

2019

Interim Report
January–June



swisscom

KPIs

In CHF million, except where indicated

		30.6.2019 ¹	30.6.2018	Change
Net revenue and results				
Net revenue		5,663	5,805	–2.4%
Operating income before depreciation and amortisation (EBITDA) ²		2,240	2,143	4.5%
EBITDA as % of net revenue	%	39.6	36.9	
Operating income (EBIT) ³		1,007	1,063	–5.3%
Net income		780	787	–0.9%
Earnings per share	CHF	15.10	15.25	–1.0%
Balance sheet and cash flows				
Equity at end of period		7,890	7,685	2.7%
Equity ratio at end of period ^{1, 4}	%	32.6	34.4	
Operating free cash flow proxy ⁵		806	1,074	–25.0%
Capital expenditure in property, plant and equipment and intangible assets		1,297	1,069	21.3%
Net debt at end of period ^{1, 6}		9,542	8,146	17.1%
Operational data at end of period				
Fixed telephony access lines in Switzerland	in thousand	1,683	1,906	–11.7%
Broadband access lines retail in Switzerland	in thousand	2,024	2,028	–0.2%
Swisscom TV access lines in Switzerland	in thousand	1,529	1,501	1.9%
Mobile access lines in Switzerland	in thousand	6,368	6,434	–1.0%
Revenue generating units (RGU) in Switzerland ⁷	in thousand	11,604	11,869	–2.2%
Unbundled fixed access lines in Switzerland	in thousand	79	95	–16.8%
Broadband access lines wholesale in Switzerland	in thousand	502	462	8.7%
Broadband access lines in Italy	in thousand	2,600	2,500	4.0%
Mobile access lines in Italy	in thousand	1,629	1,280	27.3%
Swisscom share				
Number of issued shares at end of period	in thousand	51,802	51,802	–
Market capitalisation at end of period ⁸		25,388	22,959	10.6%
Closing price at end of period	CHF	490.10	443.20	10.6%
Employees				
Full-time equivalent employees at end of period	number	19,564	19,895	–1.7%
Average number of full-time equivalent employees	number	19,667	20,284	–3.0%

1 Swisscom has been applying IFRS 16 “Leases” since 1 January 2019. The prior year’s figures have not been adjusted. As a consequence of the first-time application of IFRS 16, additional lease liabilities and right-of-use assets of CHF 1,314 million were reported with effect from 1 January 2019. As a result, the equity ratio fell to 34.2% as at 1 January 2019.

2 Definition operating income before depreciation and amortisation (EBITDA): operating income before depreciation and amortisation of property, plant and equipment, intangible assets and of right-of-use assets, gain on sale of subsidiaries, net financial result, share of results of equity-accounted investees and income tax expense. The EBITDA of the previous year includes expenses of CHF 99 million from operating leases in accordance with IAS 17.

3 Definition operating income (EBIT): operating income before gain on sale of subsidiaries, net financial result, share of results of equity-accounted investees and income tax expense.

4 Equity as a percentage of total assets.

5 Definition operating free cash flow proxy: operating income before depreciation and amortisation (EBITDA), less lease expense according to IFRS 16 and capital expenditure in property, plant and equipment and intangible assets.

6 Definition net debt: financial liabilities and lease liabilities less cash and cash equivalents, current financial assets, non-current fixed interest-bearing financial assets and derivative financial instruments for financing received.

7 Definition revenue generating units (RGU) in Switzerland: fixed telephony access lines, broadband access lines retail, Swisscom TV access lines and mobile access lines.

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

Financial review

Summary

Swisscom's operating results were within expectations in the first half of 2019. Net revenue of Swisscom fell by CHF 142 million or 2.4% to CHF 5,663 million; at constant exchange rates, net revenue declined by 1.7%. The year-on-year comparison of operating income before depreciation and amortisation (EBITDA) is affected by the application of new requirements for the recognition of leases (IFRS 16). At CHF 2,240 million, reported EBITDA was up by 4.5% or CHF 97 million, and 0.5% on a comparable basis. Net income decreased by 0.9% or CHF 7 million to CHF 780 million. The financial outlook for the 2019 financial year remains unchanged.

In the Swiss core business, revenue fell by CHF 139 million (–3.2%) as a result of ongoing price pressure and the decline in the number of connections in fixed-line telephony. In contrast, currency-adjusted revenue at Fastweb increased by CHF 44 million (+3.8%), driven by the revenue growth in business with residential and business customers. The number of customers with Fastweb increased year-on-year, by 4.0% to 2.6 million in the broadband business and by 27.3% to 1.6 million in mobile telephony. In the Swiss core business, EBITDA declined by 1.6% as a result of lower revenue, but was largely offset by the ongoing measures to reduce costs. At Fastweb, EBITDA rose in local currency by 6.6% as a result of the growth in revenue.

Swisscom's capital expenditure increased by 21.3% or CHF 228 million to CHF 1,297 million. This figure includes CHF 196 million paid for mobile radio frequencies which Swisscom acquired at auction in Switzerland. The frequencies were allocated in April 2019 and will remain with Swisscom until 2034. Due to the expenses for the mobile frequencies acquired and higher investments in the expansion of broadband networks, capital expenditure rose in Switzerland by 33.3% to CHF 961 million. Capital expenditure at Fastweb was stable at the high prior-year level of EUR 297 million.

Operating free cash flow proxy declined by CHF 268 million to CHF 806 million, primarily as a result of the CHF 196 million spent on mobile radio frequencies. Net debt climbed in the first half of 2019 by CHF 835 million to CHF 9,542 million. The main reason for the increase in net debt was the dividend payment of CHF 1,140 million made in April 2019. The number of employees at Swisscom declined by 1.7% year-on-year, to 19,564 FTEs. In Switzerland, headcount decreased by 332 FTEs to 16,871 FTEs.

Swisscom continues to expect net revenue of around CHF 11.4 billion, EBITDA of more than CHF 4.3 billion and capital expenditure of around CHF 2.5 billion (including costs of CHF 196 million for mobile radio frequencies in Switzerland) for 2019. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2019 financial year at the 2020 Annual General Meeting.

Change in accounting policies

Swisscom has been applying IFRS 16 “Leases” since 1 January 2019. IFRS 16 generally has the following effects on the reporting of leases:

- The lessee must recognise a right-of-use asset as well as a corresponding lease liability for all leases. As regards lessors, they will continue to differentiate between finance and operating leases for financial reporting purposes.
- Costs arising from leases previously reported as operating expenses must now be recognised as depreciation and interest. This leads to a substantial rise in operating income before depreciation and amortisation (EBITDA). The effect on results at net income level is insignificant.
- Reporting of additional lease liabilities results in an increase in net debt.
- The application of IFRS 16 has no effect on cash flows.

IFRS 16 has the following effects on Swisscom’s financial reporting:

- Swisscom has been applying IFRS 16 since 1 January 2019. The consolidated financial statements for 2018 were not adjusted. As a consequence of the initial application of IFRS 16, additional lease liabilities and right-of-use assets of around CHF 1.3 billion were reported with effect from 1 January 2019.
- If IFRS 16 had been applied to the results of the 2018 financial year, this would have led to an increase in operating income before depreciation and amortisation (EBITDA) of around CHF 0.2 billion and higher depreciation and interest of some CHF 0.2 billion.
- EBITDA remains the primary key performance indicator in the reporting of financial results. For comparison purposes, the costs for operating leases for 2018 are reported under EBITDA within segment reporting.
- A new key performance indicator has been introduced: operating free cash flow proxy. It comprises EBITDA less lease expense and capital expenditure. The definition of capital expenditure remains unchanged from the previous year.
- The outlook for the 2019 financial year takes account of the changes resulting from IFRS 16.

Further information regarding IFRS 16 can be found in the notes to the consolidated interim financial statements.

Segment results

In CHF million	2. quarter 2019	2. quarter 2018	Change	1 st half-year 2019	1 st half-year 2018	Change
Net revenue						
Swisscom Switzerland	2,093	2,191	−4.5%	4,256	4,395	−3.2%
Fastweb	602	606	−0.7%	1,183	1,180	0.3%
Other Operating Segments	237	228	3.9%	462	426	8.5%
Group Headquarters	–	1	−100.0%	–	1	−100.0%
Intersegment elimination	(129)	(106)	21.7%	(238)	(197)	20.8%
Net revenue	2,803	2,920	−4.0%	5,663	5,805	−2.4%
Operating income before depreciation and amortisation (EBITDA)						
Swisscom Switzerland	909	933	−2.6%	1,838	1,868	−1.6%
Fastweb	206	199	3.5%	383	371	3.2%
Other Operating Segments	48	51	−5.9%	98	92	6.5%
Group Headquarters	(21)	(31)	−32.3%	(39)	(52)	−25.0%
Reconciliation pension cost ¹	(15)	(14)	7.1%	(29)	(29)	–
Reconciliation lease expense (IAS 17) ²	–	(47)	−100.0%	–	(99)	−100.0%
Intersegment elimination	(6)	(6)	–	(11)	(8)	37.5%
Operating income before depreciation and amortisation (EBITDA)	1,121	1,085	3.3%	2,240	2,143	4.5%

¹ Operating income of segments includes ordinary employer contributions as pension fund expense. The difference to the pension cost according to IAS 19 is recognised as a reconciliation item.

