

2020

Interim Report
January–September



swisscom

KPIs

In CHF million, except where indicated	30.09.2020	30.09.2019	Change	
Net revenue and results ¹				
Net revenue	8,201	8,456	-3.0%	
Operating income before depreciation and amortisation (EBITDA)	3,356	3,360	-0.1%	
EBITDA as % of net revenue	40.9	39.7		
EBITDA after lease expense (EBITDA AL)	3,130	3,154	-0.8%	
Operating income (EBIT)	1,523	1,529	-0.4%	
Net income	1,166	1,181	-1.3%	
Earnings per share	22.57	22.84	-1.2%	
Balance sheet and cash flows ¹				
Equity	8,617	7,989	7.9%	
Equity ratio	35.7	33.3		
Operating free cash flow proxy	1,498	1,321	13.4%	
Capital expenditure	1,632	1,833	-11.0%	
Net debt	6,625	7,182	-7.8%	
Operational data				
Fixed telephony access lines in Switzerland	in thousand	1,546	1,643	-5.9%
Broadband access lines retail in Switzerland	in thousand	2,045	2,054	-0.4%
TV access lines in Switzerland	in thousand	1,551	1,540	0.7%
Mobile access lines in Switzerland	in thousand	6,253	6,358	-1.7%
Revenue generating units (RGU) Switzerland	in thousand	11,395	11,595	-1.7%
Broadband access lines wholesale in Switzerland	in thousand	543	509	6.7%
Broadband access lines in Italy	in thousand	2,704	2,610	3.6%
Mobile access lines in Italy	in thousand	1,889	1,663	13.6%
Swisscom share				
Number of issued shares	in thousand	51,802	51,802	-%
Market capitalisation		25,310	25,502	-0.8%
Closing price	CHF	488.60	492.30	-0.8%
Employees				
Full-time equivalent employees	number	19,026	19,500	-2.4%
Average number of full-time equivalent employees	number	19,074	19,646	-2.9%

¹ Swisscom uses various alternative performance measures. The definitions and the reconciliation to the values in accordance with IFRS are set out in the interim report on pages 25 and 26.

Financial review

Summary

Swisscom's net revenue for the first nine months of 2020 fell slightly short of the previous year. While the Covid-19 pandemic has had a particularly negative impact on roaming revenues, the overall impact on financial results is minor. Swisscom's net revenue fell by CHF 255 million or 3.0% to CHF 8,201 million; EBITDA remained nearly stable at CHF 3,356 million (-0.1%). On a like-for-like basis and at constant exchange rates EBITDA increased by CHF 7 million or 0.2%. The drop in revenue continued in Switzerland's saturated core business. The CHF 226 million decline (-3.5%) in revenue is mainly driven by ongoing price pressure and the impact of Covid-19; roaming accounts for around a third of this (CHF 73 million). By contrast, revenue at Italian subsidiary Fastweb increased in local currency by EUR 90 million (+5.7%), with all customer segments reporting revenue growth. The number of customers with Fastweb increased year on year by 3.6% to 2.70 million in the broadband business and by 13.6% to 1.89 million in mobile telephony. In the Swiss core business, EBITDA declined by 0.5% or CHF 14 million. The decline in revenue could be largely offset thanks to lower costs. At Fastweb, EBITDA in local currency increased by 4.6% or EUR 25 million as a result of the growth in revenue. Consolidated net income of CHF 1,166 million was 1.3% or CHF 15 million lower than in the previous year, mainly as a result of higher income tax expense.

Swisscom's capital expenditure of CHF 1,632 million are 11.0% or CHF 201 million lower than in the previous year. In the previous year, capital expenditure included expenditures for mobile radio frequencies in Switzerland of CHF 196 million. Excluding expenditures for mobile radio frequencies, capital expenditure in Switzerland increased by 4.3% or CHF 49 million to CHF 1,191 million. The increase stands in connection with the further expansion of network infrastructure. At Fastweb, capital expenditure fell by 7.4% to EUR 410 million; in the previous year, customer-driven investments were above average.

The operating free cash flow proxy increased by CHF 177 million to CHF 1,498 million. Excluding the previous year's expenses for mobile radio frequencies, the operating free cash flow proxy declined by CHF 19 million or 1.3%. Compared to the end of 2019, net debt fell by 2.0% or CHF 133 million to CHF 6,625 million. The number of employees at Swisscom declined 2.4% year on year to 19,026 FTEs. In Switzerland, headcount decreased by 669 FTEs to 16,119 FTEs.

