash flow management requires a sufficient reserve of cash and cash equivalents and tradable securities, as well as sufficient amounts of cash and cash equivalents to finance business transactions and projects. Swisscom has policies in place that guarantee sufficient liquidity in order to settle current and future obligations.

The contractual due dates of financial liabilities including estimated interest payments are presented in the table below:

2008, CHF in 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**
Bank loans	6,140	6,266	37	36	6,193	–
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	–
Derivative financial instruments	496	428	89	96	110	133
Trade and other payables	2,186	2,186	2,186	–	–	–
Total	**13,978**	**17,219**	**2,653**	**1,129**	**7,684**	**5,753**

2007, CHF in 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**
Bank loans	7,171	8,001	771	197	7,033	–
Bonds	1,510	1,876	53	53	488	1,282
Private placements	1,427	1,782	65	65	531	1,121
Financial liabilities from cross-border lease agreements	1,177	3,014	106	16	284	2,608
Finance lease liabilities	609	1,612	154	41	122	1,295
Other interest-bearing financial liabilities	136	136	124	11	–	1
Other non-interest-bearing financial liabilities	46	48	19	26	3	–
Derivative financial instruments	238	353	46	36	76	195
Trade and other payables	2,287	2,287	2,287	–	–	–
Total	**14,601**	**19,109**	**3,625**	**445**	**8,537**	**6,502**

Financial instruments by category

The carrying amounts and fair values of financial assets and liabilities are allocated to the assessment categories as below:

December 31, 2008, CHF in millions	Carrying amount					
	Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit or loss	Financial liabilities	Fair value
Financial assets						
Cash and cash equivalents	958	–	–	–	–	958
Trade and other receivables	2,798	–	–	–	–	2,798
Term deposits with maturity after 90 days	144	–	–	–	–	144
Other loans and receivables	32	–	–	–	–	32
Held-to-maturity investments	–	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**
Financial liabilities						
Bank loans	–	–	–	–	6,140	6,188
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**

December 31, 2007, CHF in millions	Carrying amount Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit or loss	Financial liabilities	Fair value
Financial assets						
Cash and cash equivalents	957	–	–	–	–	957
Trade and other receivables	2,890	–	–	–	–	2,890
Term deposits with maturity after 90 days	141	–	–	–	–	141
Other loans and receivables	31	–	–	–	–	31
Held-to-maturity investments	–	862	–	–	–	1,214
Available-for-sale financial assets	–	–	16	–	–	16
Derivative financial instruments	–	–	–	18	–	18
Total financial assets	**4,019**	**862**	**16**	**18**	**–**	**5,267**
Financial liabilities						
Bank loans	–	–	–	–	7,171	7,248
Bonds	–	–	–	–	1,510	1,558
Private placements	–	–	–	–	1,427	1,459
Financial liabilities from cross-border lease agreements	–	–	–	–	1,177	1,576
Finance lease liabilities	–	–	–	–	609	817
Other interest bearing financial liabilities	–	–	–	–	136	136
Deferred payment of purchase price of business combinations	–	–	–	–	30	30
Derivative financial instruments	–	–	–	238	–	238
Other non-interest bearing financial liabilities	–	–	–	–	16	16
Trade and other payables	–	–	–	–	2,287	2,287
Total financial liabilities	**–**	**–**	**–**	**238**	**14,363**	**15,365**

Estimation of fair values

The carrying amounts of trade receivables and payables and other receivables and payables are a reasonable estimate of the fair value because of the short maturity of such instruments.

The carrying amounts of cash and cash equivalents and loans receivable correspond to the fair value. The fair value of available-for-sale financial assets is based on stock exchange-quoted bid prices or cost. The fair values of other non-current financial assets and financial assets from cross-border lease agreements are calculated using the expected future payments discounted at market interest rates.

The fair value of fixed rate debt is estimated using the expected future payments discounted at market interest rates.

The fair value of finance lease obligations is estimated using the expected future payments discounted at market rates.

The fair value of publicly traded derivatives and available-for-sale securities is based on quoted market prices at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair value of foreign exchange options is determined using option pricing models.

Categories and results of financial instruments

The results for each category are presented in the table below:

December 31, 2008, CHF in millions	Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedges
Income statement						
Interest income and expense	42	67	–	4	(434)	–
Impairment	(4)	–	–	–	–	–
Change in fair value	–	(52)	–	(28)	145	(90)
Gains and losses transferred from equity	–	–	14	–	–	(6)
Net result recognised in income statement	**38**	**15**	**14**	**(24)**	**(289)**	**(96)**
Equity						
Change in fair value	–	–	14	–	–	(168)
Gains and losses transferred to income statement	–	–	(14)	–	–	6
Net result recognised in equity	**–**	**–**	**–**	**–**	**–**	**(162)**
Total net result by category	**38**	**15**	**14**	**(24)**	**(289)**	**(258)**

December 31, 2007, CHF in millions	Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit or loss	Financial liabilities	Hedges
Income statement						
Interest income and expense	56	66	–	14	(396)	–
Change in fair value	–	(84)	–	73	98	(13)
Gains and losses transferred from equity	–	–	–	–	–	14
Net result recognised in income statement	**56**	**(18)**	**–**	**87**	**(298)**	**1**
Equity						
Change in fair value	–	–	–	–	–	11
Gains and losses transferred to income statement	–	–	–	–	–	(14)
Net result recognised in equity	**–**	**–**	**–**	**–**	**–**	**(3)**
Total net result by category	**56**	**(18)**	**–**	**87**	**(298)**	**(2)**

In addition, allowances for bad debts on trade and other receivables of CHF 152 million (previous year CHF 42 million) were recognised in 2008 under other operating expenses.

Derivative financial instruments

CHF in millions	Contract value 31.12.2008	Contract value 31.12.2007	Positive fair value 31.12.2008	Positive fair value 31.12.2007	Negative fair value 31.12.2008	Negative fair value 31.12.2007
Forward exchange derivatives						
Forward currency contracts in USD	55	199	–	1	(4)	(2)
Forward currency contracts in EUR	208	471	5	–	(1)	(1)
Currency swaps in USD	320	–	–	–	(31)	–
Currency swaps in EUR	100	8	4	–	–	–
Forward exchange contracts in EUR	74	–	–	–	(3)	–
Cross currency interest rate swaps in USD [1]	281	364	–	–	(185)	(188)
Cross currency interest rate swaps in EUR [1]	743	827	–	–	(91)	(5)
Total forward exchange derivatives	**1,781**	**1,869**	**9**	**1**	**(315)**	**(196)**
Interest rate derivatives						
Interest rate swaps in USD	–	81	–	2	–	–
Interest rate swaps in CHF	3,335	2,935	3	15	(187)	(40)
Cross currency interest rate swaps in USD [1]	49	124	1	–	–	(1)
Cross currency interest rate swaps in EUR [1]	743	827	5	–	–	(1)
Total interest rate derivatives	**4,127**	**3,967**	**9**	**17**	**(187)**	**(42)**
Total derivative financial instruments			**18**	**18**	**(502)**	**(238)**
Reconciliation to the balance sheet			(6)	–	6	–
Less current portion			(9)	(2)	39	19
Total non-current derivative financial instruments			**3**	**16**	**(457)**	**(219)**

1 Separate in foreign exchange and interest rate components.

At December 31, 2008, derivatives consisted of cross-currency interest rate swaps, interest rate swaps and foreign exchange forwards to hedge interest rate risks and foreign exchange risks with respect to USD relating to the cross-border lease agreements entered into in 2000 and 2002. The future interest payments relating to the agreement 2002 were recorded as hedges. The hedging instruments had a positive fair value of CHF 1 million on the balance sheet date (previous year CHF 1 million negative fair value). For the designated cash flow hedges for cross-border lease agreements, CHF 7 million pre-tax (previous year CHF 4 million) was recorded in the hedging reserve within consolidated equity. The maximum length of time hedged is 20 years for cross-border lease agreements entered into in 2000, and 5 years for agreements entered into in 2002.

In 2008, Swisscom hedged interest rate risks in connection with loans scheduled to be taken out on the Swiss capital markets in advance through interest rate swaps totalling CHF 200 million. The interest rate swaps were designated as cash flow hedges for the purposes of hedge accounting. On December 31, 2008 these interest rate swaps had a negative fair value of CHF 17 million. CHF 16 million was recorded in the hedging reserve within consolidated equity at December 31, 2008.

Swisscom also entered into other interest rate swaps totalling CHF 200 million in 2008 in order to hedge interest rate risks in connection with planned refinancing transactions which were not designated for hedge accounting. On December 31, 2008 these interest rate swaps had a positive fair value of CHF 3 million.

For the purpose of hedging the foreign currency and interest rate risks of a loan in EUR Swisscom entered into a cross-currency swap for EUR 500 million in 2007, of which it designated EUR 68 million as fair value hedge. The instruments designated for hedge accounting had a negative fair value of CHF 8 million on the balance sheet date. See Note 26.

In 2006 and 2007 the interest rate risk for a share of CHF 2,935 million of the variable loans was hedged through an interest rate swap and designated as a cash flow hedge for hedge accounting. The hedging instruments had a negative fair value of CHF 170 million (previous year CHF 24 million) on the balance sheet date. For the designated cash flow hedges for bank loans, CHF 140 million pre-tax was recorded in the hedging reserve within consolidated equity. The remaining hedge periods are identical to the terms of the loans which are 3 and 4 years.

Also included are foreign exchange forwards for EUR and USD contained in derivative instruments designated to hedge future transactions in connection with Swisscom's business activities.

Capital management

Managed capital is defined as equity including minority holdings. Swisscom seeks to maintain a strong equity basis that enables them to guarantee the continued existence of the company, to offer investors reasonable income relative to the risks entered into and to ensure that funds are available for investments that will both benefit customers in the future and generate further income for investors. The managed capital is monitored through the equity ratio which is the ratio of group equity to total assets. The calculation of the equity ratio is presented in the table below:

CHF in millions	31.12.2008	31.12.2007
Equity attributable to equity holders of Swisscom Ltd	5,389	5,574
Equity attributable to minority interests	374	430
Total capital	**5,763**	**6,004**
Total assets	22,738	23,676
Equity ratio in %	**25,3%**	**25,4%**

In the strategic targets effective as of January 1, 2008, the federal government ruled that Swisscom's net debt shall not exceed 2.1 times the operating result (EBITDA). Swisscom's internal target for the ratio of net debt 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-equity ratio is as follows:

CHF in millions	31.12.2008	31.12.2007
Bonds	2,032	1,510
Bank loans	6,140	7,171
Private placements	1,339	1,427
Financial liabilities from cross-border lease agreements	1,096	1,177
Finance lease liabilities	502	609
Other financial liabilities	683	429
Total	**11,792**	**12,323**
Cash and cash equivalents	(958)	(957)
Current financial assets	(163)	(151)
Financial assets from cross-border lease agreements	(808)	(862)
Non-current derivative financial instruments	(3)	(16)
Total	**(1,932)**	**(1,986)**
Net debt	**9,860**	**10,337**
Operating income (EBITDA)	4,789	4,501
Ratio net debt/operating income (EBITDA)	**2.06**	**2.30**

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

34 Supplementary information about the cash flow statement

CHF in millions	2008	2007
Change in operating assets and liabilities		
Trade and other receivables	(13)	(78)
Inventories	(34)	(2)
Other non-financial assets	85	161
Trade and other payables	41	(156)
Provisions	(155)	(217)
Other non-financial liabilities	(11)	(27)
Defined benefit obligation	(190)	(134)
Total change in operating assets and liabilities	**(277)**	**(453)**

Non-cash investing and financing transactions

In 2008 the subsidiary Minick was sold to Net Mobile AG. The purchasing price of CHF 9 million was paid to Net Mobile AG in the form of shares. See Note 5.

Additions to property, plant and equipment in 2008 include additions from finance leases totalling CHF 16 million. See Note 23.

In 2008 Swisscom concluded an agreement on the premature termination of approximately three quarters of the cross-border lease volume. As a result of the termination of the agreements, previously unrecorded financial assets of CHF 132 million were taken over. Provisions for the premature termination of cross-border lease agreements were increased in the same amount as the financial assets taken over. See Note 26.

35 Future commitments

Contractual commitments for future capital expenditure

Contractual commitments for future capital expenditure and other intangible assets at December 31, 2008 amounted to CHF 291 million (previous year CHF 429 million).

Operating leases

Operating leases relate primarily to the rental of business property space. See Note 26. In 2008 payments for operating leases amounted to CHF 354 million (previous year CHF 246 million). Future minimum lease payments in respect of operating lease contracts as of December 31, 2007 and 2008 are as follows:

CHF in millions	31.12.2008	31.12.2007
Within 1 year	130	128
Within 1 to 2 years	132	125
Within 2 to 3 years	119	115
Within 3 to 4 years	102	102
Within 4 to 5 years	70	102
After 5 years	766	762
Total future minimum lease payments	**1,319**	**1,334**

36 Research and development

The research and development costs in 2008 amounted to CHF 34 million (previous year CHF 34 million) and are recorded as an expense.