² Swisscom has been applying IFRS 16 «Leases» since 1 January 2019. The operating result before depreciation and amortisation (EBITDA) of the segments for 2018 does not include any expenses for operating leases in accordance with IAS 17. The 2018 expense for operating leases in accordance with IAS 17 is shown as a reconciliation item.

Swisscom Switzerland

In CHF million, except where indicated	2. quarter 2019	2. quarter 2018	Change	1 st half-year 2019	1 st half-year 2018	Change
Net revenue and results						
Telecom services	1,489	1,571	−5.2%	2,995	3,129	−4.3%
Solution business	248	249	−0.4%	499	513	−2.7%
Merchandise	169	166	1.8%	365	339	7.7%
Wholesale	162	145	11.7%	320	286	11.9%
Revenue other	7	42	−83.3%	39	92	−57.6%
Revenue from external customers	2,075	2,173	−4.5%	4,218	4,359	−3.2%
Intersegment revenue	18	18	–	38	36	5.6%
Net revenue	2,093	2,191	−4.5%	4,256	4,395	−3.2%
Direct costs	(424)	(454)	−6.6%	(885)	(914)	−3.2%
Indirect costs	(760)	(804)	−5.5%	(1,533)	(1,613)	−5.0%
Segment expenses	(1,184)	(1,258)	−5.9%	(2,418)	(2,527)	−4.3%
Segment result before depreciation and amortisation (EBITDA)	909	933	−2.6%	1,838	1,868	−1.6%
Margin as % of net revenue	43.4	42.6		43.2	42.5	
Lease expense	(57)	(53) ¹	7.5%	(113)	(109) ¹	3.7%
Depreciation and amortisation of property, plant and equipment and intangible assets	(389)	(376)	3.5%	(770)	(746)	3.2%
Segment result	463	504	−8.1%	955	1,013	−5.7%
Operational data at end of period in thousand						
Fixed telephony access lines				1,683	1,906	−11.7%
Broadband access lines retail				2,024	2,028	−0.2%
Swisscom TV access lines				1,529	1,501	1.9%
Mobile access lines				6,368	6,434	−1.0%
Revenue generating units (RGU)				11,604	11,869	−2.2%
Unbundled fixed access lines				79	95	−16.8%
Broadband access lines wholesale				502	462	8.7%
Capital expenditure and headcount						
Capital expenditure in property, plant and equipment and intangible assets				954	711	34.2%
Full-time equivalent employees at end of period (number)				14,236	14,562	−2.2%

1 Includes expenses for operating and finance leases in accordance with IAS 17.

Net revenue for Swisscom Switzerland fell by CHF 139 million or 3.2% to CHF 4,256 million as a result of continuing price pressure and the decline in the number of connections in fixed-line telephony. Revenue from telecommunications services decreased by CHF 134 million or 4.3% to CHF 2,995 million. Of this decline, CHF 78 million (−3.0%) was attributable to the Residential Customers segment and CHF 56 million (−10.6%) to the Enterprise Customers segment. At Enterprise Customers, revenue from the solutions business contracted on the back of price pressure and lower volumes in the banking sector. This decrease was offset by higher revenue from merchandise. The number of inOne customers continues to grow. Swisscom Switzerland had a total of 2.57 million inOne customers at the end of June 2019, with the latest inOne mobile offering alone registering around 570,000 customers in its first five months since launch. In the Residential Customers segment, inOne accounts for 58% of postpaid mobile lines and 63% of broadband connections. The market is showing signs of saturation in the area of mobile communications and fixed-network services. The mobile subscriber base contracted by 66,000 (−1.0%) to 6.37 million. The number of postpaid lines grew by 73,000 year-on-year, while the number of prepaid lines fell by 139,000. Year-on-year, the number of broadband connections fell by 4,000 or 0.2% to 2.02 million. The number of TV connections increased year-on-year by 28,000 or 1.9% to 1.53 million, while the number of fixed telephony access lines fell year-on-year by 223,000 or 11.7% to 1.68 million.

Segment expense fell by CHF 109 million or 4.3% to CHF 2,418 million. Direct costs decreased by CHF 29 million or 3.2% to CHF 885 million. Higher costs for purchasing goods were offset by lower costs for subscriber acquisition and retention. Indirect costs were down 5.0% or CHF 80 million to CHF 1,533 million, mainly driven by the declining headcount and lower costs for external staff. Headcount fell year-on-year as a result of efficiency measures by 326 FTEs or 2.2% to 14,236, including 212 FTEs in the first half of 2019. The segment result before depreciation and amortisation was CHF 30 million or 1.6% lower at CHF 1,838 million as a result of lower revenue, but was largely offset by the ongoing cost-cutting measures. Due to the expenses for the mobile radio frequencies acquired and higher investments in the expansion of broadband networks, capital expenditure rose by CHF 243 million or 34.2% to CHF 954 million. As at end-June 2019, 68% of all households and businesses were connected with ultra-fast broadband exceeding 80 Mbps. 40% of all homes and offices benefit from connections with superior bandwidths of more than 200 Mbps.

Fastweb

In EUR million, except where indicated	2. quarter 2019	2. quarter 2018	Change	1 st half-year 2019	1 st half-year 2018	Change
Residential Customers	273	264	3.4%	542	521	4.0%
Enterprise Customers	214	188	13.8%	416	368	13.0%
Wholesale	45	66	–31.8%	87	119	–26.9%
Revenue from external customers	532	518	2.7%	1,045	1,008	3.7%
Intersegment revenue	3	1	200.0%	4	3	33.3%
Net revenue	535	519	3.1%	1,049	1,011	3.8%
Segment expenses	(353)	(349)	1.1%	(710)	(693)	2.5%
Segment result before depreciation and amortisation (EBITDA)	182	170	7.1%	339	318	6.6%
Margin as % of net revenue	34.0	32.8		32.3	31.5	
Lease expense	(9)	(4) ¹	125.0%	(15)	(8) ¹	87.5%
Depreciation and amortisation of property, plant and equipment and intangible assets	(134)	(121)	10.7%	(274)	(250)	9.6%
Segment result	39	45	–13.3%	50	60	–16.7%
Capital expenditure in property, plant and equipment and intangible assets				297	297	–
Full-time equivalent employees at end of period (number)				2,451	2,483	–1.3%
Broadband access lines in thousand				2,600	2,500	4.0%
Mobile access lines in thousand				1,629	1,280	27.3%

1 Includes expenses for operating and finance leases in accordance with IAS 17.

Fastweb's net revenue rose by EUR 38 million or 3.8% year-on-year to EUR 1,049 million. Despite difficult market conditions, Fastweb's broadband customer base grew by 100,000 or 4.0% year-on-year to 2.60 million. Fastweb is also growing in the fiercely competitive mobile telephony market. Year-on-year, the number of mobile access lines increased by 349,000 or 27.3% to 1.63 million. Around 33% of subscribers use a bundled offering combining fixed network and mobile. Residential customer revenue rose by EUR 21 million or 4.0% to EUR 542 million as a result of customer growth. Fastweb held its strong position in the market for business customers, with revenue from business customers up by EUR 48 million or 13.0% to EUR 416 million as a result of higher revenue with public administrations. Revenue from wholesale business, by contrast, decreased by EUR 32 million or 26.9% to EUR 87 million.

The segment result before depreciation and amortisation was CHF 21 million or 6.6% higher at CHF 339 million on the back of the growth in revenue. At EUR 297 million, capital expenditure remained at the high level of the previous year, driven by the further expansion of the network infrastructure. Fastweb's headcount was down slightly on the previous year at 2,451 FTEs.