For 2020, Swisscom still expects net revenue of around CHF 11.0 billion, EBITDA of around CHF 4.3 billion and capital expenditure of around CHF 2.3 billion. If business performs as planned, Swisscom intends to propose payment of an unchanged dividend of CHF 22 per share for the 2020 financial year at the 2021 Annual General Meeting.

Segment results

In CHF million	3. quarter 2020	3. quarter 2019	Change	1.1.–30.9. 2020	1.1.–30.9. 2019	Change
Net revenue						
Residential Customers	1,139	1,165	–2.2%	3,378	3,496	–3.4%
Business Customers	757	790	–4.2%	2,314	2,426	–4.6%
Wholesale ¹	278	285	–2.5%	727	749	–2.9%
IT, Network & Infrastructure	21	21	–%	64	65	–1.5%
Intersegment elimination	(143)	(148)	–3.4%	(335)	(362)	–7.5%
Swisscom Switzerland	2,052	2,113	–2.9%	6,148	6,374	–3.5%
Fastweb	613	587	4.4%	1,792	1,770	1.2%
Other Operating Segments	269	262	2.7%	759	802	–5.4%
Intersegment elimination	(176)	(169)	4.1%	(498)	(490)	1.6%
Net revenue	2,758	2,793	–1.3%	8,201	8,456	–3.0%
Operating income before depreciation and amortisation (EBITDA)						
Residential Customers	684	686	–0.3%	2,071	2,105	–1.6%
Business Customers	339	344	–1.5%	1,014	1,054	–3.8%
Wholesale	134	138	–2.9%	391	393	–0.5%
IT, Network & Infrastructure	(243)	(264)	–8.0%	(749)	(811)	–7.6%
Intersegment elimination	(1)	1	–%	–	–	–%
Swisscom Switzerland	913	905	0.9%	2,727	2,741	–0.5%
Fastweb	219	213	2.8%	608	606	0.3%
Other Operating Segments	56	46	21.7%	138	144	–4.2%
Group Headquarters	(15)	(18)	–16.7%	(48)	(55)	–12.7%
Reconciliation pension cost ²	(16)	(15)	6.7%	(47)	(44)	6.8%
Elimination	(9)	(11)	–18.2%	(22)	(32)	–31.3%
Operating income before depreciation and amortisation (EBITDA)	1,148	1,120	2.5%	3,356	3,360	–0.1%

1 Including intersegment recharges of services performed by other network providers.

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

As of 1 January 2020, Swisscom amended its organisational structure in Switzerland and renamed the former “Enterprise Customers” segment “Business Customers”. In order to provide all business customers with a customer experience tailored to their needs, Swisscom merged the SME segment and the corporate customer segment. As a result, the telecommunications and solutions business with small and medium-sized enterprises is now reported in the Business Customers segment (previously Residential Customers) in segment reporting. In addition, Swisscom has bundled its Customer Field Services (up to now, in some cases within Residential Customers) at its subsidiary cablex AG (Other Operating Segments). This makes it possible to create even more customer experiences and to be even closer to customers. In addition, various areas were transferred between the segments of Swisscom Switzerland and Group Headquarters as of 1 January 2020. The prior-year amounts were restated accordingly. Further information can be found in Note 2 in the notes to the consolidated interim financial statements.