37 Related parties

Majority shareholder

Pursuant to the Swiss Telecommunications Enterprise Act ("Telekommunikationsunternehmungsgesetz, TUG"), the Swiss Confederation ("the Confederation") must hold a majority of the share capital and voting rights of Swisscom. On December 31, 2008, the Confederation as majority shareholder held 55.2% of the shares of Swisscom Ltd. Any reduction of the Confederation's holding below a majority would require a change in law necessitating action by the Federal Assembly, which in some 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 election of the members of the Board of Directors and the approval of dividend payments.

Swisscom supplies telecommunication services to and procures services from the Confederation, the majority shareholder in Swisscom. The Confederation comprises the various departments and agencies of the Confederation, governmental agencies and other companies controlled by the Confederation (Post, Swiss Railways, RUAG and Skyguide) and the Swiss radio and television corporation SRG. All business transactions with the Confederation are conducted in line with standard terms and conditions of business as with other third-party customers.

Associates

The rendering and receiving of services with associates are based on market prices. The investments in associates are listed in Note 41.

Minority interests

Publigroup and Swisscom Directories are the principal related parties among minority interests.

The rendering and receiving of services with related parties are based on market prices.

Pension funds

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

Related-party transactions and balances

Transactions and balances at the end of the year with related parties in 2007 and 2008 are presented in the following table:

CHF in millions	Net revenue	Operating expenses	Receivables	Liabilities
Confederation	505	155	53	12
Investments in associates	154	211	21	3
Other minority shareholders	1	4	–	13
Total in 2008 / balance at December 31, 2008	**660**	**370**	**74**	**28**

CHF in millions	Net revenue	Operating expenses	Receivables	Liabilities
Confederation	509	173	65	11
Investments in associates	202	234	50	41
Other minority shareholders	1	1	–	–
Total in 2007 / balance at December 31, 2007	**712**	**408**	**115**	**52**

Key management compensation

CHF in millions	2008	2007
Board of Directors		
Current compensations	1.4	1.5
Share-based payments	0.7	0.7
Social security contributions	0.2	0.2
Total compensation to members of the Board of Directors	**2.3**	**2.4**
Group Executive Board		
Current compensations	9.2	7.3
Share-based payments	0.8	0.8
Severance payments	–	2.3
Pension contributions	1.2	1.0
Social security contributions	1.0	0.9
Total compensation to members of the Group Executive Board	**12.2**	**12.3**
Total compensation to members of the Board of Directors and of the Group Executive Board	**14.5**	**14.7**

Key management includes members of the Board of Directors and the Group Executive Board of Swisscom AG.

Current compensation includes fixed and variable remuneration and allowances for positions paid in cash and in kind, 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 (not including meeting allowances) is paid in shares. For the Group Executive Board, the share-based compensation is the market value of the shares allocated. See Note 11.

Remuneration and shareholdings are disclosed in the notes to Swisscom's annual financial statements pursuant to Swiss share law (Art. 663b^{bis} and 663c, sub-sect. 3).

38 Service concession agreements

In accordance with the Telecommunication Enterprises Act, ComCom awarded - Swisscom (Switzerland) Ltd the universal service license on June 6, 2002. Swisscom (Switzerland) Ltd is required to provide universal service for all sections of the Swiss population throughout the five-year license period starting from January 1, 2003 to December 31, 2007. The concession covers the whole of Switzerland. The universal service guarantees access to a minimum offering of telecommunications services. Within the universal-service framework, everyone has the right to a real-time connection which allows national and international telephone calls, transmission and reception of faxes and access to the Internet. The universal service also provides for the upkeep of a prescribed number of public telephones for each municipality (Publiphone). The universal service guarantees everyone's right to an analogue connection or a digital connection (ISDN or a comparable technology). The Federal Council periodically sets price ceilings on universal services.

ComCom opened the tender for the new universal-service license in the second half of 2006. Swisscom submitted a tender to ComCom for the universal-service license for 2008 to 2017. Swisscom was granted this license by ComCom on June 21, 2007. From 2008, apart from guaranteeing access to a minimum offering of telecommunications services for all sections of the Swiss population, the concession includes the universal provision of broadband Internet access. In addition, Swisscom, as a market-dominant service provider, must set its prices for the relevant interconnection service in a transparent and cost-oriented manner. Since these new requirements do not demand any new technology, and exceptions are permitted for technical or economic reasons, the total investment requirements for the new access commitments are on a manageable scale. Consequently Swisscom has waived claims for compensation in the first five years of the concession. However, as price pressure increases, be it through competition or regulation, the more difficult it will become to provide the same universal services under 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

Swisscom has a central risk management system in place that distinguishes between strategic and operative risks. All identifiable risks are quantified depending on the probability of occurrence and recorded in a risk report. The risk report is discussed periodically by the Audit Committee. Management aims to monitor and check risks continuously.

A risk assessment procedure is in place to identify risks in connection with the application of accounting principles or from financial reporting. Control mechanisms are defined within the scope of the internal control system to minimise 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 Swisscom Board of Directors approved these consolidated financial statements on March 3, 2009. No significant events have occurred after the balance sheet date, with the following exception.

Ruling of the Federal Administrative Court on February 12, 2009 relating to bit-stream access

On February 12, 2009 the Federal Administrative Court ruled that Swisscom must offer bit-stream access to other telecommunication service providers. In view of the current investigation by the Competition Commission (WEKO), Swisscom refutes the abuse of the affirmed market-dominant position. See Note 29.

41 List of group companies

Company name	Location	Interest in %	Currency	Share capital in millions	Segment
Switzerland					
Alphapay AG	Bruttisellen	100	CHF	4.0	Other
Billag AG	Freiburg	100	CHF	0.1	Other
cablex AG	Berne	100	CHF	5.0	Other
coComment SA	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	Freienbach	100	CHF	1.9	Other
Hospitality Services Plus SA	Geneva	100	CHF	10.0	Other
local.ch AG	Zurich	51	CHF	3.0	Swisscom Switzerland
me2me AG	Zurich	100	CHF	2.3	Other
Medgate Holding AG	Zug	40	CHF	6.2	Other
Mona Lisa Capital AG	Berne	98	CHF	5.0	Group Headquarters
PubliDirect Holding AG	Zurich	49	CHF	10.0	Swisscom Switzerland
Sicap AG	Köniz	100	CHF	2.0	Other
Swisscom Auto-ID Services AG	Berne	100	CHF	1.2	Other
Swisscom Broadcast AG	Berne	100	CHF	25.0	Other
Swisscom Central & Eastern Europe AG	Berne	100	CHF	27.0	Other
Swisscom Directories AG	Berne	51	CHF	1.5	Swisscom Switzerland
Swisscom Immobilien AG	Berne	100	CHF	100.0	Other
Swisscom IT Services AG	Berne	100	CHF	150.0	Other
Swisscom Switzerland AG	Berne	100	CHF	1,000.0	Swisscom Switzerland
Transmedia Communications SA	Geneva	35	CHF	0.3	Swisscom Switzerland
Webcall GmbH	Dübendorf	100	CHF	0.1	Swisscom Switzerland
Worklink AG	Berne	100	CHF	0.1	Group Headquarters
Belgium					
Belgacom International Carrier Services	Brussels	28	EUR	76.2	Swisscom Switzerland
Hospitality Services Belgium SA	Brussels	100	EUR	0.6	Other
Swisscom Belgium N.V.	Brussels	100	EUR	4,330.2	Group Headquarters
Bulgaria					
Air Bites Bulgaria EOOD	Sofia	100	BGN	13.3	Other
Germany					
Comit Germany GmbH	Frankfurt	100	EUR	0.2	Other
Hospitality Services Germany GmbH	Munich	100	EUR	0.1	Other
Swisscom Telco GmbH	Stuttgart	100	EUR	–	Group Headquarters

Company name	Location	Interest in %	Currency	Share capital in millions	Segment
France					
Sicap France SA	Lyon	100	EUR	0.4	Other
Hospitality Services France SA	Paris	96	EUR	2.1	Other
Great Britain					
Hospitality Networks and Services UK Ltd.	London	100	GBP	1.6	Other
Italy					
e.BisMedia	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 (QXN)	Milan	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 Luxembourg S.à.r.l.	Münsbach	100	EUR	0.1	Other
Hospitality Services Luxembourg SA	Luxembourg	100	EUR	–	Other
Malaysia					
Sicap Malaysia Sdn Bhd	Kuala Lumpur	100	MYR	0.3	Other
Netherlands					
AUCS Communications Services v.o.f.	Hoofddorp	33	EUR	–	Group Headquarters
coComment Holding B.V.	Rotterdam	100	EUR	0.7	Other
HSIA Hospitality Services Netherlands B.V.	The Hague	100	EUR	–	Other
Swisscom Investments B.V.	Amsterdam	100	EUR	–	Group Headquarters
Austria					
Comit Unternehmensberatungs- und EDV-Dienstleistungs-GmbH	Vienna	100	EUR	–	Other
Hospitality Services GmbH	Vienna	100	EUR	–	Other

Company name	Location	Interest in %	Currency	Share capital in millions	Segment
Portugal					
HSIA Hospitality Services Portugal	Lisbon	100	EUR	1.1	Other
Romania					
Air Bites s.r.l.	Bucharest	100	RON	38.0	Other
City Net Link s.r.l.	Bucharest	100	RON	–	Other
City Net Link Nord s.r.l.	Bucharest	100	RON	–	Other
Hospitality Services s.r.l.	Bucharest	100	RON	–	Other
Undernet s.r.l.	Bucharest	100	RON	–	Other
Sweden					
Bytek System AB	Stockholm	43	SEK	5.6	Group Headquarters
Slovakia					
Air Bites Slovakia s.r.o.	Bratislava	100	SKK	150.0	Other
Spain					
Hospitality Networks and Services España SA	Madrid	100	EUR	0.1	Other
Whisher S.L.	Barcelona	40	EUR	–	Group Headquarters
Ukraine					
Air Bites Ukraine LLC	Lviv	100	UAH	50.3	Other
Valor JSC	Kharkiv	100	UAH	–	Other
Our Net LLC	Kharkiv	100	UAH	0.8	Other
TK Stream LLC	Kharkiv	100	UAH	0.1	Other
S-Net SPE LLC	Kremenchuck	100	UAH	4.0	Other
Singapore					
Comit Solutions Pte Ltd.	Singapore	100	SGD	0.1	Other
Sicap Asia Pacific Pte Ltd.	Singapore	100	SGD	0.1	Other
South Africa					
Sicap Africa Pty Ltd.	Johannesburg	100	ZAR	0.1	Other
USA					
Hospitality Services North America Corp.	Dulles	98	USD	1.7	Other

Report of the statutory auditor

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

As statutory auditor, we have audited the accompanying consolidated financial statements on pages 120 to 199 of Swisscom Ltd, which comprise the income statement, balance sheet, cash flow statement, statement of recognised income and expense and notes for the year ended December 31, 2008.

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, Swiss Auditing Standards and International Standards on Auditing. 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, 2008 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with 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	Rolf Hauenstein
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Gümligen-Berne, March 3, 2009

Income statement

CHF in millions	2008	2007
Net revenue	166	137
Other income	40	109
Total	**206**	**246**
Personnel expenses	73	126
Other operating expenses	130	149
Depreciation and amortisation	2	3
Total operating expenses	**205**	**278**
Operating income	**1**	**(32)**
Financial expense	(699)	(360)
Financial income	275	395
Income from investments	2,794	1,277
Income taxes	4	(4)
Net income	**2,375**	**1,276**

Balance sheet

CHF in millions	Note	31.12.2008	31.12.2007
Assets			
Current assets			
Cash and cash equivalents	9	597	625
Other financial assets		144	140
Treasury shares	5	557	2,173
Receivables from third parties		–	1
Other receivables from third parties		3	4
Receivables from group companies		358	378
Dividend receivable from subsidiaries	8	2,100	1,265
Other assets		3	5
Total current assets		**3,762**	**4,591**
Non-current assets			
Property, plant and equipment	3	8	2
Investments	8	6,906	6,905
Loans from third parties		2	3
Loans from group companies		6,816	6,856
Total non-current assets		**13,732**	**13,766**
Total assets		**17,494**	**18,357**
Liabilities and shareholders' equity			
Current liabilities			
Financial liabilities from third parties		37	570
Financial liabilities from group companies		2,144	2,228
Trade and other payables from third parties		11	11
Other payables from third parties		103	97
Other payables from group companies		24	32
Total current liabilities		**2,319**	**2,938**
Non-current liabilities			
Financial liabilities from third parties	4	9,747	9,583
Financial liabilities from group companies		314	606
Provisions for pension		356	360
Other liabilities		13	16
Total non-current liabilities		**10,430**	**10,565**
Total liabilities		**12,749**	**13,503**
Shareholders' equity			
Share capital		53	57
General reserves		255	255
Reserve for treasury shares		738	2,212
Retained earnings		3,699	2,330
Total shareholders' equity	6	**4,745**	**4,854**
Total liabilities and shareholders' equity		**17,494**	**18,357**

1 General information

The financial statements of Swisscom Ltd, the parent company, comply with the legal provisions of the Swiss Code of Obligations.