Other Operating Segments

In CHF million, except where indicated	2. quarter 2019	2. quarter 2018	Change	1 st half-year 2019	1 st half-year 2018	Change
Revenue from external customers	128	143	−10.5%	266	270	−1.5%
Intersegment revenue	109	85	28.2%	196	156	25.6%
Net revenue	237	228	3.9%	462	426	8.5%
Segment expenses	(189)	(177)	6.8%	(364)	(334)	9.0%
Segment result before depreciation and amortisation (EBITDA)	48	51	−5.9%	98	92	6.5%
Margin as % of net revenue	20.3	22.4		21.2	21.6	
Lease expense	(3)	(4) ¹	−25.0%	(6)	(7) ¹	−14.3%
Depreciation and amortisation of property, plant and equipment and intangible assets	(17)	(15)	13.3%	(35)	(30)	16.7%
Segment result	28	32	−12.5%	57	55	3.6%
Capital expenditure in property, plant and equipment and intangible assets				19	19	–
Full-time equivalent employees at end of period (number)				2,663	2,588	2.9%

1 Includes expenses for operating and finance leases in accordance with IAS 17.

The net revenue of the Other Operating Segments rose year-on-year by CHF 36 million or 8.5% to CHF 462 million. The increase was mainly due to higher revenue from construction services rendered by cablex. The decline in revenue from external customers was driven by the loss of Billag's mandate to collect national radio and television licence fees. The segment result before depreciation and amortisation improved year-on-year by CHF 6 million or 6.5% to CHF 98 million. This corresponds to a profit margin of 21.2%. Headcount rose by 75 FTEs or 2.9% to 2,663 FTEs, driven primarily by the hiring of new employees at cablex to cope with higher order volumes.

Group Headquarters and reconciliation

In CHF million, except where indicated	2. quarter 2019	2. quarter 2018	Change	1 st half-year 2019	1 st half-year 2018	Change
Group Headquarters	(21)	(31)	−32.3%	(39)	(52)	−25.0%
Reconciliation pension cost	(15)	(14)	7.1%	(29)	(29)	–
Reconciliation lease expense (IAS 17)	–	(47)	−100.0%	–	(99)	−100.0%
Intersegment elimination	(6)	(6)	–	(11)	(8)	37.5%
Operating income before depreciation and amortisation (EBITDA)	(42)	(98)	−57.1%	(79)	(188)	−58.0%

In 2018, the expense relating to operating lease arrangements were recognised as an operating expense and are shown here as a reconciliation item. As of 1 January 2019, this expense will be replaced by depreciation and interest. The other net costs not assigned to the operating segments, which comprise Group Headquarters, pension cost reconciliation and inter-segment eliminations, declined by CHF 10 million to CHF 79 million.

Depreciation and amortisation, non-operating results

In CHF million, except where indicated	2. quarter 2019	2. quarter 2018	Change	1 st half-year 2019	1 st half-year 2018	Change
Operating income before depreciation and amortisation (EBITDA)	1,121	1,085	3.3%	2,240	2,143	4.5%
Depreciation and amortisation of property, plant and equipment and intangible assets	(557)	(540)	3.1%	(1,111)	(1,080) ¹	2.9%
Depreciation of right-of-use assets	(62)	–		(122)	–	
Operating income (EBIT)	502	545	–7.9%	1,007	1,063	–5.3%
Net interest expense on financial assets and liabilities	(16)	(29)	–44.8%	(31)	(58)	–46.6%
Interest expense on lease liabilities	(7)	(6)	16.7%	(15)	(12)	25.0%
Other financial result	(28)	6		(25)	–	
Result of equity-accounted investees	–	2		2	–	
Income before income taxes	451	518	–12.9%	938	993	–5.5%
Income tax expense	(54)	(110)	–50.9%	(158)	(206)	–23.3%
Net income	397	408	–2.7%	780	787	–0.9%
Share of net income attributable to equity holders of Swisscom Ltd	397	409	–2.9%	782	790	–1.0%
Share of net income attributable to non-controlling interests	–	(1)	–100.0%	(2)	(3)	–33.3%
Earnings per share (in CHF)	7.66	7.90	–3.0%	15.10	15.25	–1.0%

1 Including depreciation of assets under finance leases of CHF 16 million.

Due to the application of IFRS 16 Leases effective 1 January 2019, right-of-use assets are recognised and depreciated. The depreciation of right-of-use assets amounted to CHF 122 million in the first half of 2019. The depreciation and amortisation of property, plant and equipment and intangible assets increased by CHF 31 million or 2.9% year-on-year to CHF 1,111 million, mainly reflecting an increase in depreciation and amortisation at Swisscom Switzerland. Net interest expense excluding leasing declined from CHF 58 million to CHF 31 million as a result of lower average interest expense. Income tax expense was CHF 158 million (prior year: CHF 206 million), corresponding to an effective income tax rate of 16.8% (prior year: 20.7%). Income tax expense for the first half of 2019 includes positive tax effects of CHF 33 million resulting from the revaluation of deferred income tax items in connection with the adoption of the Swiss tax reform. The revaluation was in response to the federal and cantonal tax laws that came into force on 30 June 2019. Further changes to cantonal tax laws are expected to take effect during the course of the year and result in another tax rate reduction and additional positive tax effects from the valuation of deferred income tax items. Swisscom's net income decreased by CHF 7 million or 0.9% to CHF 780 million, and earnings per share were down accordingly from CHF 15.25 to CHF 15.10.

Cash flows

In CHF million	1 st half-year 2019	1 st half-year 2018	Change
Operating income before depreciation and amortisation (EBITDA)	2,240	2,143	97
Capital expenditure in property, plant and equipment and intangible assets	(1,297)	(1,069)	(228)
Lease expense (IFRS 16)	(137)	–	(137)
Operating free cash flow proxy	806	1,074	(268)
Change in net working capital	(161)	(358)	197
Change in defined benefit obligations	26	30	(4)
Net interest paid on financial assets and liabilities	(5)	(5)	–
Interest paid on finance lease liabilities	–	(12)	12
Income taxes paid	(293)	(272)	(21)
Other operating cash flow	3	6	(3)
Free cash flow	376	463	(87)
Net expenditures for company acquisitions and disposals	(288)	(37)	(251)
Other cash flows from investing activities, net	17	16	1
Repayment of finance lease liabilities according to IAS 17	–	(14)	14
Issuance and repayment of financial liabilities, net	922	701	221
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Other cash flows from financing activities	(6)	(6)	–
Net decrease in cash and cash equivalents	(119)	(17)	(102)

Operating free cash flow proxy declined by CHF 268 million to CHF 806 million, owing largely to higher capital expenditure. Capital expenditure increased year-on-year by CHF 228 million or 21.3% to CHF 1,297 million. This was driven by expenses of CHF 196 million for the mobile radio frequencies purchased by Swisscom Switzerland at auction in the first half of 2019.

Free cash flow declined year-on-year by CHF 87 million to CHF 376 million. Excluding Swisscom's purchase of mobile radio frequencies, free cash flow rose by CHF 109 million or 23.6%. This increase is attributable to the improvement in net working capital. Net working capital grew by CHF 161 million compared to the end of 2018 (prior year: increase of CHF 358 million).

In the first quarter of 2019, Swisscom issued a debenture bond for CHF 200 million. It has a coupon of 0.5% and matures in 2029. In addition, in May 2019 Swisscom increased a debenture bond by CHF 80 million. It has a coupon of 0.75% and matures in 2033. Net expenditure for company acquisitions and disposals includes the purchase price of CHF 240 million paid to Tamedia for the acquisition of the outstanding share of 31% in Swisscom Directories Ltd.

Balance sheet

In CHF million, except where indicated	30.6.2019	1.1.2019 ¹	Change
Property, plant and equipment	10,685	10,613	0.7%
Goodwill	5,182	5,164	0.3%
Intangible assets	1,890	1,770	6.8%
Right-of-use assets	1,746	1,683	3.7%
Trade receivables	2,196	2,189	0.3%
Trade payables	(1,537)	(1,658)	–7.3%
Provisions	(1,083)	(1,032)	4.9%
Deferred gain on sale and leaseback of real estate	(128)	(134)	–4.5%
Other operating assets and liabilities, net	128	194	–34.0%
Net operating assets	19,079	18,789	1.5%
Net debt excluding lease liabilities	(7,787)	(7,009)	11.1%
Lease liabilities	(1,755)	(1,698)	3.4%
Net debt	(9,542)	(8,707)	9.6%
Defined benefit obligations	(1,169)	(1,196)	–2.3%
Income tax assets and liabilities, net	(773)	(895)	–13.6%
Equity-accounted investees and other non-current financial assets	295	217	35.9%
Equity	7,890	8,208	–3.9%
Equity ratio at end of period (in %)	32.6	34.2	

¹ Including effect of initially applying IFRS 16.

Equity fell by CHF 318 million or 3.9% to CHF 7,890 million, which corresponds to an equity ratio of 32.6% (34.2% as at 1 January 2019). The dividend payment amounted to CHF 1,140 million, compared to net income of CHF 780 million and other net positive effects recognised in equity of CHF 26 million. Cumulative currency translation losses included in equity remained unchanged from the end of 2018 at around CHF 1.7 billion.