Swisscom Switzerland

In CHF million, except where indicated	3. quarter 2020	3. quarter 2019	Change	1.1.–30.9. 2020	1.1.–30.9. 2019	Change
Net revenue and results						
Telecom services	1,413	1,482	-4.7%	4,261	4,487	-5.0%
Solutions business	259	258	0.4%	786	771	1.9%
Merchandise	176	182	-3.3%	526	547	-3.8%
Wholesale	168	169	-0.6%	490	489	0.2%
Revenue other	17	–	–%	23	15	53.3%
Revenue from external customers	2,033	2,091	-2.8%	6,086	6,309	-3.5%
Intersegment revenue	19	22	-13.6%	62	65	-4.6%
Net revenue	2,052	2,113	-2.9%	6,148	6,374	-3.5%
Direct costs	(426)	(471)	-9.6%	(1,232)	(1,356)	-9.1%
Indirect costs	(713)	(737)	-3.3%	(2,189)	(2,277)	-3.9%
Segment expenses	(1,139)	(1,208)	-5.7%	(3,421)	(3,633)	-5.8%
Segment result before depreciation and amortisation (EBITDA)	913	905	0.9%	2,727	2,741	-0.5%
Margin as % of net revenue	44.5	42.8		44.4	43.0	
Lease expense	(58)	(55)	5.5%	(174)	(167)	4.2%
Depreciation and amortisation	(373)	(372)	0.3%	(1,140)	(1,142)	-0.2%
Segment result	482	478	0.8%	1,413	1,432	-1.3%
Operating free cash flow proxy						
Segment result before depreciation and amortisation (EBITDA)	913	905	0.9%	2,727	2,741	-0.5%
Lease expense	(58)	(55)	5.5%	(174)	(167)	4.2%
EBITDA after lease expense (EBITDA AL)	855	850	0.6%	2,553	2,574	-0.8%
Capital expenditure	(410)	(370)	10.8%	(1,186)	(1,324)	-10.4%
Operating free cash flow proxy	445	480	-7.3%	1,367	1,250	9.4%
Operational data in thousand and headcount						
Fixed telephony access lines				1,546	1,643	-5.9%
Broadband access lines retail				2,045	2,054	-0.4%
TV access lines				1,551	1,540	0.7%
Mobile access lines				6,253	6,358	-1.7%
Revenue generating units (RGU)				11,395	11,595	-1.7%
Broadband access lines wholesale				543	509	6.7%
Full-time equivalent employees				12,619	13,158	-4.1%

Net revenue for Swisscom Switzerland fell by CHF 226 million or 3.5% to CHF 6,148 million as a result of the continuing competitive and price pressure and lower roaming revenues. The Covid-19 pandemic has led to a sharp reduction in customer travel, resulting in lower roaming revenues of CHF 73 million. Revenue from telecommunications services decreased by CHF 226 million or 5.0% to CHF 4,261 million. Of this decline, CHF 124 million (-4.0%) was attributable to the Residential Customers segment and CHF 102 million (-7.3%) to the Business Customers segment. By contrast, revenue from the solutions business with business customers rose by 1.9% to CHF 786 million. In the merchandise area, the high volume of the previous year was not matched, with revenue falling by 3.8% to CHF 526 million. The number of inOne customers continues to grow. At the end of September 2020, Swisscom recorded 2.42 million inOne customers in the Residential Customers segment. In this segment, inOne accounts for 68% of postpaid mobile lines and 74% 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 year on year by 105,000 within a one-year period (-1.7%) to 6.25 million. The number of postpaid lines grew by 68,000. In the case of prepaid lines, it fell by 173,000. Broadband connections fell by 9,000 (-0.4%) to 2.05 million. The number of TV connections increased by 11,000 or 0.7% to 1.55 million. In fixed-line telephony, the downward trend is slowing down as the switch to IP technology has been completed. The number of fixed telephony access lines fell year on year by 97,000 or 5.9% to 1.55 million.

Segment expense fell by CHF 212 million or 5.8% to CHF 3,421 million. Direct costs decreased by CHF 124 million (–9.1%) to CHF 1,232 million. In addition to the decline in subscriber acquisition and retention costs, the costs for roaming and for purchasing goods also fell. Indirect costs fell by 3.9% or CHF 88 million to CHF 2,189 million. This is chiefly due to the lower headcount and lower costs for advertising. In addition, fewer customer service deployments as a result of the stable networks and platforms have led to a reduction in costs. Headcount declined year on year as a result of efficiency measures by 539 FTEs or 4.1% to 12,619 FTEs. The segment result before depreciation and amortisation was CHF 14 million or 0.5% lower at CHF 2,727 million as a result of lower revenue, but this was largely offset by the ongoing measures to reduce costs. Capital expenditure fell by 10.4% to CHF 1,186 million. In the previous year, expenditure for mobile radio frequencies amounting to CHF 196 million was included. Adjusted for these expenses, capital expenditure rose by CHF 58 million or 5.1% on the back of an increase in capital expenditure in the expansion of the network infrastructure. As at end-September 2020, around 4.3 million or 80% of all households and businesses in Switzerland were connected with ultra-fast broadband exceeding 80 Mbps. Some 3.0 million or 56% of all homes and businesses benefit from fast connections with bandwidths of more than 200 Mbps. Of these, more than 1.7 million have been upgraded to FTTH. Swisscom wants to make ultra-fast broadband available in every Swiss municipality by the end of 2021 and thus give even remote locations access to the technology. In addition, compared with 2019 levels, Swisscom plans to double FTTH coverage for households and businesses to up to 60% by the end of 2025.