2 Contingent liabilities

Total guarantees in favour of third parties on behalf of group companies at December 31, 2008, amounted to CHF 219 million (previous year CHF 229 million). Swisscom Ltd is severally liable with two other shareholders to cover potential future losses of an associate company.

3 Fire insurance values of property, plant and equipment

The fire insurance values of property, plant and equipment are generally based on replacement or fair values of such assets.

4 Bond debts

The amounts, interest rates and due dates of bond debts issued by Swisscom Ltd are listed in Note 26 to the consolidated financial statements.

5 Treasury shares

Swisscom Ltd recorded treasury shares separately under assets and recognised a separate reserve for treasury shares in the same amount under shareholders' equity. Treasury shares are valued at the lower of cost or market value. Financial expenses in 2008 includes an impairment on treasury shares of CHF 168 million (previous year CHF 39 million).

In 2007 and 2008 no share buy-back schemes were offered. 3,277,561 shares from the share buy-back scheme were destroyed in the third quarter of 2008 in accordance with a resolution of the General Meeting of Shareholders of April 22, 2008.

For details of treasury shares outstanding and transactions see Note 31 to the consolidated financial statements.

6 Shareholders' equity

Changes in Swisscom Ltd shares issued and shareholders' equity are as follows:

CHF in millions	Number of shares	Share capital	General reserves	Reserve for treasury shares	Retained earnings	Total equity
Balance at December 31, 2006	**56,718,561**	**57**	**255**	**2,212**	**1,935**	**4,459**
Net income	–	–	–	–	1,276	1,276
Dividends paid	–	–	–	–	(881)	(881)
Balance at December 31, 2007	**56,718,561**	**57**	**255**	**2,212**	**2,330**	**4,854**
Net income	–	–	–	–	2,375	2,375
Dividends paid	–	–	–	–	(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**

Swisscom Ltd is a holding company under Swiss law. According to the law governing the utilisation of retained earnings for holding companies, share capital and allocations to the general reserves in an amount of 20% of share capital and reserve for treasury shares may not be distributed. On December 31, 2008, distributable reserves amounted to CHF 3,943 million. The dividend must be proposed by the Board of Directors and approved by the General Meeting of Shareholders.

7 Significant shareholders

On December 31, 2008, the Swiss Confederation as majority shareholder held 55.2% of the shares issued of Swisscom Ltd. The Telecommunications Enterprise Act (TUG) stipulates that the Government of Switzerland is required to control Swisscom by holding the majority of its capital and voting rights.

8 Holdings and recognition of dividends of subsidiaries

Holdings are presented at cost less any impairment.

Dividends from the fully consolidated subsidiaries of Swisscom Ltd are recorded in the year the dividend is proposed. The respective dividends have been approved at the subsidiaries' General Meeting of Shareholders.

A list of direct and indirect holdings of Swisscom Ltd is included in Note 41 of the Notes to the financial statements.

9 Assets not freely disposable

On December 31, 2008, term deposits totalling CHF 139 million (previous year CHF 136 million) could not be freely disposed of. These assets serve to secure liabilities in connection with cross-border lease arrangements. See Note 26 to the consolidated financial statements.

10 Information on the implementation of a risk assessment procedure

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

11 Net reversal of hidden reserves

In 2008 no net hidden reserves (previous year CHF 20 million) were reversed.

12 Management compensation

Compensation for the members of the Board of Directors

	Base and additional compensation			
2008, CHF in thousands	Compensation in cash	Share-based payments	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 of the members of Board of Directors	**1,208**	**671**	**225**	**2,104**

2007, CHF in thousands	Base and additional compensation: Compensation in cash	Base and additional compensation: Share-based payments	Meeting attendance fees	Total 2007
Anton Scherrer	335	186	78	599
Fides P. Baldesberger	98	54	24	176
Hugo Gerber	98	54	21	173
Michel Gobet	98	54	22	174
Torsten G. Kreindl	114	63	25	202
Catherine Mühlemann	90	54	22	166
Felix Rosenberg	145	81	28	254
Richard Roy	114	63	21	198
Othmar Vock	114	63	26	203
Total compensation of the members of Board of Directors	**1,206**	**672**	**267**	**2,145**

The compensation plan provides for a basic salary component for the President of CHF 385,000 net and for the other members of the Board of Directors of CHF 110,000 net. Additional compensation is also paid for specific duties (individual allowances). The Vice-President of the Board of Directors and the Chairmen of the committees are entitled to an additional compensation of CHF 20,000, and the members of the committees receive an additional CHF 10,000 net. The state representative receives an additional compensation of CHF 40,000 net for his special duties. Meeting attendance fees are also paid (half a day: CHF 500 / whole day: CHF 750). Expenses are paid on the basis of actual expenditure. No significant fringe benefits are paid.

The members of the Board of Directors are obliged to draw 25% of their basic salary plus individual allowances in shares. Swisscom then increases the amount invested in shares by 50%. The compensation (without meeting attendance fees) is thus made up of a 66% cash portion and a 33% share portion. 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 each reporting year are presented 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 allocated. In April 2008, 1,845 shares were allocated to the members of the Board of Directors (previous year 1,528 shares) for a tax value of CHF 304 per share (previous year CHF 368). The market value was CHF 363 per share (previous year CHF 441). The disclosure of fringe benefits and expenses complies with fiscal law, such that neither fringe benefits nor expenses are set off against the compensation presented.

No compensation was paid to former members of the Board of Directors in connection with earlier activities as an executive body of the company or which are not at arm's length.

Compensation for the members of the Group Executive Board

CHF in thousands	Total Group Executive Board 2008	Total Group Executive Board 2007	Thereof Carsten Schloter 2008	Thereof Carsten Schloter 2007
Fixed compensation in cash	5,593	4,585	770	770
Variable compensation in cash	3,257	2,483	658	577
Compensation in non-cash	68	74	7	7
Share-based payments	1,126	985	261	228
Severance payments	–	2,346	–	–
Pension contributions	1,163	1,013	122	122
Total compensation of the members of the Group Executive Board	**11,207**	**11,486**	**1,818**	**1,704**

The total compensation paid to the Group Executive Board consists of a variable performance-related component as well as fringe benefits and additional benefits. The variable performance-related component is fixed in March of the following year on the basis of the incentive targets fixed in the year under review. Apart from one 100% cash payment, to all other members of the Group Executive Board 75% of the variable performance-related component is paid out 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 presented share-based compensation for the year under review is equivalent to 25% of the variable performance-related component for 2008, increased by 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 relates to the purchase date (usually three weeks before allocation) or to the cut-off date if treasury shares are allocated. Shares for the year under review will be allocated in April 2009. A total of 2,184 shares with a tax value of CHF 304 and a market value of CHF 363 per share were allocated to members of the Group Executive Board in April 2008 for the 2007 financial year. In April 2007, 1,920 shares with a tax value of CHF 368 and market value of CHF 441 per share were allocated for the 2006 financial year.

The disclosure of fringe benefits and expenses complies with fiscal law. The fringe benefits presented therefore only includes a share in a company car.

The presentation of pension contributions (amounts which give rise to or increase pension benefits) comprises all savings and risk contributions paid by the employer to the pension fund, including proportionate contributions in order to build up reserves for fluctuation in asset value.

The highest total compensation in the reporting year and the previous year was paid to the CEO of Swisscom Ltd, Carsten Schloter.

Swisscom has not granted any such as suretyships, guaranty obligations, and pledges in favour of third parties or other securities to persons with a duty to disclose.

No compensation was paid to former members of the Board of Directors in connection with earlier activities as an executive body of the company or which are not at arm's length.

Compensation paid to related parties

Related parties are spouses and civil partners, close relatives who are financially dependent on the executive person or live in the same household, other persons who are financially dependent on the executive person and partnerships or corporate enterprises that are controlled by the executive person or over which he or she exercises a significant influence. Parents, sibling and children are also related persons. No compensation was paid to persons who are related to members of the Board of Directors or the Group Executive Board which is not at arm's length.

Loans

Swisscom has not granted any loans to present or former members of the Board of Directors, the Group Executive Board or any persons related to them and had not waived any rights to accounts due from such persons.

Further information

For further information on management compensation please refer to the Remuneration Report from page 112.

13 Holdings of the members of the Board of Directors or the Group Executive Board

The schedule below presents the shares and share options held by the members of the Board of Directors or the Group Executive Board as of December 31, 2007 and 2008 respectively.

Number	Shares 31.12.2008	Options 31.12.2008	Shares 31.12.2007	Options 31.12.2007
Members of the Board of Directors				
Anton Scherrer	1,108	–	596	–
Fides P. Baldesberger	408	–	260	–
Hugo Gerber	281	–	133	–
Michel Gobet	648	–	500	–
Torsten G. Kreindl	316	–	143	–
Catherine Mühlemann	271	–	123	–
Felix Rosenberg	1,762	–	1,540	–
Richard Roy	693	–	520	–
Othmar Vock	494	–	321	–
Total shares and options of the members of the Board of Directors	**5,981**	**–**	**4,136**	**–**
Members of the Group Executive Board				
Carsten Schloter (CEO)	2,684	–	2,051	–
Ueli Dietiker	1,807	–	1,409	–
Eros Fregonas	265	–	–	–
Guido Garrone	–	–	–	–
Patrice Haldemann	–	–	77	–
Heinz Herren	226	–	143	–
Stefan Nünlist	314	–	245	–
Christian Petit	416	–	287	–
Günter Pfeiffer	306	–	225	–
Daniel Ritz	259	–	53	–
Jürg Rötheli	750	–	599	33,000 [1]
Urs Schaeppi	728	–	461	–
Total shares and options of the members of the Group Executive Board	**7,755**	**–**	**5,550**	**33,000**

1 Call options exercisable from April 30, 2006 to April 25, 2008 at a ratio of 1:100. The exercise price was CHF 417.90.

The voting rights do not exceed 0.005% of the share capital by any member of the Board of Directors or Group Executive Board.

Proposed appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors proposes to the General Meeting of Shareholders on April 21, 2009 the following appropriation of retained earnings of CHF 3,699 million for the year ended December 31, 2008:

CHF in millions	31.12.2008
Retained earnings	
Balance to be carried forward from previous year	1,294
Share capital reduction	30
Net income of the period	2,375
Total retained earnings	**3,699**
Appropriation on net income	
Ordinary dividend of CHF 19 per share of 51,801,500 shares	984
Balance to be carried forward	**2,715**

Subject to the approval of this proposal, the dividend will be paid out to shareholders on April 25, 2009 as follows:

Per registered share	CHF
Ordinary dividend, gross	19.00
Less 35% withholding tax	-6.65
Net dividend paid	12.35

Report of the statutory auditor

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

As statutory auditor, we have audited the accompanying financial statements on pages 202 to 208 of Swisscom Ltd, which comprise the income statement, balance sheet and notes for the year ended December 31, 2008.

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. 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, 2008 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	Rolf Hauenstein
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Gümligen-Berne, March 3, 2009

Sustainability Report

Swisscom – committed to sustainable development

What drives us: Our strategy as a responsible company

We express our responsibility as a company by taking into account economic, ecological and social factors as well as our long-term commitments. This responsibility to develop in a sustainable manner shapes our identity and commitment towards our stakeholder groups: customers, the public, employees, shareholders and partners.

Proximity to our customers and all stakeholder groups

We are there for our customers and partners and gear our behaviour, products and services towards their needs. This requires a certain amount of flexibility and is not always easy. On occasion we receive criticism, which gives us the opportunity to learn and improve. This proximity to our customers and society is the fundamental requirement for retaining the good reputation we enjoy among the general public.

Since 2007 we have been conducting studies into customer loyalty in Switzerland, defined as an index based on customer satisfaction and willingness to recommend the company to others. In 2008 we identified an improvement compared to the previous year.

Being aware and in control of the consequences of our actions

Our activities, products and services have a significant impact on the community. The information society is evolving at a rapid pace. Swisscom intends to continue playing an important role in this transformation, both in Switzerland and, where possible, in Europe.

This move towards an information society helps support sustainable development by promoting economic growth, access to information and social integration. However, it can be accompanied by negative aspects which cancel out the positive effects and which can even lead to negative attitudes towards new information technologies if they become prevalent.

It is our responsibility as a company to recognise these aspects early on and to take appropriate precautionary measures in the long-term. Swisscom makes use of its own research capabilities to qualify and quantify these aspects – for example laboratories for studying practical usage of information technologies (for details see page 47, Research and development) – or it draws on consumer test groups and academic partner establishments, for instance to carry out lifecycle analyses for products and services.

According to our analyses and the corresponding reactions of test groups, the quality and reliability of products and services, their usability, energy and resource consumption and the issue of climate change continue to feature highly on the public's list of concerns. This is why we have decided to concentrate on the following key fields of activity: responsible connectivity on the one hand and all aspects of energy consumption, both within the company and at our customers' premises, on the other.

A solid and reliable company

Integrity, a global approach and an in-depth understanding of the consequences of our actions are the three key components on which Swisscom's role as a responsible company is based.