Outlook

The financial outlook for 2019 remains unchanged. Swisscom expects net revenue of around CHF 11.4 billion, EBITDA of more than CHF 4.3 billion and capital expenditure of around CHF 2.5 billion (including costs of CHF 196 million for mobile radio frequencies in Switzerland) for 2019. Due to strong competition and price pressure and the ongoing decline in the number of fixed-line telephone connections, Swisscom expects revenue to be slightly lower without Fastweb. Fastweb's revenue is expected to increase slightly from 2018. The outlook for EBITDA in 2019 reflects the effect of the new accounting standard for leasing (IFRS 16) applicable from 2019 onwards. The application of IFRS 16 has increased reported EBITDA by around CHF 200 million. On a like-for-like basis and excluding the effects of IFRS 16, Group EBITDA will be lower in 2019 than in 2018. For Swisscom, excluding Fastweb, the decline in revenue cannot be fully compensated by cost savings. In contrast, an increase in EBITDA is anticipated for Fastweb on a like-for-like basis. Capital expenditure in Switzerland, excluding costs for acquiring additional mobile radio frequencies at auction, will be slightly less than in the previous year. Fastweb's capital expenditure is expected to be lower, because it will exclude the EUR 64 million spent on mobile radio frequencies in 2018. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2019 financial year at the 2020 Annual General Meeting.

Consolidated interim financial statements

Consolidated statement of comprehensive income (unaudited)

In CHF million, except for per share amounts	Note	2. quarter 2019	2. quarter 2018	1 st half-year 2019	1 st half-year 2018
Income statement					
Net revenue	2	2,803	2,920	5,663	5,805
Direct costs	3	(656)	(692)	(1,339)	(1,396)
Personnel expense	3	(687)	(714)	(1,411)	(1,437)
Other operating expense	3	(500)	(540)	(948)	(1,043)
Capitalised self-constructed assets and other income	3	161	111	275	214
Operating income before depreciation, amortisation and impairment losses		1,121	1,085	2,240	2,143
Depreciation and amortisation of property, plant and equipment and intangible assets		(557)	(540)	(1,111)	(1,080)
Depreciation of right-of-use assets		(62)	–	(122)	–
Operating income		502	545	1,007	1,063
Financial income	7	1	13	27	30
Financial expense	7	(52)	(42)	(98)	(100)
Result of equity-accounted investees		–	2	2	–
Income before income taxes		451	518	938	993
Income tax expense		(54)	(110)	(158)	(206)
Net income		397	408	780	787
Other comprehensive income					
Actuarial gains and losses from defined benefit pension plans		251	45	43	103
Change in fair value of equity instruments		(1)	(1)	–	2
Items that will not be reclassified to income statement		250	44	43	105
Foreign currency translation adjustments of foreign subsidiaries		(9)	(16)	(20)	(3)
Change in cash flow hedges		(1)	(4)	3	8
Other comprehensive income from equity-accounted investees		–	1	–	2
Items that are or may be reclassified subsequently to income statement		(10)	(19)	(17)	7
Other comprehensive income		240	25	26	112
Comprehensive income					
Net income		397	408	780	787
Other comprehensive income		240	25	26	112
Comprehensive income		637	433	806	899
Share of net income and comprehensive income					
Equity holders of Swisscom Ltd		397	409	782	790
Non-controlling interests		–	(1)	(2)	(3)
Net income		397	408	780	787
Equity holders of Swisscom Ltd		638	434	809	902
Non-controlling interests		(1)	(1)	(3)	(3)
Comprehensive income		637	433	806	899
Earnings per share					
Basic and diluted earnings per share (in CHF)		7.66	7.90	15.10	15.25

Consolidated balance sheet (unaudited)

In CHF million	Note	30.6.2019	31.12.2018
Assets			
Cash and cash equivalents		353	474
Trade receivables	8	2,196	2,189
Other operating assets	8	1,249	1,243
Other financial assets		84	82
Current income tax assets		7	2
Total current assets		3,889	3,990
Property, plant and equipment		10,685	10,894
Goodwill		5,182	5,164
Intangible assets	9	1,890	1,858
Right-of-use assets	6	1,746	–
Equity-accounted investees		175	174
Other financial assets		460	339
Deferred tax assets		169	167
Total non-current assets		20,307	18,596
Total assets		24,196	22,586
Liabilities and equity			
Financial liabilities	5	1,744	1,334
Lease liabilities	5, 6	220	27
Trade payables	8	1,537	1,658
Provisions	10	110	131
Other operating liabilities	8	1,121	1,127
Current income tax liabilities		150	250
Total current liabilities		4,882	4,527
Financial liabilities	5	6,820	6,449
Lease liabilities	5, 6	1,535	357
Defined benefit obligations		1,169	1,196
Provisions	10	973	901
Deferred gain on sale and leaseback of real estate		128	134
Deferred tax liabilities		799	814
Total non-current liabilities		11,424	9,851
Total liabilities		16,306	14,378
Share capital		52	52
Capital reserves		136	136
Retained earnings		9,441	9,759
Foreign currency translation adjustments		(1,748)	(1,728)
Other reserves		7	4
Equity attributable to equity-holders of Swisscom Ltd		7,888	8,223
Non-controlling interests		2	(15)
Total equity		7,890	8,208
Total liabilities and equity		24,196	22,586

Consolidated statement of cash flows (unaudited)

In CHF million	Note	1 st half-year 2019	1 st half-year 2018
Net income		780	787
Income tax expense		158	206
Result of equity-accounted investees		(2)	–
Financial income	7	(27)	(30)
Financial expense	7	98	100
Depreciation and amortisation of property, plant and equipment and intangible assets		1,111	1,080
Depreciation of right-of-use assets		122	–
Gain on sale of property, plant and equipment		(4)	(4)
Loss on disposal of property, plant and equipment		–	3
Expense for share-based payments		1	1
Change in provisions		(4)	(28)
Change in defined benefit obligations		26	30
Change in operating assets and liabilities	8	(151)	(324)
Change in deferred gain from the sale and leaseback of real estate		(6)	(6)
Interest received		11	11
Interest paid on financial liabilities		(16)	(16)
Interest paid on lease liabilities		(15)	(12)
Dividends received		18	18
Income taxes paid		(293)	(272)
Cash flow from operating activities		1,807	1,544
Purchase of property, plant and equipment and intangible assets		(1,297)	(1,069)
Sale of property, plant and equipment and intangible assets		7	6
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5	(281)	(18)
Purchase of equity-accounted investees		(7)	(19)
Purchase of other financial assets		(8)	(19)
Proceeds from other financial assets		16	17
Cash flow used in investing activities		(1,570)	(1,102)
Issuance of financial liabilities	5	957	738
Repayment of financial liabilities	5	(35)	(37)
Repayment of lease liabilities	5	(132)	(14)
Dividends paid to equity holders of Swisscom Ltd		(1,140)	(1,140)
Dividends paid to non-controlling interests		(1)	(1)
Other cash flows from financing activities		(5)	(5)
Cash flow used in financing activities		(356)	(459)
Net decrease in cash and cash equivalents		(119)	(17)
Cash and cash equivalents at 1 January		474	525
Foreign currency translation adjustments in respect of cash and cash equivalents		(2)	(2)
Cash and cash equivalents at the end of period		353	506

Consolidated statement of changes in equity (unaudited)

In CHF million	Share capital	Capital reserves	Retained earnings	Foreign currency translation adjustments	Other reserves	Equity attributable to equity holders of Swisscom	Non-controlling interests	Total equity
Balance at 1 January 2018	52	136	9,452	(1,689)	(2)	7,949	(11)	7,938
Net income	–	–	790	–	–	790	(3)	787
Other comprehensive income	–	–	107	(3)	8	112	–	112
Comprehensive income	–	–	897	(3)	8	902	(3)	899
Dividends paid	–	–	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	–	–	(13)	–	–	(13)	2	(11)
Balance at 30 June 2018	52	136	9,196	(1,692)	6	7,698	(13)	7,685
Balance at 31 December 2018	52	136	9,759	(1,728)	4	8,223	(15)	8,208
Net income	–	–	782	–	–	782	(2)	780
Other comprehensive income	–	–	43	(20)	3	26	–	26
Comprehensive income	–	–	825	(20)	3	808	(2)	806
Dividends paid	–	–	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	–	–	(3)	–	–	(3)	20	17
Balance at 30 June 2019	52	136	9,441	(1,748)	7	7,888	2	7,890

Notes to the interim financial statements

About this report

General information

The Swisscom Group (hereinafter referred to as “Swisscom”) provides telecommunication services and is active primarily in Switzerland and Italy. The unaudited consolidated financial statements as of 30 June 2019 comprise Swisscom Ltd, as parent company, and its subsidiaries. Swisscom Ltd is a limited-liability company incorporated in accordance with Swiss law under a private statute and has its registered office in Ittigen (Berne). Its address is: Swisscom Ltd, Alte Tiefenastrasse 6, 3048 Worblaufen. Swisscom is listed on the SIX Swiss Exchange. The number of issued shares is unchanged from the prior year at 51,801,943. The shares have a nominal value of CHF 1 and are fully paid-up. Each share entitles the holder to one vote. The majority shareholder of Swisscom Ltd is the Swiss Confederation (“Confederation”). The Confederation is obligated by current law to hold the majority of the capital and voting rights. The Board of Directors of Swisscom approved the issuance of these consolidated interim financial statements on 14 August 2019. No material events after the reporting date have occurred.