Fastweb

In EUR million, except where indicated	3. quarter 2020	3. quarter 2019	Change	1.1.–30.9. 2020	1.1.–30.9. 2019	Change
Net revenue and results						
Residential Customers	282	277	1.8%	844	819	3.1%
Enterprise Customers	226	211	7.1%	661	627	5.4%
Wholesale	59	45	31.1%	164	132	24.2%
Revenue from external customers	567	533	6.4%	1,669	1,578	5.8%
Intersegment revenue	2	2	–%	5	6	–16.7%
Net revenue	569	535	6.4%	1,674	1,584	5.7%
Segment expenses	(366)	(341)	7.3%	(1,106)	(1,041)	6.2%
Segment result before depreciation and amortisation (EBITDA)	203	194	4.6%	568	543	4.6%
Margin as % of net revenue	35.7	36.3		33.9	34.3	
Lease expense	(13)	(13)	–%	(39)	(38)	2.6%
Depreciation and amortisation	(146)	(141)	3.5%	(432)	(415)	4.1%
Segment result	44	40	10.0%	97	90	7.8%
Operating free cash flow proxy						
Segment result before depreciation and amortisation (EBITDA)	203	194	4.6%	568	543	4.6%
Lease expense	(13)	(13)	–%	(39)	(38)	2.6%
EBITDA after lease expense (EBITDA AL)	190	181	5.0%	529	505	4.8%
Capital expenditure	(134)	(146)	–8.2%	(410)	(443)	–7.4%
Operating free cash flow proxy	56	35	60.0%	119	62	91.9%
Operational data in thousand and headcount						
Broadband access lines				2,704	2,610	3.6%
Mobile access lines				1,889	1,663	13.6%
Full-time equivalent employees				2,634	2,467	6.8%

Fastweb's net revenue rose by EUR 90 million or 5.7% year on year to EUR 1,674 million. Despite a challenging market environment, the customer base in the broadband business grew by 94,000 or 3.6% to 2.70 million within the space of a year. The number of mobile lines rose by 226,000 or 13.6% to 1.89 million despite market saturation and strong competition. The focus is still on bundled offerings. 34% of subscribers use a bundled offering combining fixed network and mobile. Residential customer revenue rose by EUR 25 million or 3.1% to EUR 844 million as a result of customer growth. Fastweb held its strong position in the market for business customers. Revenue from business customers increased by EUR 34 million or 5.4% to EUR 661 million as a result of higher revenue with

private companies and public administrations. Revenue from wholesale business increased by EUR 32 million or 24.2% to EUR 164 million.

The segment result before depreciation and amortisation rose EUR 25 million or 4.6% to EUR 568 million owing to the growth in revenue. Capital expenditure decreased by EUR 33 million or 7.4% year on year to EUR 410 million, in the previous year customer-driven investment was above average. Fastweb's headcount increased by 167 FTEs or 6.8% to 2,634 FTEs year on year as a result of company acquisitions and the hiring of external staff.

Other Operating Segments

In CHF million, except where indicated	3. quarter 2020	3. quarter 2019	Change	1.1.–30.9. 2020	1.1.–30.9. 2019	Change
Net revenue and results						
Revenue from external customers	114	117	-2.6%	329	383	-14.1%
Intersegment revenue	155	145	6.9%	430	419	2.6%
Net revenue	269	262	2.7%	759	802	-5.4%
Segment expenses	(213)	(216)	-1.4%	(621)	(658)	-5.6%
Segment result before depreciation and amortisation (EBITDA)	56	46	21.7%	138	144	-4.2%
Margin as % of net revenue	20.8	17.6		18.2	18.0	
Lease expense	(3)	(2)	50.0%	(9)	(9)	-%
Depreciation and amortisation	(16)	(15)	6.7%	(45)	(50)	-10.0%
Segment result	37	29	27.6%	84	85	-1.2%
Operating free cash flow proxy						
Segment result before depreciation and amortisation (EBITDA)	56	46	21.7%	138	144	-4.2%
Lease expense	(3)	(2)	50.0%	(9)	(9)	-%
EBITDA after lease expense (EBITDA AL)	53	44	20.5%	129	135	-4.4%
Capital expenditure	(12)	(13)	-7.7%	(30)	(32)	-6.3%
Operating free cash flow proxy	41	31	32.3%	99	103	-3.9%
Headcount						
Full-time equivalent employees				3,560	3,668	-2.9%