In particular Swisscom abides by the new mission statement which was introduced in 2007 and the resulting corporate culture in order to make sustainable development a reality. Swisscom also deploys the following tools:

- Established management systems in line with ISO standards which are regularly subjected to third-party audits. These systems for quality management (ISO 9001), environmental management (ISO 14001), information security management (ISO 27001) and the standard for the assessment of processes (ISO 15504), which Swisscom is the first company in the world to use for the process of measuring electro-

magnetic fields, ensure products and services are integrated into the management of sustainable development;
- A Swisscom-internal evaluation system for suppliers which takes into account social and environmental criteria as well as economic aspects and ensures the sustainability of the supply chain;
- Tools such as surveys, market research studies and test groups which allow Swisscom to gauge the expectations and requirements of customers, interest groups and partners in relation to social and environmental issues;
- An HR policy which combines flexibility and proactive support, respects the expectations of employees and optimally serves the company's mid- and long-term objectives.

In 2009 we will be conducting an evaluation of the ISO 26000 guidance on corporate responsibility and investigating to what extent the guidance document could be useful in helping optimise our existing tools.

The issue of corporate responsibility is coordinated by a strategy group which relies on a network of partners within the company. This clear, flexible structure enables fast implementation of solutions and a smooth flow of information.

Together towards a common goal

Exchanging opinions with external partners is an extremely worthwhile exercise for Swisscom. With this is mind, we work together with organisations and associations which pursue the same goals as us.

In the area of corporate responsibility:
- ETNO (European Telecommunications Network Operators), 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;
- ÖBU (Swiss Association for Environmentally Conscious Management);
- Transparency International (Switzerland) which aims to combat all forms of corruption.

In the area of the environment:
- EnAW (Energy Agency for Industry): Swisscom has signed a target agreement for CO_2 reduction and increased energy efficiency;
- WWF Climate Group: This group aims to promote ecological products and services which are characterised by low CO_2 emissions or are more environmentally friendly;
- Association for Environmentally Sound Electricity (VUE);
- "Climate Cent" Foundation: Swisscom has signed a target agreement for CO_2 reduction in relation to mobility;
- ETNO Energy Task Team: This group was formed by several European telecommunications providers which are particularly involved in the area of energy efficiency and the issue of CO_2 in the telecoms sector and decided to join forces;
- Energho: an association which promotes energy efficiency in buildings.

Furthermore, Swisscom supports a number of external projects which promote the information society, environmental protection, research funding and economic development. The various forms which Swisscom's commitment takes also contribute to sustainable development.

Our employees

We are in the process of aligning Swisscom more closely to the needs of our customers. We can only achieve this if our employees live our strategy with passion and conviction and convey this to the world at large. The key focus of our HR policy is therefore on promoting a consistently customer-centric corporate culture and encouraging ongoing people development.

Staff and management development in the wake of cultural change and reorganisation

Swisscom invests a great deal in helping maintain the employability of all employees and management staff, and encouraging their development and promotion. One of the major challenges of 2008 was the harmonisation of the HR and management development policies within Swisscom Switzerland. The core elements of the development strategy are emphasising the importance of dialogue between managers and employees and the significance of personal responsibility for employees' own development as well as promoting and encouraging professional development. Employees' individual development will be more closely linked to the performance management process in future and in this sense will be steered by line managers. Based on the development strategy, specialist and project manager career paths were redefined and external further training was reorganised.

Management development

Swisscom continued its efforts to promote the new corporate culture and step up customer focus in 2008. To this end, Swisscom Switzerland held six workshops with the company's top 100 managers to lay the foundations for a change in corporate culture.

A new management development architecture was designed for managers. Individual offerings have already been implemented, for example, an induction programme for newly-appointed managers and a new management development programme for middle management. The range of offerings will be extended in 2009 based on the existing architecture.

Swisscom will continue its policy of achieving a balance between internal and external candidates to fill middle management positions and facilitating career paths across the Group. Swisscom attaches a high level of importance to staff training and talent development and regards this as a long-term investment in the future.

Swisscom – an attractive high-profile employer

With a forward-looking vocational training programme, attractive entry opportunities and progressive working conditions, Swisscom's internal and external standing as an employer of choice remains intact. Swisscom offers a challenging working environment in which outstanding performance is rewarded and a healthy work-life balance is encouraged.

Our working environment is dictated by the key elements of our mission statement:

- We create a stimulating working environment with attractive tasks and freedom to develop.
- We reward customer focus, initiative and performance.
- We are a fair and responsible partner.
- We promote diversity and individual responsibility.

These principles constitute both a promise and a responsibility towards our employees.

The recruitment of around 2,300 new hires underscores Swisscom's continued attractiveness on the external job market.

In January 2008 Swisscom conducted its first standardised Group-wide employee survey. Around three quarters of the workforce participated. The results of the survey, which was conducted anonymously, provide a major incentive for the future. Of all the topics surveyed, Swisscom's attraction as an employer scored the highest rating. Eighty-six per cent said they would recommend Swisscom as an employer. As well as identifying strongly with the company, employees are proud to work for Swisscom, with 81% responding positively or very positively to this question. The answers also reflected our employees' high level of commitment, with over 90% of the respondents in the survey saying that they were fully committed to Swisscom.

Forward planning by human resources management

The dynamic pace of the market places high demands on employees, management and the organisation as a whole. Our business is becoming more difficult to plan and a high level of flexibility and adaptability is called for from both the company and staff. Successfully coping with change, providing integrated and differentiated customer service and ensuring targeted cost management are key factors in ensuring we achieve this.

On account of the demographic trend, we expect a steady rise in the number of older employees and a potential lack of junior staff. In the context of our technology strategy, this means that we have to appeal to a highly-qualified, younger segment on the one hand, while catering to the needs of an older workforce on the other. Human resources management is therefore making the organisation and management of mid- to long-term resource planning a priority.

Work/life balance

Swisscom helps to create the right conditions for a successful work/life balance. Key elements are the opportunity to work flexible hours, five weeks' annual leave, maternity and paternity leave, and payment of pension fund contributions for unpaid leave of up to three months, the latter subject to the approval of the employee's line manager. As a family-friendly employer, Swisscom pays a minimum monthly child allowance of CHF 240 or a minimum education allowance of CHF 250. It supports external childcare facilities not only through financial contributions, but also by providing access to free advisory services provided by an outside counselling agency. Managers are also entitled to take a sabbatical of two to three months every five years, of which 30 working days are granted as paid leave.

Occupational health management as a management responsibility

Swisscom has redesigned and restructured its operational health management. The traditional programmes aimed at promoting occupational health (Move!, Swisscom Games, exercise, diet, relaxation, addiction and stress prevention) have been supplemented by presence management for which managers are responsible.

In 2009 a standardised, mandatory campaign will be introduced across the whole Group in a bid to improve employees' physical and mental health in the workplace. The focus will be on the relationship between employees' workload and their ability to cope with stress. Every manager is responsible for maintaining an ongoing dialogue in this field. Managers will assume a new management task and will be measured against clearly-defined goals. They will also be supplied with reliable tools and processes and will receive personal training and professional coaching to support them.

The selected methodology, "ProPräsenz" is well established in the Swiss working environment, and covers the complete career path of an individual, from the start of the employment contract until it expires. The focus is on the employee, a systematic causal analysis and, based on this, long-term health-promotion measures. The programme aims to achieve an improved attendance ratio and significant cost savings.

Move!, which has been running since 2006, has extended its range of offerings from sport and health to culture. Around 7,000 employees take part in the wide range of activities it offers every year. Alongside the range of Move! activities available all year round, the Swisscom Games will also take place in Tenero in the Canton of Ticino in September 2009.

Swisscom rewards customer focus and performance

Competitive compensation packages help attract and retain highly-skilled managers and specialist staff. A key criterion in this context is that remuneration policies and conditions of employment follow the same principles throughout Swisscom so as to optimally support the convergence strategy. The variable performance-related salary component is increasingly based on the achievement of overriding goals, cross-divisional objectives and customer focus. As part of the organisational restructuring, the General Terms and Conditions of Employment for management staff and management classification were revised and standardised in 2008. Customer loyalty is now the overriding goal when agreeing performance objectives with employees. The system of management salaries and conditions of employment is fully compliant with the recommendations of "economiesuisse" regarding the Swiss Code of Best Practice in Corporate Governance.

Open and constructive social partnership

The collective employment agreement (CEA) and social plan have been in force since January 2006 and will continue to apply in 2009. They represent good, socially responsible working conditions and a constructive social partnership. The main aim is to enable those affected by job cuts to optimally position themselves on the employment market.

Management staff and employees whose jobs are eliminated receive support through the established social plan in place at Swisscom, or the respective provisions for management staff. Swisscom is particularly committed to assisting employees who have given many years of loyal service to the company in their search for a new position. As in previous years, solutions are sought in collaboration with the social partners to minimise the number of individuals affected.

The involvement of social partners in structuring planned measures related to the outsourcing of business units also plays a key role for Swisscom.

The 2009 salary agreement for CEA employees in the Swisscom Group includes a salary increase of 3.2%, while the general increase amounts to 3.0% for employees whose salaries are in line with market conditions. This increase will not apply to salaries that are above the market rate. These employees will receive an uninsured one-off payment of CHF 1,100 which will help to reduce existing salary disparities. Since 2001 Swisscom has awarded real salary increases of over 13%.

Restructuring and social plan

Once again in 2008, Swisscom counteracted structural change with increased efficiency and a reduction of 203 full-time equivalent positions (FTEs). Around 67% of those affected found another job within a short space of time. Meanwhile, new jobs were created in customer-related areas. Adjusted for special effects, Swisscom's workforce increased by 21 FTEs in 2008.

Employees whose jobs are eliminated and are unable to find a new position are entitled to benefits under Swisscom's well-developed social plan. The provisions agreed with the unions (including Group replacement on full pay, the Worklink employment agency and the startup programme) have proven to be effective. The success rate of Swisscom's internal mobility management and social plan programme was 90% in 2008 and has been over 90% since 1999.

Encouraging success rate for trainees and opening of a junior Shop

In 2008, 256 trainees started their vocational basic training at Swisscom. At the same time, 241 trainees, or 97.5%, successfully completed their traineeship. The total number of trainees is currently 830, which equates to 5.3% of the total Swisscom workforce in Switzerland.

The federally certified two-year training programmes for office assistants and IT technicians, launched as pilot programmes in autumn 2008, are now successfully underway. They supplement the existing vocational traineeships in IT, mediamatics, telematics, retail and commerce and help young people with good practical skills to enter the world of work.

In order to counteract the impending shortage of skilled workers in the employment market and to safeguard the company's own need for qualified young managers, Swisscom's vocational training has become a part of the recruitment process. The aim is not just to select bright school leavers but also to offer traineeships to young people who identify with Swisscom's values.

In 2008 the first Junior Shop – a Swisscom Shop run exclusively by trainees – opened its doors. The young people take on the roles of shop manager and deputy manager and assume responsibility for the whole team. This is a concept which underscores Swisscom's vocational training philosophy, whereby young people learn to use their own personal initiative right from the start by essentially steering their own learning process.

As culturally diverse as Switzerland

At Swisscom we value and promote the importance of human diversity which reflects the diversity of our customers and allows us to respond to customer needs more effectively.

Last year we ran a programme to promote women in our organisation with measures such as mentoring programmes, women's networks and talent development. This programme highlights the economic and social necessity of this group and fosters talented female employees in senior positions.

The "Top Management Win Win Mentoring Programme for Women", already in its third year, was run successfully once again in 2008. As part of the one-year programme, 20% of the participants were able to take on a role with increased responsibility. Networks such as the internal "WIN WIN Network" and the external "Wirtschaftsfrauen Schweiz" (Swiss Businesswomen) offer interested women both professional and personal networking opportunities.

Women's events and programmes organised with partner companies such as Google and Cisco promote women in technical professions and provide them with the opportunity to expand their know-how and actively share their knowledge. The promotion of young women in technical professions was expanded to include the offer of IT courses in collaboration with the bank Julius Baer. In addition, we welcomed over 400 children to Swisscom as part of the nationwide "Bring Your Daughter To Work Day". Parents used the opportunity to engage with their children's future career plans while spending a day with them in their place of work.

The proportion of women in the company remains at 32%. At middle management level, women account for around 10% while the proportion of women at senior management level is 8%. Measures to promote diversity will be extended in 2009.

comPlan

At the end of 2008 comPlan, the pension fund of Swisscom Ltd, covered 18,271 Swisscom employees and 5,141 members drawing retirement, invalidity, spouse, partner or child pensions.

No changes were made to the Pension Fund Regulations in 2008.

The interest rate on retirement savings capital was set at 2.75% in 2008. Existing pensions were not inflation-adjusted due to a shortfall in the requisite funding ratio for the fluctuation reserve. As a result of developments on the financial markets, comPlan's funding ratio fell from 108.3% at the end of 2007 to 94% at the end of 2008.