Basis of preparation

The consolidated interim financial statements for the six months to 30 June 2019 have been prepared in accordance with International Accounting Standard “IAS 34 Interim Financial Reporting” and should be read in conjunction with the consolidated annual financial statements for the financial year ended 31 December 2018. The consolidated interim financial statements were prepared in accordance with the accounting policies described in the 2018 consolidated financial statements and the revised accounting principles adopted on 1 January 2019.

In preparing the consolidated interim financial statements, management is required to make estimates and assumptions. Adjustments are made for changes in estimates and assumptions during the reporting period in which the original estimates and assumptions changed.

Swisscom operates in business areas where the provision of services is not subject to any major seasonal or cyclical fluctuations during the financial year. Income taxes are calculated on the basis of an estimate of the expected income tax rate for the full year. For the consolidated interim financial statements, a CHF/EUR exchange rate of 1.111 was used as the end-of-period rate (31 December 2018: CHF/EUR 1.127) and 1.128 as the average rate for the period (prior year: CHF/EUR 1.167).

1 Changes in accounting policies

As of 1 January 2019, Swisscom adopted various amendments to existing International Financial Reporting Standards (IFRS) and Interpretations; with the exception of the changes described below, these have no material impact on the results or financial position of the Group.

IFRS 16 Leases

IFRS 16 (in force as from 1 January 2019) replaces IAS 17, IFRIC 4 and SIC 27 and lays down the principles governing the recognition, measurement and disclosure of leases. For the lessee, IFRS 16 introduces a single accounting model for leases. The differentiation between finance and operating leases required until now under IAS 17 is thus dropped in future for the lessee. The lessee recognises leasing liabilities in its balance sheet for all future lease payments to be made as well as a right to use the underlying asset. In future, depreciation and amortisation and interest will be recognised in the income statement instead of rental expense. This will lead to a material increase in operating income before depreciation, amortisation and impairment losses. In the statement of cash flows, the share of the lease payments representing amortisation under the leases to be

accounted for under the new rules will reduce cash flows from financing activities and no longer cash flows from operating activities, as previously. Interest payments will continue to be reported as cash flows from operating activities. As regards lessors, they will continue to differentiate between finance and operating leases for financial reporting purposes. In this regard, the accounting model foreseen under IFRS 16 does not materially differ from the previous provisions under IAS 17.

Swisscom has elected to apply the modified retrospective approach for the initial adoption of IFRS 16. For reasons of simplicity, a reassessment as to whether a contract as of 1 January 2019 constitutes or includes a lease was dispensed with. The payment obligations arising under the operating leases disclosed in note 2.3 of the 2018 Annual Report for the most part comprise leasing payments from the rental of operation and office buildings as well as of antenna sites. The net present value of the payment obligations arising from current operating leases will be accounted for as a lease liability. The corresponding right-of-use assets are recognised in the amount of the lease liabilities. The reconciliation of payment obligations from operating leases as at 31 December 2018 for initial recognition as at 1 January 2019 is as follows:

In CHF million	1.1.2019
Obligations from operating leases as at 31 December 2018	1,298
Lease contracts and options previously not taken into account	102
Discounting	(86)
Carrying amount of finance lease liabilities as of 31 December 2018	384
Lease liabilities as of 1 January 2019	1,698

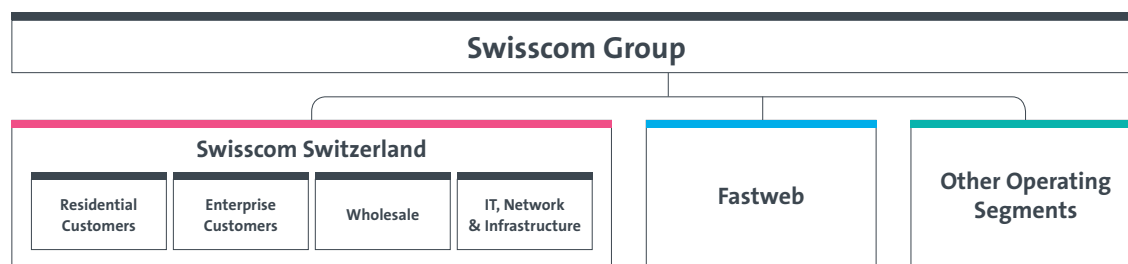
The lease liabilities were discounted using the incremental borrowing rate of interest applicable as at 1 January 2019. The weighted average interest was 0.6%. The impact of the first-time adoption of IFRS 16 on the balance sheet as at 1 January 2019 was as follows:

In CHF million	31.12.2018	Application IFRS 16	1.1.2019
Property, plant and equipment	10,894	(281)	10,613
Intangible assets	1,858	(88)	1,770
Right-of-use assets	–	1,683	1,683
Other financial assets	421	78	499
Other assets	9,413	–	9,413
Total assets	22,586	1,392	23,978
Financial liabilities	8,167	(306)	7,861
Lease liabilities	–	1,698	1,698
Miscellaneous liabilities	6,211	–	6,211
Total liabilities	14,378	1,392	15,770
Total equity	8,208	–	8,208
Total liabilities and equity	22,586	1,392	23,978

From the first-time adoption of IFRS 16 as at 1 January 2019, additional right-of-use assets and lease liabilities amounting to CHF 1,314 million are recognised. The prior year's comparative figures were not restated. The adoption of IFRS 16 has no impact on equity as of 1 January 2019. With regard to the 2018 financial year, the application of IFRS 16 would have led to an increase in operating income before depreciation, amortisation and impairment losses (EBITDA) of some CHF 0.2 billion and to higher depreciation and amortisation as well as interest expense of a combined aggregate amount of some CHF 0.2 billion. In addition, because SIC 27 no longer applies, other financial assets and financial liabilities previously not recognised in the balance sheet amounting to USD 79 million (CHF 78 million) are recognised. The Italian subsidiary, Fastweb, procures various access services from other fixed-network operators for the use of access lines to the end customer. A part of these access services is now classified as leases in accordance with IFRS 16. The value of the individual access lines fulfils the criterion as an asset of low value. Swisscom will apply the low value exemption of IFRS 16 for these leases. Accordingly, no right-of-use assets and lease liabilities will be recognised for these access services, the costs of which will continue to be reported as operating expense.

2 Segment information

General information



Reporting is divided into the segments “Residential Customers”, “Enterprise Customers”, “Wholesale”, and “IT, Network & Infrastructure”, which are grouped under Swisscom Switzerland, as well as “Fastweb” and “Other Operating Segments”. In addition, “Group Headquarters”, which includes non-allocated costs, is disclosed separately in segment reporting. Various areas were transferred between the segments of Swisscom Switzerland as at 1 January 2019. The prior year’s figures have been restated accordingly.

Group Headquarters does not charge any management fees to other segments for its financial management services, nor does the IT, Network & Infrastructure segment charge any network costs to other segments. The remaining services between the segments are recharged at market prices. The results of the Residential Customers, Enterprise Customers and Wholesale segments thus correspond to a contribution margin before network costs.

Indirect costs include personnel expense, other operating expense less capitalised costs of self-constructed assets and other income. Pension cost includes ordinary employer contributions. The difference between the ordinary employer contributions and the pension cost as provided for under IAS 19 is reported in the column “Eliminations”. In the first half of 2019, an expense of CHF 29 million is disclosed under “Eliminations” as a pension cost reconciliation item in accordance with IAS 19 (prior year: CHF 29 million).

Leases between the segments are not recognised in the balance sheet in accordance with IFRS 16. The reported lease expense of the segments in 2019 comprises depreciation and interest on the right-of-use asset and the accounting for the rental of buildings between segments. The lease expense of assets of low value is reported as direct costs. The lease expense of the segments in 2018 comprises the expense for operating and finance leases in accordance with IAS 17 and the accounting for the rental of buildings between segments. The reconciliation of the indirect costs of the segments to the consolidated values is reported in the column “Eliminations”. For the first six months of 2018, an expense of CHF 99 million is disclosed under “Eliminations” as an indirect cost reconciliation item.

Swisscom Switzerland sells some mobile handsets on a subsidised basis in a bundled offering with a mobile communications contract. As a result of the reallocation of revenue over the pre-delivered components (mobile handset), revenue is recognised earlier than the date of invoicing. This results in the recognition of contract assets deriving from this business. In segment reporting of Swisscom Switzerland, the recognition and dissolution of these contract assets is reported as other revenue. The amounts invoiced are reported under revenue from telecommunications services or merchandise.