The net revenue of the Other Operating Segments decreased year on year by CHF 43 million or 5.4% to CHF 759 million. The decline in revenue from external customers is essentially due to revenue contractions at cablex and Swisscom Broadcast as well as to the loss of Billag's mandate to collect national radio and television licence fees. The segment result before depreciation and amortisation decreased by CHF 6 million or 4.2% to CHF 138 million, while the profit margin remained nearly unchanged at 18.2% (prior year: 18.0%). Headcount fell by 108 FTEs or 2.9% to 3,560 FTEs, driven primarily by lower headcounts at both cablex and Swisscom Directories Ltd (localsearch).

Group Headquarters and reconciliation

In CHF million, except where indicated	3. quarter 2020	3. quarter 2019	Change	1.1.–30.9. 2020	1.1.–30.9. 2019	Change
Group Headquarters	(15)	(18)	-16.7%	(48)	(55)	-12.7%
Reconciliation pension cost	(16)	(15)	6.7%	(47)	(44)	6.8%
Elimination	(9)	(11)	-18.2%	(22)	(32)	-31.3%
Operating income before depreciation and amortisation (EBITDA)	(40)	(44)	-9.1%	(117)	(131)	-10.7%

The net costs not assigned to the operating segments, which comprise Group Headquarters, pension cost reconciliation and inter-segment eliminations, declined by CHF 14 million to CHF 117 million.

Depreciation and amortisation, non-operating results

In CHF million, except where indicated	3. quarter 2020	3. quarter 2019	Change	1.1.–30.9. 2020	1.1.–30.9. 2019	Change
Operating income before depreciation and amortisation (EBITDA)	1,148	1,120	2.5%	3,356	3,360	-0.1%
Depreciation and amortisation of property, plant and equipment and intangible assets	(538)	(529)	1.7%	(1,616)	(1,626)	-0.6%
Depreciation of right-of-use assets	(70)	(69)	1.4%	(217)	(205)	5.9%
Operating income (EBIT)	540	522	3.4%	1,523	1,529	-0.4%
Net interest expense on financial assets and liabilities	(20)	(13)	53.8%	(50)	(44)	13.6%
Interest expense on lease liabilities	(12)	(9)	33.3%	(34)	(24)	41.7%
Other financial result	23	(26)	-%	(29)	(51)	-43.1%
Result of equity-accounted investees	1	(1)	-%	4	1	300.0%
Income before income taxes	532	473	12.5%	1,414	1,411	0.2%
Income tax expense	(102)	(72)	41.7%	(248)	(230)	7.8%
Net income	430	401	7.2%	1,166	1,181	-1.3%
Attributable to equity holders of Swisscom Ltd	431	401	7.5%	1,169	1,183	-1.2%
Attributable to non-controlling interests	(1)	-	-%	(3)	(2)	50.0%
Earnings per share (in CHF)	8.32	7.74	7.5%	22.57	22.84	-1.2%

Net income posted by Swisscom declined by CHF 15 million or 1.3% to CHF 1,166 million, largely due to the higher income tax expense. Earnings per share declined accordingly from CHF 22.84 to CHF 22.57. The depreciation and amortisation of property, plant and equipment and intangible assets decreased by CHF 10 million or 0.6% year on year to CHF 1,616 million, mainly reflecting a decrease in depreciation and amortisation at Swisscom Switzerland and the Other Operating Segments. Higher interest expense was offset by an improved other financial result. The other financial result for the third quarter of 2020 includes one-off income of CHF 31 million from the measurement difference of financial assets that have been replaced. Income tax expense was CHF 248 million (prior year: CHF 230 million), corresponding to an effective income tax rate of 17.5% (prior year: 16.3%). Income tax expense for the first nine months of 2020 includes positive tax effects of CHF 21 million (previous year: CHF 62 million) as a result of the revaluation of deferred income tax items in connection with the Swiss tax reform. Swisscom anticipates a future effective consolidated tax rate of 19.5%.