Personnel statistics

	Unit	2006	2007	2008
Total number of employees	FTE	17,068	19,844	19,943
Personnel structure/diversity in Switzerland				
Employees in Switzerland	FTE	15,909	15,959	16,104
Part-time employees	%	19.5	18.3	17.6
Female employees	%	32.9	32.0	31.7
Female executives	%	8.8	8.7	9.7
Total traineeships [1]	Full-time positions	833	838	828
– Electronics	Number of Trainees	20	9	1
– IT	Number of Trainees	210	160	132
– Commercial	Number of Trainees	153	167	199
– Mediamatics	Number of Trainees	187	208	211
– Retail	Number of Trainees	204	245	244
– Telematics	Number of Trainees	59	49	41
Languages				
– German	%	79.7	79.5	79.0
– French	%	16.5	16.7	17.1
– Italian	%	3.6	3.6	3.7
– English	%	0.2	0.2	0.2
Nationalities				
– Swiss	%	88.2	87.5	86.7
– Italian	%	3.5	3.5	3.6
– German	%	3.3	3.7	3.9
– Spanish	%	1.0	1.0	0.9
– Other	%	4.0	4.3	4.9
Salary spread in Switzerland				
Minimum full-time salary [2]	CHF	45,500	45,500	45,500
Absences due to accident and sickness in Switzerland				
Work-related accidents	Number of cases	229	237	238
Total days lost due to work-related accidents	Number of days	2,173	2,017	1,519
Days lost due to work-related accidents, per FTE	Number of days	0.139	0.127	0.095
Non-work-related accidents	Number of cases	1,826	1,905	2,653
Total days lost due to non-work-related accidents	Number of days	12,132	13,950	16,945
Days lost due to non-work-related accidents, per FTE	Number of days	0.778	0.880	1.062
Total days lost due to sickness	Number of days	90,164	99,621	108,427
Days lost due to sickness, per FTE	Number of days	5.781	6.287	6.799

1 Vocational trainee programme (other traineeships at Cablex Ltd, Comit Ltd and Infonet until 2007 in 2008: 55, 2007: 60, 2006: 71).

2 The minimum salary of CHF 45,000 disclosed in the 2006 Annual Report was lower than the effective figure.

Joint success with our suppliers

We see our suppliers as innovative partners who are prepared to contribute to joint market success with a high degree of value creation, strong commitment, flexibility and reliability. The aim is to achieve an open and transparent long-term collaborative working relationship.

2008 – Reorganisation and consolidation

2008 was a special year. The merger of the various purchasing departments in the former Group companies (Fixnet, Mobile and Solutions) to create Swisscom Switzerland Ltd also changed the framework conditions for the supply chain.

Various measures were drawn up to achieve the desired standardisation and simplification in terms of strategy and, in particular, operations. We plan to be able to take full advantage of the new situation following a fine-tuning phase starting in summer 2009.

Key supply chain figures

	2005	2006	2007	2008
Number of suppliers by continent [1,2]				
Switzerland	4,389	3,959	4,465	4,575
Europe (excluding Switzerland)	321	401	375	306
North America	33	42	45	39
South America	1	1	1	–
Africa	1	1	1	2
Asia	23	22	20	20
Australia	2	3	3	2
Total suppliers [1]	4,770	4,429	4,910	4,944

1 Suppliers to Swisscom (Switzerland) Ltd only.
2 Excluding Switzerland.

In accordance with our corporate values and procurement policy, we place high demands on our suppliers and their subcontractors in terms of environmental and social conduct. We employ various control instruments to ensure our requirements are complied with.

As part of the reorganisation we examined all instruments and updated them where necessary. In this context, we implemented a new, standardised procurement policy at the end of 2008 and drew up agreements on quality and corporate responsibility. These constitute a fixed and non-negotiable component of supply agreements.

We are harmonising the various systems for evaluating suppliers and training the affected purchasing managers by the end of the first quarter of 2009. We also plan to obtain a self-assessment on environmental and social conduct from our 50 largest suppliers in 2009.

Order volume and audited suppliers

	2005	2006	2007	2008
Order volume (CHF in bn)				
100 largest suppliers. [1]	1.37	1.68	1.79	1.81
All suppliers. [1]	1.74	2.14	2.40	2.34
Number of Swisscom-audited suppliers	8	12	13	15

1 Suppliers to Swisscom (Switzerland) Ltd only.

As part of the standard selection process for new suppliers, our auditors conducted six audits in 2008. Nine suppliers also underwent product process audits in parallel. All Swisscom auditors also received training on the social aspects of the Social Accountability Standard (SA 8000 Audit).

Swisscom and the community

Swisscom sets itself clear priorities in its social activities, geared towards its own competencies, strengths, values and relationships with stakeholders. First and foremost, Swisscom feels committed to providing responsible connectivity. This refers to our role as a provider of nationwide communication services for all, as well as taking into account concerns about data protection, child protection, the establishment of media literacy among the population and the appropriate use of electromagnetic fields for communication.

Furthermore, as a company which is firmly established in Swiss public life, Swisscom is committed to the community. Thanks to our position in the economy and our links to Swiss culture, sport and the environment, Swisscom has established strong ties which are testament to its Swiss roots. The various forms which Swisscom's commitment takes also contribute to sustainable development.

Telecommunications for all

The telecommunications sector is developing at an extremely rapid pace, with new products and services being launched all the time. To cope with this situation, Swisscom must continually expand its network infrastructure so as to ensure a minimum standard of service for the entire population, in line with our basic service mandate. This also results in varying usage patterns among customers. While technophiles are anxious to try out and put to use all the latest innovations, technophobes take a more cautious approach. A major challenge for Swisscom is to ensure this divide does not become too wide. The Swisscom Help Point courses, an interactive forum ("customers help customers"), a broad range of online support offerings (instructions, device software, etc.), the Swisscom@home service and HomeServiceTeam launched in 2008 are just some of the measures designed to achieve this aim. With its "Internet for Schools" programme, Swisscom aims to make safe and appropriate use of the Internet a matter of course for all schoolchildren.

Then there is another challenge: a proportion of the population is visually impaired, hard of hearing or mobility impaired. Modern telecoms applications can be hugely beneficial to this section of the population, but in order for them to be used, some equipment and services need to be specially adapted.

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 new mandate which expires in 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 Internet access, a minimum transmission speed of 600/100 Kbps applies.

Basic service provision

	Unit	2006	2007	2008
Fixed network lines [1]	Mio.	3.7	3.6	3.6
Traffic minutes (Fixnet national traffic)	Bn	7.2	7.0	7.0
Public payphones [2]		8,450	8,417	8,389
Average response time to directory enquiries [3]	Sec.	6.6	8.2	
Emergency calls (112, 117, 118, 143, 144, 147) [4]	Mio.	3.5	3.1	2.6
Calls to the service for visually impaired [5]		439,818	446,548	
Calls to the service for the hard of hearing		64,968	58,159	514,025

1 2008: 78.8% analogue, 21.2% digital.
2 Of which 4,862 (2008) and 4,869 (2007) within scope of basic service provision.
3 No longer within scope of basic service provision.
4 Emergency breakdown service was removed from the emergency numbers in 2007.
5 From 2008 (new basic service agreement), provision of a joint operator service (for the visually impaired and hard of hearing as well as persons with restricted mobility).

Basic service provision prevents marginal regions of Switzerland from lagging behind city centres in terms of telecoms infrastructure. Swisscom supports this and is also involved in a project (InnoV-Net) run by the Swiss Consortium for Alpine Regions, which aims to improve service provision in marginal regions through synergies and innovative cooperative ventures.

Helping the disabled

Swisscom adapts its services to allow them to be used by the visually impaired, the hard of hearing and persons with limited mobility and offers financial support and active project assistance to the "Access for All" foundation, an organisation which campaigns for barrier-free Internet access for the disabled. This is particularly important for the visually impaired. The basic service provision also includes a special service for the hearing-impaired. The PROCOM communication aids foundation for the hard of hearing administers this. By supporting Procap, Swisscom is also committed to helping people with limited mobility. Swisscom has also entered into a project partnership with the Fondation Suisse pour les Téléthèses (Foundation for Electronic Tools).

Network development: Our responsibility to the environment and the community

Swisscom's telecoms infrastructure forms the basis for modern and innovative products and services for our customers. However, the construction of the necessary facilities often gives rise to social tension, as environmental protection, spatial planning and other aspects have to be brought into the equation in addition to customer needs. A high level of acceptance of our infrastructure in the community is therefore a key basis for Swisscom's business success. Swisscom deploys a team of ten experts to carry out this work in the network area. This team engages in dialogue with Swisscom's various stakeholder groups and works towards reconciling conflicts of interests in the areas of wireless technology, the environment, health and the community.

Fibre to the home: Proximity and responsibility

Swisscom has been expanding the fibre-optic network for several years now. First the local exchanges were interconnected, followed by a gradual extension of the fibre-optic network to distribution cabinets in local neighbourhoods. Many large companies and various commercial buildings are now connected via fibre-optic cable. Our fibre-optic network therefore helps companies in Switzerland to compete on a global scale. When selecting suppliers and materials for FTTH equipment in relation to network installations, energy consumption is a key consideration for us.

Safe wireless technologies

The benefit offered by mobile communications and other wireless technologies is hardly a controversial subject. However, for some years now, there have been discussions as to whether the electromagnetic waves used to transport information (i.e. telephone calls or data connections) could pose health risks. In the year under review, Swisscom's experts have continued to monitor research in this field closely. Robust data are available on the short-term effects caused by the emission of high frequency waves. As long as the legal limits are complied with, there should not be any harmful effects. A great deal of research is currently being conducted into the long-term effects and important results are expected. However, many scientists consider it unlikely that the research will come to the conclusion that mobile phones harbour significant health risks.

According to a current, representative study by gfs.bern, four out of five people living in Switzerland believe that the benefits of mobile phones outweigh the potential risks. However, 20% believe that mobile communication is harmful to people and the environment. Swisscom does not wish to dismiss the reservations of this group, but instead to encourage dialogue on the technical issues of mobile communications technology and Swisscom's obligations where necessary. Groups of people affected by the construction and operation of wireless networks are also made aware of planned and existing facilities and informed about aspects relating to exposure and emissions. Swisscom's expert team can be contacted on the hotline 0800 823 823 or by e-mail: mobile.nature@swisscom.com.

Swisscom can also offer advice to those who wish to make low-radiation mobile calls. For those who are interested, details of our environmental commitment can be found on our website. Under the heading "environmentally-friendly products", we also publish a regularly-updated list of mobile phones from our portfolio which are particularly low on emissions. This list is supplemented by a set of tips on how to make low-radiation phone calls, as simple measures can significantly reduce emissions.

New media: Understanding, mastering and protecting users
Internet for Schools and the Schools Service

Swisscom has been providing primary and secondary schools in Switzerland with free Internet access since 2001. At the end of 2008, 5,661 schools (95% of all schools) were able to surf the cantonal educational network and were making use of the broadband connections provided by Swisscom. We have kept to our promise and are continuing the "Internet for Schools" initiative even without the private-public partnership with the federal government which officially expired in 2007.

The feedback we have received from cantonal and political circles encourages us to continue our current approach. Swisscom aims to continue providing schools with access to services which meet the needs of day-to-day school life. The focus is on access to learning resources as well as lesson ideas and teaching materials. The protection of minors in the media is a subject particularly close to our heart. Swisscom takes both technical and educational measures to improve the media skills among the younger generation.

The "Internet for Schools" initiative covers much more than simply connecting schools to the world wide web, however. The two additional programmes, "Schools Service" and "Schoolnet" also offer many free supplementary services for schoolchildren, teachers and parents.

"Schools Service" covers:

- The Internet SchoolNetGuide, already in its eleventh edition, the most recent of which was on the subject of "The Social Internet";
- Swissdox, the online newspaper archive: Pupils can carry out research free of charge on this online archive of Swiss newspapers;
- Schultraining: On the Schultraining e-training portal, pupils can practice their Maths and German with curriculum-based exercises;
- Exchanges: A language exchange programme for pupils from different linguistic regions – supported by cases of handsets which we loan to both school groups;
- "Berufsbilder aus der Schweiz" (Images of Working Life in Switzerland):50 young people present their jobs. Swiss television supplies the content and Swisscom provides the platform, so teachers can download the films and integrate them into lessons;
- Series of teaching materials about telecommunications for all school levels: Topics include telephones, mobile phones, the Internet, history, the environment, and other subjects.

"www.schoolnet.ch":

- Is the largest publicity-free Internet portal for children and young people in Switzerland, with over 114,000 registered and active users;
- Is available in German, French and Italian;
- Offers help with homework with links to virtually all school subjects;
- Provides many additional links on using new media, vetted and broken down by target group;
- Offers a free SMS service and other free services;
- Has around 800,000 visitors every month, who spend 8 minutes on average and call up a total of 15 million pages.

This comprehensive offering proves Swisscom's loyalty to Switzerland and the Swiss educational landscape. Over the past few years, Swisscom has earned itself an outstanding reputation as a reliable and supportive partner in this area. And we intend to live up to it.

Support: Swisscom Help Point, Swisscom@home and HomeServiceTeam

Swisscom Help Point – course offerings for all

Since 2005 the Swisscom Help Point has been teaching customers how to use mobiles and the Internet. Training sessions are offered every week at the training centres in Berne, Basel, Lausanne and Zurich. Four training buses also visit around 80 towns and villages across Switzerland every year. In 2008, 43,000 people received instruction in using modern communications media. Since its launch, 100,000 customers have received training through Swisscom the Help Point.