Segment information 2019

1 st half-year 2019, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Headquarters	Elimination	Total
Residential Customers	2,777	611	–	–	–	3,388
Enterprise Customers	1,121	469	266	–	–	1,856
Wholesale customers	320	99	–	–	–	419
Net revenue from external customers	4,218	1,179	266	–	–	5,663
Net revenue from other segments	38	4	196	–	(238)	–
Net revenue	4,256	1,183	462	–	(238)	5,663
Direct costs	(885)	(440)	(28)	–	14	(1,339)
Indirect costs ¹	(1,533)	(360)	(336)	(39)	184	(2,084)
Segment result before depreciation and amortisation	1,838	383	98	(39)	(40)	2,240
Lease expense	(113)	(18)	(6)	(1)	1	(137)
Depreciation and amortisation of property, plant and equipment and intangible assets	(770)	(309)	(35)	–	3	(1,111)
Segment result	955	56	57	(40)	(36)	992
Interest expense on lease liabilities						15
Operating income						1,007
Financial income and financial expense, net						(71)
Result of equity-accounted investees						2
Income before income taxes						938
Income tax expense						(158)
Net income						780
Segment result before depreciation and amortisation	1,838	383	98	(39)	(40)	2,240
Lease expense	(113)	(18)	(6)	(1)	1	(137)
Capital expenditure in property, plant and equipment and intangible assets	(954)	(335)	(19)	–	11	(1,297)
Operating free cash flow proxy	771	30	73	(40)	(28)	806

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

Segment information Swisscom Switzerland 2019

1 st half-year 2019, in CHF million	Residential Customers	Enterprise Customers	Wholesale	IT, Network & Infrastructure	Elimination	Total Swisscom Switzerland
Telecom services	2,524	471	–	–	–	2,995
Solution business	–	499	–	–	–	499
Merchandise	237	128	–	–	–	365
Wholesale	–	–	320	–	–	320
Revenue other	16	11	–	12	–	39
Net revenue from external customers	2,777	1,109	320	12	–	4,218
Net revenue from other segments	41	54	144	32	(233)	38
Net revenue	2,818	1,163	464	44	(233)	4,256
Direct costs	(583)	(397)	(194)	(6)	295	(885)
Indirect costs ¹	(485)	(411)	(8)	(566)	(63)	(1,533)
Segment result before depreciation and amortisation	1,750	355	262	(528)	(1)	1,838
Lease expense	(26)	(14)	–	(73)	–	(113)
Depreciation and amortisation of property, plant and equipment and intangible assets	(56)	(35)	–	(680)	1	(770)
Segment result	1,668	306	262	(1,281)	–	955
Capital expenditure in property, plant and equipment and intangible assets	(10)	(19)	–	(925)	–	(954)

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

Segment information 2018

1 st half-year 2018, in CHF million, adjusted	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Headquarters	Elimination	Total
Residential Customers	2,904	608	–	–	–	3,512
Enterprise Customers	1,169	430	270	–	–	1,869
Wholesale customers	286	138	–	–	–	424
Net revenue from external customers	4,359	1,176	270	–	–	5,805
Net revenue from other segments	36	4	156	1	(197)	–
Net revenue	4,395	1,180	426	1	(197)	5,805
Direct costs	(914)	(463)	(28)	–	9	(1,396)
Indirect costs ¹	(1,613)	(346)	(306)	(53)	52	(2,266)
Segment result before depreciation and amortisation	1,868	371	92	(52)	(136)	2,143
Lease expense	(109)	(10)	(7)	(1)	127	–
Depreciation and amortisation of property, plant and equipment and intangible assets	(746)	(291)	(30)	–	(13)	(1,080)
Segment result	1,013	70	55	(53)	(22)	1,063
Financial income and financial expense, net						(70)
Result of equity-accounted investees						–
Income before income taxes						993
Income tax expense						(206)
Net income						787
Segment result before depreciation and amortisation	1,868	371	92	(52)	(136)	2,143
Lease expense	(109)	(10)	(7)	(1)	127	–
Capital expenditure in property, plant and equipment and intangible assets	(711)	(347)	(19)	–	8	(1,069)
Operating free cash flow proxy	1,048	14	66	(53)	(1)	1,074

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

Segment information Swisscom Switzerland 2018

1 st half-year 2018, in CHF million, adjusted	Residential Customers	Enterprise Customers	Wholesale	IT, Network & Infrastructure	Elimination	Total Swisscom Switzerland
Telecom services	2,602	527	–	–	–	3,129
Solution business	–	513	–	–	–	513
Merchandise	232	107	–	–	–	339
Wholesale	–	–	286	–	–	286
Revenue other	70	12	–	10	–	92
Net revenue from external customers	2,904	1,159	286	10	–	4,359
Net revenue from other segments	41	53	140	30	(228)	36
Net revenue	2,945	1,212	426	40	(228)	4,395
Direct costs	(651)	(367)	(194)	(6)	304	(914)
Indirect costs ¹	(510)	(434)	(9)	(584)	(76)	(1,613)
Segment result before depreciation and amortisation	1,784	411	223	(550)	–	1,868
Lease expense	(25)	(17)	–	(67)	–	(109)
Depreciation and amortisation of property, plant and equipment and intangible assets	(77)	(36)	–	(634)	1	(746)
Segment result	1,682	358	223	(1,251)	1	1,013
Capital expenditure in property, plant and equipment and intangible assets	(21)	(20)	–	(670)	–	(711)

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

3 Operating costs

Direct costs

In CHF million	1.1.–30.6.2019	1.1.–30.6.2018
Customer premises equipment and merchandise	497	544
Services purchased	305	280
Costs to obtain a contract	169	172
Costs to fulfill a contract	8	24
Traffic fees of foreign subsidiaries	197	216
International traffic fees	118	111
National traffic fees	45	49
Total direct costs	1,339	1,396

Indirect costs

In CHF million	1.1.–30.6.2019	1.1.–30.6.2018
Salary and social security expenses	1,378	1,406
Other personnel expense	33	31
Total personnel expense	1,411	1,437
Information technology cost	121	136
Maintenance expense	157	150
Rental expense	–	99
Energy costs	59	55
Advertising and selling expenses	103	93
Consultancy expenses and freelance workforce	75	89
Administration expense	49	50
Allowances for receivables	44	37
Miscellaneous operating expenses	340	334
Total other operating expense	948	1,043
Capitalised self-constructed assets	(180)	(167)
Gain on sale of property, plant and equipment	(4)	(4)
Miscellaneous income	(91)	(43)
Total capitalised self-constructed assets and other income	(275)	(214)
Total indirect costs	2,084	2,266

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

4 Dividends

On 2 April 2019, the Annual General Meeting of Swisscom Ltd approved the payment of an unchanged gross dividend of CHF 22 per share. A total dividend amount of CHF 1,140 million was paid out on 8 April 2019.

5 Financial liabilities

In CHF million	Carrying amount 1.1.2019	Issuance	Repayment	Other changes ^a	Carrying amount 30.6.2019	Fair Value ^b
Financial liabilities						
Bank loans	1,233	647	(34)	(27)	1,819	1,851 ²
Debenture bonds	5,554	280	–	49	5,883	6,194 ¹
Private placements	426	–	–	1	427	434 ²
Derivative financial instruments	54	–	–	25	79	79 ²
Other financial liabilities	594	30	(241)	(27)	356	356 ²
Total financial liabilities	7,861	957	(275)	21	8,564	8,914
Lease liabilities						
Lease liabilities	1,698	–	(132)	189	1,755	1,997 ²

a Interest expense, interest payments, non-cash changes in lease liabilities and foreign currency translation adjustments.

b Hierarchical levels 1–3 for measuring the fair value.

In the first quarter of 2019, Swisscom issued a debenture bond for CHF 200 million. It has a coupon of 0.5% and matures in 2029. In addition, in May 2019 Swisscom increased a debenture bond by CHF 80 million. The bond was issued in 2017. It has a coupon of 0.75% and matures in 2033. The financing thus received was applied to repay existing debts. As at 30 June 2019, Swisscom also had short-term bank loans on a weekly and monthly basis.

Repayment of other liabilities includes the purchase price of CHF 240 million paid to Tamedia for the acquisition of the outstanding share of 31% in Swisscom Directories Ltd. In the cash flow statement this payment is reported under the line item “Acquisition of subsidiaries, net of cash and cash equivalents acquired”.

6 Leases

Swisscom applied IFRS 16 “Leases” as at 1 January 2019 and elected to apply the modified retroactive approach for the first-time application. With this approach, right-of-use assets and lease liabilities were recognised in the same amount in the balance sheet. For further information, see Note 1, changes in accounting policies.