Cash flows

In CHF million	1.1.–30.9. 2020	1.1.–30.9. 2019	Change
Operating income before depreciation and amortisation (EBITDA)	3,356	3,360	(4)
Lease expense	(226)	(206)	(20)
EBITDA after lease expense (EBITDA AL)	3,130	3,154	(24)
Capital expenditure	(1,632)	(1,833)	201
Operating free cash flow proxy	1,498	1,321	177
Change in net working capital	(62)	(52)	(10)
Change in defined benefit obligations	46	42	4
Net interest payments on financial assets and liabilities	(59)	(54)	(5)
Interest payments on finance lease liabilities	(34)	(24)	(10)
Income taxes paid	(174)	(347)	173
Other operating cash flow	52	12	40
Free cash flow	1,267	898	369
Net expenditures for company acquisitions and disposals	(45)	(397)	352
Other cash flows from investing activities, net	(103)	13	(116)
Issuance of financial liabilities	781	529	252
Repayment of financial liabilities	(832)	(68)	(764)
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Other cash flows from financing activities	(9)	(15)	6
Net decrease in cash and cash equivalents	(81)	(180)	99

Operating free cash flow proxy increased by CHF 177 million to CHF 1,498 million, mainly due to lower capital expenditure. In the previous year, capital expenditure included CHF 196 million for mobile radio frequencies in Switzerland. Excluding the expenditure for mobile radio frequencies, the operating free cash flow proxy decreased by CHF 19 million or 1.3%.

Free cash flow increased year on year by CHF 369 million to CHF 1,267 million. Adjusted for expenditure for mobile radio frequencies, free cash flow rose by CHF 173 million. The increase is mainly due to deferred income tax payments related to measures taken by the government to combat Covid-19. In the first nine months of 2020, income tax payments amounted to CHF 174 million (previous year: CHF 347 million).

Net expenditure for company acquisitions and disposals in the previous year 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 second quarter of 2020, Swisscom became the first listed company in Switzerland to issue a Green Bond in EUR. The debenture bond issued amounts to EUR 500 million. The coupon is 0.375% and the term 8.5 years. The funds will be used within the Green Bond Framework. The selection of projects is closely aligned with Swisscom's sustainability strategy and at the same time takes into account the UN's Sustainable Development Agenda 2030 and its objectives (Sustainable Development Goals, SDGs). A particular focus is on increased energy efficiency, renewable energies, climate protection (SDGs 7 and 13) and the provision of a state-of-the-art and resilient grid infrastructure (SDG 9). Furthermore, in the third quarter of 2020, Swisscom issued a CHF 100 million debenture bond with a term of 11 years and a coupon of 0.125% and repaid a EUR 500 million debenture bond.

Net asset position

In CHF million, except where indicated	30.09.2020	31.12.2019	Change
Property, plant and equipment	10,667	10,529	1.3%
Intangible assets	1,764	1,842	−4.2%
Goodwill	5,162	5,163	−%
Right-of-use assets	2,136	2,177	−1.9%
Trade receivables	2,139	2,183	−2.0%
Trade payables	(1,482)	(1,614)	−8.2%
Provisions	(1,202)	(1,134)	6.0%
Deferred gain on sale and leaseback of real estate	(112)	(122)	−8.2%
Other operating assets and liabilities, net	(95)	(38)	150.0%
Net operating assets	18,977	18,986	−%
Net debt	(6,625)	(6,758)	−2.0%
Lease liabilities	(1,997)	(2,027)	−1.5%
Defined benefit obligations	(1,415)	(1,058)	33.7%
Income tax assets and liabilities, net	(637)	(607)	4.9%
Equity-accounted investees and other non-current financial assets	314	339	−7.4%
Equity	8,617	8,875	−2.9%
Equity ratio in %	35.7	36.6	

Net operating assets were virtually unchanged at CHF 19 billion. The decrease in equity compared with the end of 2019 is due to the dividend payment of CHF 1,140 million in April 2020. Correspondingly, the equity ratio fell from 36.6% to 35.7%. Pension liabilities increased as a result of a negative return on plan assets and a lower discount rate.

Net debt

Net debt is composed of financial liabilities minus cash and cash equivalents, current financial assets, derivative financial instruments held to hedge financial liabilities and other non-current financial assets directly related to non-current financial liabilities (certificates of deposit, US treasury bond strips). Net debt and the net debt to EBITDA ratio are presented both with and without classification of leases as financial liabilities. For credit rating purposes, rating agencies include lease liabilities in the calculation of net debt. However, for the financial target of the Federal Council's financing structure, leases are not classified as financial liabilities or part of net debt.