The Swisscom Help Point has proved successful and lends itself to different products and target groups. The course offering is being expanded all the time and covers the needs of both residential and business customers.

Swisscom@home – support in the customer's home

The Swisscom@home team, comprising 25 experts, has been offering support on Swisscom's full range of products and services since 2006. Customers can receive advice free of charge and with no obligation in the comfort of their own home. The offering is highly appreciated thanks to the reliable and professional service provided by the team of experts. Swisscom@home continues to grow and surpassed the 20,000 customer mark in 2008.

HomeServiceTeam – 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.

All standard services are offered at a fixed price. In the case of individual orders, the price is agreed in advance with the customer. In its first year alone, the team has already processed several thousand customer orders.

Protection of children and young people in new media

The extent to which new media, in particular the Internet and mobile phones, have gained currency in society is unprecedented. With the countless possibilities they offer in terms of information and communications, they make a major contribution to the knowledge society and facilitate contact between people in the workplace, family and friends.

Like all forms of technology, new media are also subject to misuse and can have undesired effects. The fact is that the Internet and mobile phones facilitate the distribution of content which may have a harmful influence on young people's development. Typical examples would be pornography and depictions of violence. There is also a risk that in chat rooms children and young people may be sexually harassed by paedophiles, or bullied.

Both the Swiss Penal Code and the Ordinance on Telecommunications Services contain detailed regulations on the protection of children and young people, which Swisscom implements using technical and operational measures. Legal regulations alone cannot provide 100% protection against the misuse of new media, however. To counteract such risks, Swisscom has been carrying out successful awareness training and prevention work for quite some time now: for example, Swisscom tackles the issue of safe use of the Internet as part of the "Internet for schools" initiative. Swisscom was also co-initiator and the first to sign (together with Cablecom, Orange and Sunrise) the "Industry Initiative of the Swiss Association of Telecommunications (asut) for Improved Youth Media Protection in New Media and for the Promotion of Media Skills in Society" in 2008. This self-regulation was signed by the CEOs of the aforementioned companies in June 2008 and all points are to be implemented within the space of a year.

The industry initiative supplements the other legal provisions on the protection of minors in the media with more in-depth voluntary measures and aims to increase media skills among young people and adults through prevention and information.

Telephone hearing test with pro audito Switzerland

At least one in every ten individuals 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. Anyone wishing to test their hearing can dial 0900 400 555, to be guided through a five-minute step-by-step hearing test. The test is based on the work of the European research project Hearcom (Hearing in the Communication Society).

As a partner of pro audito, Swisscom supported the launch of this scientifically funded project, and in so doing is helping to promote the early detection of hearing loss.

Commitments: Close ties with Switzerland

Economic ties

Swisscom has close ties with the Swiss economy: our products and services help companies in Switzerland to perform well. Direct financial payments in the form of salaries, procurement, social benefits, dividends, taxes, sponsorships and contributions to research funding are the fuel that drives Switzerland's economic engine.

Swisscom also fosters the foundation of new companies and encourages job creation. The Swisscom Venture Fund offers Swisscom employees the opportunity to set up their own business, and provides them with advice and professional support, as well as financial assistance in specific cases. In its first nine years, the Swisscom Venture Fund has helped to launch 24 new companies and created around 500 jobs.

Swisscom's partnership with Vinci Capital focuses on another objective: to promote the foundation of SMEs in the high-tech sector, with a view to boosting Switzerland's innovative capabilities.

Swisscom has long supported the Swiss Economic Forum for forward-looking, innovative Swiss entrepreneurs. Here, too, the focus is on small and medium-sized enterprises.

Knowledge transfer between the research sector and the business sector also plays an essential role in the Swiss economy. In keeping with the company's commitment to knowledge transfer, Swisscom is represented on the Board of Trustees of the ETH Zurich Foundation.

And as a member of the selection committee of Genilem (support and coaching for start-up businesses), Swisscom promotes the establishment of new SMEs with the emphasis on marginal regions.

Supporting Swiss 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 in winter sports and a wide range of cultural events. Swisscom's involvement with UEFA EURO 2008™ in Switzerland remains an unforgettable highlight of our sponsorship activities.

As a leading partner of Swiss Olympics 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, helped 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 ski nation. Switzerland's athletes reached an important milestone in winter 2009 with their impressive achievements at the World Alpine Ski Championships in Val d'Isère. As part of its partnership with Swiss-Ski, 20% of Swisscom's annual sponsorship fees go towards fostering the development of the association's junior talents. Swisscom has also launched a downhill training programme for junior talents, the key focus of which is the Swisscom Junior Ski Team with members from regions across Switzerland. At the end of 2008 Swisscom set up the first Swiss online platform for all fans of winter sports, where members of the Internet community can exchange tips, information, photos and videos all about snow and winter sports (www.snowfriends.ch). Within only a few weeks the platform had registered several thousand regular visitors.

As official provider of communications equipment to all FIS World Cup events in Switzerland, ten open cross-country races, and other major events, Swisscom is enhancing Switzerland's status as an event organiser and a winter sports venue. In this capacity it maintains a long-established partnership with the Swiss Tourist Board.

On 30 June 2008 Swisscom officially ended its commitment to the Swiss Football Association's national teams and hence its sponsorship of football in general. This sponsorship came to a successful culmination with Swisscom's involvement in the biggest sports event ever to be held in our country: Swisscom was responsible for communications and connectivity for UEFA EURO 2008™ between 7 and 29 June 2008, equipping and interconnecting all four stadiums in Switzerland with state-of-the-art communication technology. Some 7,000 media representatives from 100 countries used the workstations set up in the stadium, close to 250 million text messages and three million MMS messages were sent by fans, and around 100,000 people visited the service points in the host cities: all thanks to more than 1,500 Swisscom employees who were on hand during this major event. A special agreement with UEFA Media Technologies (UMET) governed the planning, procurement, operation and monitoring of the networks responsible for broadcasting the television images. HD- and SD-quality images were broadcast at high speed from all the match venues in Switzerland to the international broadcasting centre (IBC) in Vienna, and relayed from there to 180 countries. Several million viewers across the world followed the live transmissions of the matches.

In the cultural arena Swisscom promotes a broad range of musical genres from rock and pop to jazz, blues, classical and musicals, including Switzerland's major open-air festivals which attract hundreds of thousands of visitors. Swisscom also supports film in its capacity as principal sponsor of the International Film Festival in Locarno and as sponsor of Cinéma tout écran in Geneva.

Swisscom is 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. "Images that Lie", a special exhibition held in 2008, attracted the highest number of visitors in the museum's history. The museum received the "Dibner award for excellence in museums and museum exhibits" for its permanent exhibition "As time goes byte". 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. A long-standing tradition

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 among it in particular. We place our expertise at the disposal of various partnerships in a bid to support the socially disadvantaged and people in need.

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 print media. Swisscom has been a partner of Swiss Solidarity since its founding in 1946, and under this partnership also supports the work of the charity's 30 partner relief agencies.

Swisscom is also the official communication partner of the Samaritans. The Samaritans' telephone number (143) is the first point of call at any hour of the day or night for people seeking advice or counselling 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).

In addition to providing services for the disabled as part of its basic service provision mandate, Swisscom also supports the SBS (Swiss Library for the Blind and Visually Impaired). The SBS enables the blind and visually impaired to obtain access to literature of all kinds. Swisscom supports the organisation's "Rucksack Books" project. These so-called rucksack books are a special series of Braille books for blind and visually impaired children and young people aged six and above. The books are ring-bound, divided into manageable volumes of 100 pages of Braille, and fit easily into a rucksack.

Another highly successful project is Swisscom's Good Citizen programme, where employees are encouraged to make a personal contribution to social, cultural and ecological projects. Good Citizen was launched in 2005 when Swisscom came up with the idea of supporting employees involved in community work rather than distributing staff Christmas gifts. To be eligible, an employee must be involved personally in a project on a voluntary basis and to a significant extent. From a total of 52 projects submitted in 2008, the Good Citizen jury selected 25 projects which were deemed worthy of financial support. The projects are assessed on the basis of their charitable character and benefits to the community, clarity of purpose, and the sustainability of the approach.

Social and ecological in one: Second lease of life for mobile phones

Over six million people in Switzerland use a mobile phone. Seventy per cent of the old mobiles which are thrown away are still in perfect working order. Thanks to the Solidarcomm campaign, these devices are given a second lease of life.

Since 2007 customers have been able to hand in their old NATEL® mobile to a Swisscom Shop. Swisscom collects the phones and forwards them to Réalise, an organisation in Geneva that campaigns for the reintegration of disadvantaged persons in the working world.

Réalise separates the mobiles into defective and working devices. The defective phones are ecologically disposed of by SWICO, while the functioning handsets are sold by Idris Invest AG in countries with a demand for low-cost second-hand mobile equipment. For each mobile phone sold, CHF 1 is paid to Réalise and CHF 5 is donated to the Swiss "Terre des Hommes" charity.

Because mobile phones are usually replaced long before the end of their useful life, they still have several years of life in them and can be sold second-hand. Unique in Switzerland, the Solidarcomm campaign gives old mobile phones a second lease of life to benefit children and young people in the developing world, while also helping to create jobs, protect the environment and promote recycling. However, when the time comes for these mobile phones to be recycled, their ecological disposal in line with Swiss standards is not guaranteed. Nevertheless we are convinced that the positive social benefits of telecommunications far outweigh this disadvantage.

Commitment to external environmental activities

Swisscom has been engaged in various environmental initiatives for many years, for instance through its cooperation with the WWF Switzerland and as a member of the WWF Climate Group. The Group brings together companies committed to making a major contribution to climate protection. We also support the WWF's SMARAGD project, a European network for the protection of endangered animals, plants and biotopes. Not only is Swisscom the principal sponsor of the SMARAGD project, but we also play an active role by regularly sending teams of Swisscom employees on voluntary conservation assignments, and in 2008 more than 300 employees provided assistance in five SMARAGD regions. Swisscom compensates employees for 50% of the time devoted to such assignments.

Swisscom is also patron of the Swiss National Park and the GLOBE Programme which raises awareness of environmental issues among schoolchildren. GLOBE provides a worldwide forum for teachers, schoolchildren and scientists. This global exchange of views is only possible thanks to modern telecommunications.

All these projects ideally complement our environmental management policy and other involvements: they promote a global approach to environmental issues yet take account of Switzerland's special ecological characteristics, bring dedicated people together and offer Swisscom employees the opportunity to take part in worthwhile projects under a corporate volunteer programme.

Swisscom and the environment

The year under review was characterised by sharply fluctuating energy prices which heightened awareness within the company of the degree to which we are dependent on electricity and fossil fuels, how much energy we actually need and the impact this has on the environment. Climate change is an immensely significant problem and we are aware of our responsibility in this area.

According to our environmental analysis, our direct energy consumption continues to be the most critical environmental aspect. We are focusing our attention on relevant energy-saving measures and where possible consciously opting for energy sources which have the lowest environmental impact.

Swisscom can continue to make a positive contribution to environmental protection by launching environmental and/or energy-saving products and services which also help reduce CO_2 emissions. Swisscom firmly believes that this is the right way to tackle the issue of sustainability in its sphere of influence, telecommunications, as well as offering excellent potential for development.

Swisscom's other environmental aspects are seen as less critical and are currently under control. Further information on this topic can be found on our website.

A proven and methodical approach

Since our system was first certified in line with the ISO 14001 standard ten years ago, we have acquired extensive experience in environmental management.

This management system enables a methodical approach and is based on four pillars which determine the framework in which we act. These pillars include:

– Environmental legislation and environmental risks;
– Environmental aspects and environmental impacts associated with the operation of telecommunication services;
– Promoting and developing products and services which are particularly environmentally friendly;
– Fostering dialogue with the various stakeholder groups.

The environmental protection requirements are reassessed every year. In this context, our system is subject to a regular third-party audit, the most recent of which was successfully completed in November 2008. By using an environmental management system which is ideally integrated into business processes, we can optimise our services and forecast and manage environmental factors.

Environmental protection tools

Swisscom works with a broad range of environmental protection tools, which it either develops and refines itself or in collaboration with partners, and which allow comprehensive, efficient and systematic environmental management. Swisscom also closely monitors international initiatives such as the activities of the "Global Reporting Initiative" in order to optimally benefit from the related developments.

Our environmental protection tools specifically consist of:

– A long-term environmental policy which applies to the whole of the Swisscom Group;
– An environmental analysis which allows us to determine our impact on the environment and the associated risks;
– A medium-term environmental strategy which defines the most important fields of activity and goals;
– An annual environmental programme which ensures environmental services are optimised on an ongoing basis;
– A standardised environmental protection process and environmental management system certified in line with ISO 14001;
– An environmental team consisting of environmental officers and environmental managers as well as experts from the different divisions who monitor the implementation of various projects.