The leases of Swisscom comprise, in particular, the rental of operation and office buildings, of antenna sites and of network infrastructure. The Italian subsidiary, Fastweb, procures various access services from other fixed-network operators for the use of access lines to the end customer. Under IFRS 16 part of these access services is classified as a lease. The value of the individual access lines fulfils the criterion as an asset of low value. Swisscom applies the low value exemption of IFRS 16 for these leases. Accordingly, no right-of-use assets and lease liabilities will be recognised for these access services, the costs of which will be reported as direct costs.

Rights-of-use assets

In CHF million	30.6.2019	1.1.2019
Land and buildings	1,607	1,570
Technical installations and network infrastructure	136	111
Other right-of-use assets	3	2
Net carrying amount of right-of-use assets	1,746	1,683

Lease liabilities

In CHF million	30.6.2019	1.1.2019
Land and buildings	1,617	1,586
Technical installations and network infrastructure	135	110
Other leases	3	2
Total lease liabilities	1,755	1,698
Thereof current lease liabilities	220	210
Thereof non-current lease liabilities	1,535	1,488

Lease expenses

In CHF million	IFRS 16 1.1.–30.6.2019	IAS 17 1.1.–30.6.2018
Depreciation of right-of-use assets	122	–
Interest expense on lease liabilities	15	–
Expense relating to operating leasing	–	99 ¹
Depreciation of assets under finance lease	–	16 ²
Interest expense on finance lease liabilities	–	12
Expense relating to leases of low value assets	64 ³	–

1 Disclosed under indirect costs.

2 Disclosed under depreciation and amortisation of property, plant and equipment and intangible assets.

3 Disclosed under direct costs.

7 Financial result

In CHF million	1.1.–30.6.2019	1.1.–30.6.2018
Interest income on financial assets	6	5
Change in fair value of interest rate swaps	–	9
Foreign exchange gains	1	5
Other financial income	20	11
Total financial income	27	30
Interest expense on financial liabilities	(37)	(63)
Interest expense on lease liabilities	(15)	(12)
Interest expense on defined benefit obligations	(4)	(3)
Change in fair value of interest rate swaps	(23)	–
Other financial expense	(19)	(22)
Total financial expense	(98)	(100)
Financial income and financial expense, net	(71)	(70)
Interest expense on lease liabilities	(15)	(12)
Net interest expense on financial assets and liabilities	(31)	(58)

8 Operating net working capital

Operating assets and liabilities changed as follows in the first six months of 2019:

In CHF million	31.12.2018	Operational changes	Other changes ¹	30.6.2019
Trade receivables	2,189	15	(8)	2,196
Other operating assets	1,243	33	(27)	1,249
Trade payables	(1,658)	100	21	(1,537)
Other operating liabilities	(1,127)	3	3	(1,121)
Total operating assets and liabilities, net	647	151	(11)	787

¹ Foreign currency translation, non-cash transactions and adjustments from acquisition and sale of subsidiaries.

Other operating assets and liabilities

In CHF million	30.6.2019	31.12.2018
Other operating assets		
Contract assets	243	321
Contract costs	263	274
Inventories	148	154
Prepaid expenses	396	316
Other operating assets	199	178
Total other operating assets	1,249	1,243
Other operating liabilities		
Contract liabilities	614	620
Accruals for variable performance-related bonus	71	163
Other operating liabilities	436	344
Total other operating liabilities	1,121	1,127

9 Intangible assets

At the request of ComCom, the Federal Office of Communications (OFCOM) put all of the frequencies available for mobile communications up for auction. The auction took place from 29 January to 7 February 2019. Swisscom secured 45% of the frequencies auctioned by all bidders for the fifth generation of mobile technology and for previous generations for CHF 196 million. The frequencies were allocated in April 2019 and will remain with Swisscom until 2034.

10 Provisions and contingent liabilities

Provisions

Provisions changed as follows in the first half of 2019:

In CHF million	Dismantlement and restoration costs	Regulatory and competition law proceedings	Termination benefits	Others	Total
Balance at 31 December 2018	615	166	69	182	1,032
Additions to provisions	3	27	–	16	46
Present-value adjustments	49	7	–	–	56
Release of unused provisions	(3)	–	(1)	(7)	(11)
Use of provisions	(3)	–	(18)	(19)	(40)
Balance at 30 June 2019	661	200	50	172	1,083
Thereof current provisions	–	–	44	66	110
Thereof non-current provisions	661	200	6	106	973

Contingent liabilities arising from competition law proceedings

With regard to the contingent liabilities reported in the 2018 consolidated financial statements in connection with competition law proceedings, Swisscom is of the opinion that an outflow of resources is unlikely and, as before, has therefore not recognised any provisions for this in the consolidated financial statements as at 30 June 2019.

Further information

Share information

Swisscom share performance indicators

1.1.–30.6.2019

	SIX Swiss Exchange
Closing price as at 31 December 2018 in CHF ¹	469.70
Closing price as at 30 June 2019 in CHF ¹	490.10
Year high in CHF ¹	499.40
Year low in CHF ¹	441.10
Total volume of traded shares	18,539,829
Total turnover in CHF million	8,796.29
Daily average of traded shares	299,030
Daily average in CHF million	72.10

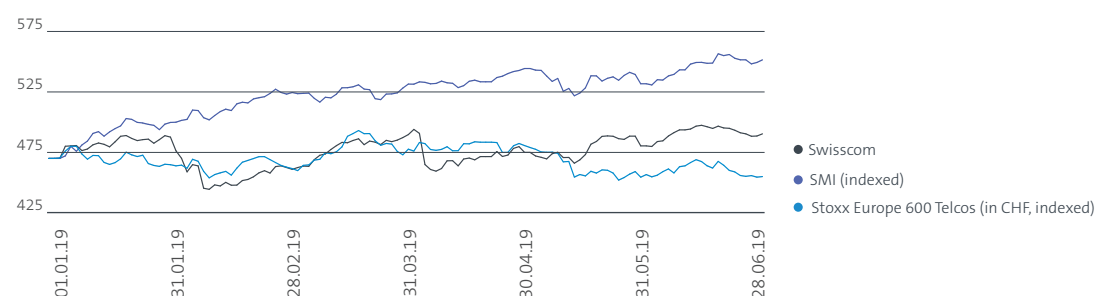
Source: Bloomberg

1 paid prices

Share performance

Share price performance since 1 January 2019

in CHF



Financial calendar

- 31 October 2019 2019 Third-Quarter Results
- 6 February 2020 2019 Annual Results and Annual Report

Stock exchanges

Swisscom shares are listed on the SIX Swiss Exchange under the symbol SCMN (Securities No. 874251). In the United States, they are traded in the form of American Depositary Receipts (ADR) at a ratio of 1:10 (Over The Counter, Level 1) under the symbol SCMWY (Pink Sheet No. 69769).

Quarterly review 2018 and 2019

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2018	1. quarter	2. quarter	3. quarter	4. quarter	2019
Income statement										
Net revenue	2,885	2,920	2,884	3,025	11,714	2,860	2,803			5,663
Direct costs	(704)	(692)	(723)	(835)	(2,954)	(683)	(656)			(1,339)
Personnel expense	(723)	(714)	(661)	(717)	(2,815)	(724)	(687)			(1,411)
Other operating expense	(503)	(540)	(519)	(631)	(2,193)	(448)	(500)			(948)
Capitalised self-constructed assets and other income	103	111	107	140	461	114	161			275
Operating income (EBITDA)	1,058	1,085	1,088	982	4,213	1,119	1,121			2,240
Depreciation and amortisation	(540)	(540)	(530)	(534)	(2,144)	(554)	(557)			(1,111)
Depreciation of right-of-use assets	–	–	–	–	–	(60)	(62)			(122)
Operating income (EBIT)	518	545	558	448	2,069	505	502			1,007
Net interest expense on financial assets and liabilities	(29)	(29)	(27)	(19)	(104)	(15)	(16)			(31)
Interest expense on lease liabilities	(6)	(6)	(6)	(6)	(24)	(8)	(7)			(15)
Other financial result	(6)	6	(3)	(27)	(30)	3	(28)			(25)
Equity-accounted investees	(2)	2	3	2	5	2	–			2
Income before income taxes	475	518	525	398	1,916	487	451			938
Income tax expense	(96)	(110)	(99)	(90)	(395)	(104)	(54)			(158)
Net income	379	408	426	308	1,521	383	397			780
Attributable to equity holders of Swisscom Ltd	381	409	427	310	1,527	385	397			782
Attributable to non-controlling interests	(2)	(1)	(1)	(2)	(6)	(2)	–			(2)
Earnings per share (in CHF)	7.36	7.90	8.24	5.98	29.48	7.43	7.66			15.10
Net revenue										
Swisscom Switzerland	2,204	2,191	2,188	2,223	8,806	2,163	2,093			4,256
Fastweb	574	606	577	669	2,426	581	602			1,183
Other Operating Segments	198	228	230	253	909	225	237			462
Group Headquarters	–	1	–	1	2	–	–			–
Intersegment elimination	(91)	(106)	(111)	(121)	(429)	(109)	(129)			(238)
Total net revenue	2,885	2,920	2,884	3,025	11,714	2,860	2,803			5,663
Operating income before depreciation and amortisation (EBITDA)										
Swisscom Switzerland	935	933	919	789	3,576	929	909			1,838
Fastweb	172	199	204	228	803	177	206			383
Other Operating Segments	41	51	56	49	197	50	48			98
Group Headquarters	(21)	(31)	(19)	(5)	(76)	(18)	(21)			(39)
Reconciliation pension cost	(15)	(14)	(17)	(14)	(60)	(14)	(15)			(29)
Reconciliation lease expense (IAS 17)	(52)	(47)	(51)	(57)	(207)	–	–			–
Intersegment elimination	(2)	(6)	(4)	(8)	(20)	(5)	(6)			(11)
Total EBITDA	1,058	1,085	1,088	982	4,213	1,119	1,121			2,240
Capital expenditure in property, plant and equipment and intangible assets										
Swisscom Switzerland	311	400	391	518	1,620	353	601			954
Fastweb	185	162	154	256	757	161	174			335
Other Operating Segments	8	11	12	15	46	8	11			19
Intersegment elimination	(3)	(5)	(5)	(6)	(19)	(4)	(7)			(11)
Total capital expenditure	501	568	552	783	2,404	518	779			1,297