In CHF million, except where indicated	30.09.2020	31.12.2019	Change
Debenture bonds	6,009	5,915	1.6%
Bank loans	922	1,080	−14.6%
Private placements	150	151	−0.7%
Other financial liabilities	301	314	−4.1%
Total financial liabilities	7,382	7,460	−1.0%
Cash and cash equivalents	(247)	(328)	−24.7%
Non-current certificates of deposit	–	(142)	−100.0%
Non-current listed debt instruments	(254)	(94)	170.2%
Non-current derivative financial instruments for financing	(81)	(73)	11.0%
Other current financial assets	(175)	(65)	169.2%
Net debt	6,625	6,758	−2.0%
Lease liabilities	1,997	2,027	−1.5%
Net debt incl. lease liabilities	8,622	8,785	−1.9%

In recent years, Swisscom has taken advantage of favourable capital market conditions with a view to optimising the interest and maturity structure of the Group's financial obligations. As at 30 September 2020, the average interest expense on long-term financial liabilities was 0.85%, the average residual term to maturity was 5.5 years and the share of variable interest-bearing financial liabilities was 20%.

Outlook

For 2020, Swisscom still expects net revenue of around CHF 11.0 billion, EBITDA of around CHF 4.3 billion and capital expenditure of around CHF 2.3 billion. If business performs as planned, Swisscom intends to propose payment of an unchanged dividend of CHF 22 per share for the 2020 financial year at the 2021 Annual General Meeting.

Due to strong competition and price pressure and a decline in the number of fixed-line telephone connections, Swisscom expects revenue to be slightly lower without Fastweb. Revenue is also expected to be slightly lower due to the Covid-19-related decline in roaming volumes. Fastweb's revenue is expected to increase slightly from 2019. For Swisscom without Fastweb, the decline in revenue cannot be fully offset by cost savings; EBITDA is expected to decline on an adjusted basis. In contrast, an increase in EBITDA is anticipated for Fastweb. Capital expenditure in Switzerland, excluding costs for acquiring additional mobile radio frequencies at auction, will be slightly less than in the previous year. Capital expenditure at Fastweb is expected to be lower.

Consolidated interim financial statements

Consolidated statement of comprehensive income (unaudited)

In CHF million, except for per share amounts	Note	3. quarter 2020	3. quarter 2019	1.1.–30.9. 2020	1.1.–30.9. 2019
Income statement					
Net revenue	2	2,758	2,793	8,201	8,456
Direct costs	3	(656)	(684)	(1,906)	(2,023)
Personnel expense	3	(637)	(653)	(2,016)	(2,064)
Other operating expense	3	(441)	(459)	(1,264)	(1,407)
Capitalised self-constructed assets and other income	3	124	123	341	398
Operating income before depreciation and amortisation		1,148	1,120	3,356	3,360
Depreciation and amortisation of property, plant and equipment and intangible assets		(538)	(529)	(1,616)	(1,626)
Depreciation of right-of-use assets		(70)	(69)	(217)	(205)
Operating income		540	522	1,523	1,529
Financial income	6	33	(2)	43	25
Financial expense	6	(42)	(46)	(156)	(144)
Result of equity-accounted investees		1	(1)	4	1
Income before income taxes		532	473	1,414	1,411
Income tax expense		(102)	(72)	(248)	(230)
Net income		430	401	1,166	1,181
Other comprehensive income					
Actuarial gains and losses from defined benefit pension plans		(75)	(271)	(265)	(228)
Change in fair value of equity instruments		(1)	1	(5)	1
Items that will not be reclassified to income statement		(76)	(270)	(270)	(227)
Foreign currency translation adjustments of foreign subsidiaries		19	(32)	(8)	(52)
Change in cash flow hedges		6	1	(4)	4
Items that are or may be reclassified subsequently to income statement		25	(31)	(12)	(48)
Other comprehensive income		(51)	(301)	(282)	(275)
Comprehensive income					
Net income		430	401	1,166	1,181
Other comprehensive income		(51)	(301)	(282)	(275)
Comprehensive income		379	100	884	906
Share of net income and comprehensive income					
Equity holders of Swisscom Ltd		431	401	1,169	1,183
Non-controlling interests		(1)	–	(3)	(2)
Net income		430	401	1,166	1,181
Equity holders of Swisscom Ltd		379	99	886	908
Non-controlling interests		–	1	(2)	(2)
Comprehensive income		379	100	884	906
Earnings per share					
Basic and diluted earnings per share (in CHF)		8.32	7.74	22.57	22.84

Consolidated balance sheet (unaudited)