Swisscom certifies the environmental management systems of the individual divisions which have environmental relevance and need to be optimised, irrespective of their size or how many employees they have. Following the reorganisation at the end of 2008, we had five environmental certification units to cover our sales and operational areas: networks, network installation, real estate, IT and broadcast. Naturally the other divisions are also obliged to comply with the company's environmental policy and regulations for all their activities.

Environmental strategy

In terms of environmental protection, our policies and priorities essentially remain unchanged. In the course of the restructuring of our business and to take into account new expectations on the part of environmentally aware and socially engaged customers who value a sustainable and healthy lifestyle (LOHAS = lifestyle of health and sustainability), we adopted a new environmental strategy at the end of 2007. This environmental strategy is firmly embedded in, and complements, the corporate strategy in a meaningful manner. It concerns the following medium-term objectives:

- Operational ecology: This covers all the company's environmental aspects, with a focus on energy supply and climate change. Our energy and climate policy was defined in detail in 2008 and since then has attached greater importance to increasing energy efficiency by reducing energy consumption and substituting environmentally damaging sources of energy with clean energies as well as producing renewable energies;
- "Green" products and services: This includes ecologically optimised products which require less energy, or services which have significantly lower CO_2 emissions. These attractive offerings help our customers achieve an environmentally-friendly lifestyle;
- In-house and external environmental commitment: These sorts of activities underscore our social awareness and our proximity to the key issues which people are concerned about.

Clear goals and clearly-defined measures

Our aim is to increase energy efficiency at Swisscom by 17% compared to 2002 and to achieve a direct CO_2 emission volume of maximum 28,109 tonnes by 2010. These energy and climate policy goals were jointly defined with the Energy Agency for Industry (EnAW) in a declaration of intent which had already been signed in 2004. The declaration of intent envisages further growth in business activity and consequently a slight increase in energy consumption, although it does also stipulate a further increase in energy efficiency.
One of the key measures aimed at increasing energy efficiency is the switching of the entire Swisscom network infrastructure to a fresh air cooling system. A further 120 exchanges will be converted to our new energy-efficient Mistral cooling technology in 2009.

Other goals for 2009 concern customer premises equipment which comply with the new recommendations on saving energy and opportunities for saving electricity in stand-by mode. Swisscom intends to continue systematically marketing environmentally-friendly services. In this context we will be launching set-top boxes and installing routers which require less than 3 watts in stand-by mode.

2008 Carbon footprint
Operational ecology: Energy and climate aspects

Swisscom's total energy consumption in Switzerland totalled 1,957 joules (544 GWh) as per the system limit for environmental indicators, with electricity accounting for 78.6%, vehicle fuel 9.2% and heating fuel 12.2%. This equates to an increase of 5.5% compared to the previous year.

Our carbon footprint in relation to the consumption of fossil fuels is 28,333 tonnes of CO_2. With only a slight deviation of 0.92% versus our fixed goal, we are on track with the targets agreed with the Energy Agency for Industry.

Of this, vehicle fuel accounts for 47.1%, with heating fuel making up the remaining 52.9%. In line with the internationally-recognised Greenhouse Gas Protocol, these emissions should be reported under scope 1. Our power consumption comes under scope 2. According to the Federal Office for the Environment (FOEN), the electricity mix which Swisscom purchases in Switzerland is free from CO_2 emissions.

Electricity: An important resource and a European award

The increased electricity requirement can be attributed to our growing activities, our extended network infrastructure, the commissioning of a new data centre as well as the current parallel operation of various technologies for the fixed network, mobile communications and broadcast. This transitional phase is still not complete and will continue to have a negative impact on our energy usage for some years. Once these duplicated capacities are eliminated, we expect to see a significant reduction in our energy consumption.

We will not be resting on our laurels in the meantime, however. Numerous measures aimed at saving energy and increasing efficiency have already been implemented. Our most important energy-saving project, Mistral, is based on cooling using only fresh air all year round. The heated air is extracted directly via the telecoms equipment racks and dissipated using an exhaust fan. This is then replaced with fresh air which flows in through openings in the facade. In this way, traditional, energy-intensive cooling systems with compressors are avoided and energy efficiency is increased significantly.

This method was successfully deployed in over 200 telephone exchanges (replacing the old cooling systems) by the end of 2008. Thirty mobile base stations and two Swisscom Broadcast stations were also installed. Once all installations in the public switched telephone network have been converted, Swisscom is set to save 45 million kilowatts of electricity every year, which equates to the consumption of around 9,000 households or around 10% of Swisscom's current electricity consumption. Investment costs are up to four times lower and environmentally-harmful cooling agents are avoided.

In recognition of this new fresh air cooling method, Swisscom was presented with the 2008 InfoVision Award at the World Broadband Forum in the "Go Green" category on 30 September 2008. This cooling technology is also attracting a great deal of interest from other telecommunications providers. Swisscom Strategy & Innovation dedicated itself to promoting and raising awareness of this cooling method at numerous European conferences in 2008. Swisscom also organised visits to existing telecoms facilities of other European telecommunications providers on request.

New data centre in Zollikofen

The IT outsourcing data centre in Zollikofen, which covers an area of 1,800m², is arguably the most state-of-the-art of its kind in Switzerland and aims to set new standards in terms of efficiency. The idea of "green IT" played a key role during the planning of the data centre. Swisscom IT Services specified that under 20% of electricity was to be used for cooling. The data centre implements the concept of "free cooling". If the outside temperature is below 15°C, fresh air is used to cool indirectly, which means much less electricity is needed to cool the equipment. The indoor air temperature is 26°C instead of 22°C as before, which provides a potential electricity saving of 40% for cooling. High-performance turbo cooling machines are also deployed in the low load area and the circulating air cooling systems provide a customised, variable air volume flow in all server rooms. The flows of warm and cold air are also kept separate. The data centre in Zollikofen is equipped for the future too, with water-cooled server racks which can be put into operation at any time thanks to the available water supply.

In addition to energy efficient cooling, the energy requirement for the equipment in the data centre is being continuously and sustainably reduced through the use of modern technologies (such as blade/green grid, virtualisation and data deduplication).

Ecological power for Swisscom

Besides saving energy and increasing efficiency, the way in which electricity is generated is also important to us. Swisscom purchases around 13 million kWh of "Naturemade Star" green electricity a year, thereby demonstrating its preference for renewable energies. This electricity is extracted from ecological hydroelectricity, wind and solar power and biomass. We are currently Switzerland's biggest consumer of wind and solar power.

Furthermore, Swisscom trainees installed a new solar panel on a Swisscom building in Lausanne in 2008 – the fifth since the launch of the "Youth Solar Project" programme in 2005.

Our heating fuel consumption

Swisscom consumed 238 joules (66 GWh) to heat its buildings and offices in 2008. This equates to an increase of 11.6% compared to 2007, which can be attributed to the number of heating degree days, which increased by 24%. Swisscom Real Estate carried out various renovation work in the area of heating efficiency in 2008. Further measures in this area in line with our concept of reducing heating costs and CO_2 emissions will be implemented over the next three years, which should enable us to reduce our heating fuel consumption by 10%. However the fact that we no longer own all our buildings could pose a problem, which is why a collaborative solution which offers benefits to both sides should be identified in each case.

Mobility policy and vehicle fuel consumption

Our mobility policy aims to support Swisscom employees with the most appropriate solutions in their day-to-day duties, whether they are in an urban environment, in the suburbs, in rural areas or in mountainous regions This obviously also includes taking ecological aspects into account when designing solutions. The mobility offering is very broad, and includes the SBB RailPass, half-fare travel, day tickets, vehicle sharing, pool vehicles and business trips abroad. In summer 2008, the Swisscom Group Executive Board ordered a restriction on CO_2 emissions of 150g/km on average for our entire vehicle fleet. They also approved a new internal billing model which allows the costs and kilometres driven to be reduced. Both measures have been in place since the beginning of 2009 in a bid to help reduce CO_2 emissions.

One of our declared main goals – to offer impeccable customer service – requires the deployment of more staff, which is why mobility expenditure has increased. A total of 70 million kilometres were driven in 2008, which corresponds to energy consumption of 181 joules (50 GWh). This represents an increase of 6% and 2.5% respectively compared to 2007.

Petrol and diesel continue to be the most frequently-used vehicle fuels. However, we are increasingly using low-pollutant vehicle fuels, such as natural gas and biodiesel. Swisscom currently operates a fleet of 39 hybrid vehicles. These vehicles are mainly deployed as pool vehicles at various locations across Switzerland. We also have eleven natural-gas vehicles and several hundred vehicles in the Berne region which run on bio-fuels, which are mainly made up of unleaded petrol and a 5% blend of second-generation bio-ethanol. Our petrol and diesel vehicles comply with the highest environmental standards, with 50% of the vehicle fleet classified in energy efficiency categories A and B.

The billing model changed at the beginning of 2009, whereby the previous solidarity principle (the car user pays the same amount per day and vehicle type) was replaced by the user-pays principle. Internal customers pay a basic rate for fixed costs as well as an amount per kilometre driven to cover variable costs. In this way, car users pay the actual costs incurred and have an incentive to keep these to a minimum, in other words to drive fewer kilometres.

At the beginning of 2008 Swisscom signed an agreement with the "Climate Cent" Foundation to reduce CO_2 emissions from vehicle fuels. The following measures are designed to help reduce CO_2 emissions by 2012:

- Replacing old vehicles and reducing the average age/retaining the already relatively low average age;
- Training drivers on how to reduce fuel consumption;
- Purchasing vehicles with low fuel consumption in accordance with the energy label;
- Purchasing gas and/or electrical vehicles;
- Using bio-fuels.

The “Climate Cent” Foundation pays CHF 125 for every tonne of CO_2 saved.

Swisscom has been shifting its transport from road to rail travel for several years now. Adjusted for inflation, Swisscom posted a year-on-year increase in revenue of more than 10% in 2008. Let us consider pool vehicle rental as a point of comparison: in 2007 (January-November), 46.3% of the fleet capacity (174 vehicles) was reached. During the same period in 2008, this figure increased to an average of 56.2% thanks to improved efficiency.

Fleet management has charged a separate CO_2 levy of 1.5 cents per air mile on international flights since 2007. This money is used to fund internal environmental projects. For example, it was used to cover the additional costs of purchasing hybrid vehicles, allowing fleet management to offer and rent these pool vehicles at a cheaper rate.

Rail passes for trainees

Following an initiative launched by Fleet Management together with the Swisscom HR department, around 800 trainees have received SBB RailPasses every year since 2006. This campaign allows us to meet the mobility needs of trainees while encouraging them to use public transport.

Operational ecology: Other environmental aspects

Our analyses show that our impact on the ecosystem in relation to paper, water, recycling and soil is only minimal and is in no way comparable to the significance of energy consumption. Swisscom by no means ignores these issues, however. We have started using 100% recycled paper in the office and only use paper with the FSC quality seal for other purposes (advertising and printed materials). Consumption of water for sanitation systems has increased slightly in proportion to the number of employees. In order to monitor the water used for sanitation purposes, metering units and rainwater collection systems were fitted at Head Office and in other buildings.

Swisscom endeavours to minimise waste volume by selecting materials more carefully, using products for as long as possible and by designing activities to be more long-lasting. We do not recycle our waste in-house, but delegate this task instead to a qualified and authorised specialist company. We have a contract in place with the Swiss Waste Exchange for this purpose. This solution allows all Swisscom’s waste (excluding special waste) to be recycled or disposed of in Switzerland. Special waste is disposed of by authorised and independently supervised specialist companies in accordance with legal requirements.

Swisscom enables its customers to contribute to alleviating electronic waste by granting a two-year guarantee on all telecoms equipment and offering repair services as well as outstanding quality products. These measures are designed to counteract the throw-away mentality. Any electronic devices from the Swisscom range can be returned to Swisscom. The discarded devices are then properly recycled by authorised companies. SWICO monitors the legally prescribed Swiss return system, which differs slightly from the EU’s WEEE policy. The system is financed through an up-front recycling charge which is included in the purchase price of the device. Recycling statistics are available from SWICO.

When decommissioned base stations are demolished, Swisscom ensures the land is ecologically restored. More information on this subject can be found in the notes to the consolidated financial statements on page 174.

Swisscom regularly monitors compliance with the applicable 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.

"Green" products and services

Swisscom is taking an integrated approach to the problem of power consumption, by ensuring the energy efficiency of our customers' terminal devices as well as optimising our own network infrastructure.

In cooperation with its suppliers, Swisscom will only launch handsets from now on which are equipped with a synchronised power supply and therefore consume less energy. Generally, these devices and the associated chargers are constantly connected to the electricity supply and even consume a relatively large amount of energy in stand-by mode. Fixed-line telephones, mobile phones and decoders were switched over in 2007, while modems were converted at the beginning of 2008.

At the end of 2008 we launched Ecomode plus cordless telephones with very low radiation, which replace our previous Ecomode cordless models. The launch was extremely successful. From the very first week on sale, Ecomode plus devices accounted for one third of all cordless phones sold.

We also see other product partnerships as important. We are delighted to be able to launch a mobile phone together with Samsung which has various eco-friendly features:

– Bio-plastics: The case of the Samsung E200e is produced from 40% bio-plastics made from renewable resources.
– Recyclability: products do not contain any halogenated flame retardants, which can make recycling difficult.
– Recycled packaging: The packaging is made from 100% recycled material.