	1. quarter	2. quarter	3. quarter	4. quarter	2018	1. quarter	2. quarter	3. quarter	4. quarter	2019
Operating free cash flow proxy										
Operating income (EBITDA)	1,058	1,085	1,088	982	4,213	1,119	1,121			2,240
Capital expenditure in property, plant and equipment and intangible assets	(501)	(568)	(552)	(783)	(2,404)	(518)	(779)			(1,297)
Lease expense (IFRS 16)	–	–	–	–	–	(68)	(69)			(137)
Operating free cash flow proxy	557	517	536	199	1,809	533	273			806
Net debt										
Net debt excluding lease liabilities	6,835	7,696	7,187	7,009	7,009	6,736	7,787			7,787
Lease liabilities	459	450	455	384	384	1,719	1,755			1,755
Net debt	7,294	8,146	7,642	7,393	7,393	8,455	9,542			9,542
Full-time equivalent employees at end of period										
Swisscom Switzerland	15,014	14,562	14,522	14,448	14,448	14,340	14,236			14,236
Fastweb	2,510	2,483	2,470	2,484	2,484	2,458	2,451			2,451
Other Operating Segments	2,540	2,588	2,615	2,679	2,679	2,699	2,663			2,663
Group Headquarters	262	262	243	234	234	222	214			214
Total headcount	20,326	19,895	19,850	19,845	19,845	19,719	19,564			19,564
Information by geographical region in CHF million or full-time equivalents										
Net revenue in Switzerland	2,308	2,310	2,305	2,351	9,274	2,277	2,197			4,474
Net revenue in other countries	577	610	579	674	2,440	583	606			1,189
Total net revenue	2,885	2,920	2,884	3,025	11,714	2,860	2,803			5,663
EBITDA in Switzerland	889	891	887	752	3,419	939	913			1,852
EBITDA in other countries	169	194	201	230	794	180	208			388
Total EBITDA	1,058	1,085	1,088	982	4,213	1,119	1,121			2,240
Capital expenditure in Switzerland	315	406	398	526	1,645	357	604			961
Capital expenditure in other countries	186	162	154	257	759	161	175			336
Total capital expenditure	501	568	552	783	2,404	518	779			1,297
Full-time equivalent employees in Switzerland	17,611	17,203	17,165	17,147	17,147	17,035	16,871			16,871
Full-time equivalent employees in other countries	2,715	2,692	2,685	2,698	2,698	2,684	2,693			2,693
Total headcount	20,326	19,895	19,850	19,845	19,845	19,719	19,564			19,564
Fastweb, in EUR million										
Residential Customers	257	264	264	265	1,050	269	273			542
Enterprise Customers	180	188	190	222	780	202	214			416
Wholesale	53	66	49	99	267	42	45			87
Revenue from external customers	490	518	503	586	2,097	513	532			1,045
Segment result (EBITDA)	148	170	178	200	696	157	182			339
Margin as % of net revenue	30.1	32.8	35.2	34.0	33.1	30.5	34.0			32.3
Capital expenditure in property, plant and equipment and intangible assets	159	138	135	225	657	143	154			297
Broadband access lines in thousand	2,483	2,500	2,518	2,547	2,547	2,575	2,600			2,600
Mobile access lines in thousand	1,185	1,280	1,324	1,432	1,432	1,517	1,629			1,629

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2018	1. quarter	2. quarter	3. quarter	4. quarter	2019
Swisscom Switzerland Revenue and results										
Residential Customers	655	659	662	642	2,618	630	619			1,249
Enterprise Customers	113	118	114	106	451	102	102			204
Revenue wireless	768	777	776	748	3,069	732	721			1,453
Residential Customers	643	645	642	643	2,573	638	637			1,275
Enterprise Customers	131	134	128	127	520	120	117			237
Revenue fixed-line	774	779	770	770	3,093	758	754			1,512
Other revenue Enterprise Customers	16	15	14	15	60	16	14			30
Total revenue telecoms services	1,558	1,571	1,560	1,533	6,222	1,506	1,489			2,995
Solution business	264	249	245	269	1,027	251	248			499
Merchandise	173	166	173	207	719	196	169			365
Wholesale	141	145	148	132	566	158	162			320
Revenue other	50	42	45	64	201	32	7			39
Total revenue from external customers	2,186	2,173	2,171	2,205	8,735	2,143	2,075			4,218
Residential Customers	1,456	1,448	1,457	1,482	5,843	1,413	1,364			2,777
Enterprise Customers	584	575	561	586	2,306	566	543			1,109
Wholesale	141	145	148	132	566	158	162			320
IT, Network & Infrastructure	5	5	5	5	20	6	6			12
Total revenue from external customers	2,186	2,173	2,171	2,205	8,735	2,143	2,075			4,218
Segment result before depreciation and amortisation (EBITDA)										
Residential Customers	902	882	874	805	3,463	884	866			1,750
Enterprise Customers	208	203	206	187	804	181	174			355
Wholesale	109	114	119	105	447	130	132			262
IT, Network & Infrastructure	(284)	(266)	(281)	(307)	(1,138)	(265)	(263)			(528)
Intersegment elimination	–	–	1	(1)	–	(1)	–			(1)
Segment result (EBITDA)	935	933	919	789	3,576	929	909			1,838
Margin as % of net revenue	42.4	42.6	42.0	35.5	40.6	42.9	43.4			43.2
Operational data in thousand										
Access lines										
Residential Customers	1,779	1,730	1,684	1,641	1,641	1,601	1,564			1,564
Enterprise Customers	198	176	162	147	147	136	119			119
Fixed telephony access lines	1,977	1,906	1,846	1,788	1,788	1,737	1,683			1,683
Residential Customers	1,988	1,991	1,993	1,998	1,998	1,995	1,992			1,992
Enterprise Customers	37	37	37	35	35	35	32			32
Broadband access lines retail	2,025	2,028	2,030	2,033	2,033	2,030	2,024			2,024
Residential Customers	1,492	1,501	1,510	1,519	1,519	1,523	1,529			1,529
Swisscom TV access lines	1,492	1,501	1,510	1,519	1,519	1,523	1,529			1,529
Postpaid Residential Customers	3,381	3,379	3,385	3,382	3,382	3,435	3,468			3,468
Postpaid Enterprise Customers	1,265	1,270	1,283	1,294	1,294	1,272	1,254			1,254
Mobile access lines Postpaid	4,646	4,649	4,668	4,676	4,676	4,707	4,722			4,722
Prepaid Residential Customers	1,805	1,785	1,741	1,694	1,694	1,671	1,646			1,646
Mobile access lines	6,451	6,434	6,409	6,370	6,370	6,378	6,368			6,368
RGU Residential Customers	10,445	10,386	10,313	10,234	10,234	10,225	10,199			10,199
RGU Enterprise Customers	1,500	1,483	1,482	1,476	1,476	1,443	1,405			1,405
Revenue generating units (RGU)	11,945	11,869	11,795	11,710	11,710	11,668	11,604			11,604
Broadband access lines wholesale	449	462	472	481	481	492	502			502
Unbundled fixed access lines	100	95	91	87	87	83	79			79

Forward-looking statements

This interim report is published in German and English. The German version is binding.

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

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

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

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