As part of a code of conduct agreed on with the Federal Office for Energy, Swisscom pledged to enhance the energy efficiency of set-top boxes. A prototype set-top box with low power consumption in stand-by mode was therefore developed with a manufacturer in 2008 and is scheduled to be launched at the end of 2009. Furthermore, all Bluewin TV customers are offered a power strip or remote control socket so that they can completely switch off their set-top boxes and modems.

Swisscom also formulated a new European code of conduct with Telecom Italia for all broadband terminal devices and network infrastructure, thereby triggering developments from chip manufacturers, manufacturers and organisations (HGI).

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

In 2008 we developed a new service for our employees aimed at reducing their individual CO_2 consumption and supported a business start-up which works towards achieving this goal. Over 10% of employees have signed up for the CO_2 saving programme to record their CO_2 emissions and take advantage of the special offers for eco-friendly products and services.

Involvement in European bodies

Swisscom collaborates with several working groups both in Switzerland and Europe which promote the consideration of environmental concerns in standards and products.

For instance, Swisscom leads the European Task Team (ETNO), a working group which aims to increase energy efficiency in the telecoms sector. Swisscom was also a driving force behind the formulation of the code of conduct for broadband equipment and was the first telecoms supplier to sign it on 1 March 2007. An important outcome of this declaration was the introduction of energy-saving mode for ADSL and VDSL devices which has led to a significant reduction in power consumption for this type of IT equipment over the past two years.

We have also been involved in the working groups of the European Telecommunications Standards Institute (ETSI) for four years. As part of this involvement, we have been fully supporting the application of the ETSI Standard which governs the operation of telecoms equipment in IT facilities. This harmonisation will facilitate the deployment of our new fresh air cooling technology in data centre environments.

Environmental performance indicators

	Unit	2004	2005	2006	2007	2008
Performance indicators						
Employees in Switzerland (full-time equivalents) [1]	FTE	15,477	15,199	15,909	15,959	16,104
Financial added value [2]	CHF in millions	6,598	6,334	5,947	6,204	6,020
Telecom traffic (transmitted data volume)	Mio. Gigabit	309	393	567	1,051	1,531
Ground/buildings						
Net floor space (NFS)	Mio. m^2	1.5	1.0	0.9	1.02	1.01
Paper for photocopying and printing						
Format A4 (other formats converted)	Mio. sheet	90.9	80.8	76.4	58.1	61.0
Of which recycled [3]	%	54.2	53.2	50.0	100.0	100.0
Water/wastewater						
Water consumption [4]	m^3	433,356	425,572	446,406	449,725	453,811
Energy, electricity						
Electrical energy consumption [5]	Terajoule	1,366	1,372	1,410	1,477	1,538
	GWh	380	381	392	410	427
Energy, heating						
Heating oil [6]	Terajoule	185.6	152.9	151.0	148.3	176.0
Natural gas	Terajoule	48.0	36.4	30.3	30.7	37.0
District heating	Terajoule	43.8	46.5	38.7	34.4	25.0
Total heating energy	Terajoule	277.4	235.8	220.0	213.4	238.0
Energy, fuels						
Petrol	Terajoule	89.4	86.8	92.4	96.4	98.0
Diesel	Terajoule	66.8	65.5	72.5	81.4	83.0
Total fuels	Terajoule	156.2	152.3	164.9	177.8	181.0
Total vehicls	FTE	3,455	3,275	3,215	3,166	3,392
Kilometers driven	Mio. km	58.1	60.7	63.5	66.1	70.0
Total energy						
Energy consumption	Terajoule	1,799	1,760	1,795	1,868	1,957
	GWh	500	489	499	519	544
Air emissions						
Carbon dioxide CO_2	Tonnes	27,833	24,510	24,962	25,736	28,367
Nitrous gases NO_x	Tonnes	36.5	35.2	36.1	37.2	40.6
Sulphur dioxide SO_2	Tonnes	4.8	4.3	4.5	4.7	5.1
Waste						
Waste volume [7]	Tonnes	1,492	1,390	1,304	1,265	970

1 Employees in Switzerland only, as per system limit for environmental indicators.
2 Financial added value, in Switzerland as per system limit for environmental indicators: EBITDA (operating income before interest, taxes, depreciation and amortisation) + personnel expenses.
3 For white office paper, Swisscom switched to 50% recycled TRIOTEC sandwich paper in 2003, and in 2007 to 100% recycled EVOLVE® paper.
4 Management estimate.
5 Energy conversion: 1 terajoule (TJ) = 0.278 gigawatt hours (GWh).
6 Projected heating-oil consumption.
7 Based on data provided by the Swiss Waste Exchange and the Group companies; domestic waste not included.

Glossary

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 20,000/1,000 kbps and 300/50 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 whether they are connected over the fixed or 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.

Bit-stream access
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 (Verordnung über Fernmeldedienste, FDV). whereby the market-dominant provider is required to offer alternative providers non-discriminatory access at the relevant locations, co-use of the location, and the right to install and operate telecommunications systems at the location in question.

Competition Commission (WEKO)
The Competition Commission applies 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.

DAB (Digital Audio Broadcast)
DAB is the digital radio broadcasting channel allocation within the widely used VHF band. Across Europe, intensive efforts are under way to expand DAB services.

DSL (Digital Subscriber Line)
The transmission standard used for sending and receiving data at high speed (up to 210 Mbps) over simple copper wires such as the subscriber access line.

DVB-H (Digital Video Broadcasting – Handheld)
This technology standard enables digital TV reception on mobile phones, PDAs, notebooks, portable TVs or in-vehicle TV receivers.

DVB-T (Digital Video Broadcasting – Terrestrial)
The standard for digital video broadcasting via terrestrial antennae.

EDGE (Enhanced Data Rates for GSM Evolution)
Radio modulation technology used to enhance data transmission speeds in GSM (Global System for Mobile communications) and TDMA (Time Division Multiple Access) networks. 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.

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. 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 unable to agree (objection principle).

Federal Communications Commission (ComCom)
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 conditions governing number portability and the free choice of service providers.

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

Fibre to the Home / Fibre to the Office
The use of fibre-optic cables instead of copper cables to connect homes and offices.

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.

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 infotainment 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 communication standard. HSPA enables large data volumes to be transmitted at even faster speeds and will provide even faster mobile Internet access in future.

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).

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.

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.

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

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

LRIC (Long-Run Incremental Costs)
LRIC is the method defined by the Ordinance on Telecommunications Services for calculation of regulated prices. The LRIC method is future-oriented and therefore creates economically efficient investment incentives.

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 larger mobile communication providers.

Optical fibre
The transport medium for optical data transmission.

P2P (Peer-to-Peer, File Sharing)
Peer-to-peer networks enable all connected computers to work together with reciprocal access rights, i.e. each system in the network places its functions and services at the disposal of other members of the network, and in turn can use the functions, resources and services of the other members.

PBX (Private Branche Exchanges)
A telephone exchange that enables in-house communication and call switching.

Postpaid
Postpaid refers to a contract under which mobile subscribers pay a fixed monthly charge for communication services.

Prepaid
In contrast to postpaid contracts, prepaid subscribers use existing credit to pay for communication services, without any contractual obligation.

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 Pocket PC, a WLAN card and access via a telecommunications provider. Transmission speed: up to 2 Mbps.

Roaming
The term "roaming" originally comes from the GSM world (Global System for Mobile Communications). Traditional GSM roaming is defined as the ability of a mobile network subscriber to make and receive automatic calls in another network as well as in their 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).

Swiss Federal Telecommunications Act
The aim of the Swiss Federal Telecommunications Act (Fernmeldegesetz, FMG) is to ensure that the Swiss population and economy has 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 added-value services.

Termination charges
Termination charges are levied by the operator for forwarding calls to other third-party operator networks (e.g. calls from Tele2 to Swisscom or from Sunrise to Orange, etc.).

Triple Play
The provision of three services – telephony, broadband Internet and TV – over the telephone line.

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.

Unified Communications
A method used to integrate the wide variety of modern communication techniques. Different telecommunications services such as e-mail, unified messaging, telephony, mobile, PDAs, instant messaging and presence functions are coordinated to enhance the reachability of dispersed communication partners, thereby speeding up business processes.

UMTS (Universal Mobile Telecommunication 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 rates of up to 384 kbps can be achieved, enabling for example the transmission of short video clips.

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 video films and play the selected film at any time. The film is relayed to the subscriber either over the broadband network or over DSL and the telephone network.

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 VPNs at present is IP-VPNs, where subscribers are connected over IP tunnels.

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.

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.

WWRF (Wireless World Research Forum)
A global organisation with 140 members from five continents, representing all sectors of the mobile communications industry and the research community. The aim of this organisation is to drive forward the development of mobile and wireless technologies and foster technical trends.

Index of Keywords

Swisscom Group
Five year review

CHF in millions, except where indicated		2004	2005	2006	2007	2008
Net revenue		10,057	9,732	9,652	11,089	12,198
Operating income (EBITDA) [1]		4,388	4,171	3,786	4,501	4,789
EBITDA as % of net revenue	%	43.6	42.9	39.2	40.6	39.3
Operating income (EBIT) [2]		2,695	2,777	2,351	2,515	2,640
Income from continuing operations		2,191	2,337	1,868	2,071	1,751
Net income		1,948	2,346	1,904	2,071	1,751
Net income attributable to equity holders of Swisscom Ltd		1,596	2,022	1,598	2,068	1,756
Equity at end of period		7,453	6,624	4,480	6,004	5,763
Equity ratio at end of period [3]	%	52.4	49.4	28.7	25.4	25.3
Number of full-time equivalent employees at end of period [4]	FTE	15,477	16,088	17,068	19,844	19,943
Average number of full-time equivalent employees [5]	FTE	15,664	15,455	16,734	18,755	19,801
Net revenue per employee	CHF in thousands	642	630	577	591	616
EBITDA per employee	CHF in thousands	280	270	226	240	242
Cash flow provided by operating activities		4,066	3,432	3,264	3,589	4,111
Capital expenditure in tangible and other intangible assets		1,136	1,087	1,324	2,025	2,050
Net debt (net funds) [6]		(2,518)	(1,632)	4,379	10,337	9,860
Swisscom share						
Par value per share at end of period	CHF	1.00	1.00	1.00	1.00	1.00
Average number of outstanding shares	in mio.	64.716	59.836	55.299	51.802	51.793
Price per share high	CHF	454.75	470.00	466.50	486.00	442.75
Price per share low	CHF	382.50	399.25	388.00	402.50	292.00
Income from continuing operations	CHF	33.86	33.64	28.25	39.92	33.90
Net income	CHF	24.66	33.79	28.90	39.92	33.90
Equity at end of period	CHF	104.92	100.29	79.80	107.60	339.50
Ordinary dividend	CHF	14.00	16.00	17.00	18.00	19.00 [9]
Extraordinary dividend	CHF	–	–	–	2.00	–
Payout ratio [7]	%	56.77	47.35	58.83	45.09	56.04
Market capitalisation at end of period [8]		27,543	23,523	23,894	22,896	17,587

1 Defintion operating income (EBITDA): operating income before depreciation, amortisation and impairment on tangible and intangible assets, gain on sale of subsidiaries, net financial result, share of profit of investments in associates and income tax expense.
2 Defintion operating income (EBIT): operating income before gain on sale of subsidiaries, net financial result, share of profit of investments in associates and income tax expense.
3 Equity as % of total assets.
4 Excluding 475, 512, 429, 275 and 178 full-time equivalent employees of Worklink at December 31, 2004, 2005, 2006, 2007 and 2008, respectively.
5 Excluding 433, 498, 471, 352 and 145 full-time equivalent employees of Worklink in 2004, 2005, 2006, 2007 and 2008, respectively.
6 Definition net debt (net funds): financial liabilities less cash and cash equivalents, current financial assets, financial assets from cross-border lease agreements and non-current derivative financial instruments.
7 Representing gross dividend and capital reduction in % of earnings per share.
8 Closing price at end of period, multiplied with number of outstanding shares at end of period.
9 In accordance with the proposal of the Board of Directors to the Annual General Meeting.

Publishing details

Key dates 2009
March 4, 2009
Annual Press Conference
Zurich

April 21, 2009
General Meeting of Shareholders, Zurich

April 24, 2009
Dividend distribution

Mai 6, 2009
2009 First-Quarter Report

August 12, 2009
2009 Half-Year Report

November 11, 2009
2009 Third-Quarter Report

Published by
Swisscom Ltd
Group Communications, Berne

Translation
Dr. Steiner & Partner KG, Basel and Vienna
CLS Communication AG, Basel

Photos
Marc Wetli, Zürich
Caspar Martig, Berne

Production
MDD Management Digital Data AG,
Schlieren

Printed on chlorine-free paper

The image brochure of Swisscom is published
in German, English, French and Italian.

The Annual Report is published
in English and German.

Further copies of the Annual Report
can be ordered from:
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CH-3050 Berne
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is available at:
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