In CHF million	Note	30.09.2020	31.12.2019
Assets			
Cash and cash equivalents		247	328
Trade receivables	7	2,139	2,183
Other operating assets	7	1,071	1,156
Other financial assets		175	73
Current income tax assets		6	4
Total current assets		3,638	3,744
Property, plant and equipment		10,667	10,529
Intangible assets		1,764	1,842
Goodwill		5,162	5,163
Right-of-use assets		2,136	2,177
Equity-accounted investees		159	156
Other financial assets		490	484
Deferred tax assets		153	152
Total non-current assets		20,531	20,503
Total assets		24,169	24,247
Liabilities and equity			
Financial liabilities	5	1,224	1,411
Lease liabilities		218	232
Trade payables	7	1,482	1,614
Provisions	8	125	158
Other operating liabilities	7	1,166	1,194
Current income tax liabilities		268	174
Total current liabilities		4,483	4,783
Financial liabilities	5	6,158	6,049
Lease liabilities		1,779	1,795
Defined benefit obligations		1,415	1,058
Provisions	8	1,077	976
Deferred gain on sale and leaseback of real estate		112	122
Deferred tax liabilities		528	589
Total non-current liabilities		11,069	10,589
Total liabilities		15,552	15,372
Share capital		52	52
Capital reserves		136	136
Retained earnings		10,214	10,454
Foreign currency translation adjustments		(1,789)	(1,781)
Hedging reserves		7	11
Equity attributable to equity-holders of Swisscom Ltd		8,620	8,872
Non-controlling interests		(3)	3
Total equity		8,617	8,875
Total liabilities and equity		24,169	24,247

Consolidated statement of cash flows (unaudited)

In CHF million	Note	1.1.–30.9. 2020	1.1.–30.9. 2019
Net income		1,166	1,181
Income tax expense		248	230
Result of equity-accounted investees		(4)	(1)
Financial income	6	(43)	(25)
Financial expense	6	156	144
Depreciation and amortisation of property, plant and equipment and intangible assets		1,616	1,626
Depreciation of right-of-use assets		217	205
Gain on sale of property, plant and equipment		(8)	(12)
Revenue from finance leases		(49)	–
Change in deferred gain from the sale and leaseback of real estate		(9)	(9)
Change in operating assets and liabilities	7	(26)	(38)
Expense for share-based payments		1	1
Change in provisions		(27)	(5)
Change in defined benefit obligations		46	42
Interest received		23	24
Interest payments on financial liabilities		(82)	(78)
Interest payments on lease liabilities		(34)	(24)
Dividends received		15	18
Income taxes paid		(174)	(347)
Cash flow from operating activities		3,032	2,932
Purchase of property, plant and equipment and intangible assets		(1,621)	(1,791)
Sale of property, plant and equipment and intangible assets		13	21
Acquisition of subsidiaries, net of cash and cash equivalents acquired		(30)	(385)
Sale of subsidiaries, net of cash and cash equivalents sold		–	1
Expenses for shareholdings accounted for using the equity method		(15)	(13)
Purchase of other financial assets		(122)	(53)
Proceeds from other financial assets		69	30
Cash flow used in investing activities		(1,706)	(2,190)
Issuance of financial liabilities	5	781	529
Repayment of financial liabilities	5	(832)	(68)
Repayment of lease liabilities		(207)	(228)
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		(8)	(14)
Cash flow used in financing activities		(1,407)	(922)
Net decrease in cash and cash equivalents		(81)	(180)
Cash and cash equivalents at 1 January		328	474
Foreign currency translation adjustments in respect of cash and cash equivalents		–	(2)
Cash and cash equivalents at the end of period		247	292

Consolidated statement of changes in equity (unaudited)

In CHF million	Share capital	Capital reserves	Retained earnings	Foreign currency translation adjustments	Hedging reserves	Equity attributable to equity holders of Swisscom	Non-controlling interests	Total equity
Balance at 1 January 2019	52	136	9,759	(1,728)	4	8,223	(15)	8,208
Net income	–	–	1,183	–	–	1,183	(2)	1,181
Other comprehensive income	–	–	(227)	(52)	4	(275)	–	(275)
Comprehensive income	–	–	956	(52)	4	908	(2)	906
Dividends paid	–	–	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	–	–	(4)	–	–	(4)	20	16
Balance at 30 September 2019	52	136	9,571	(1,780)	8	7,987	2	7,989
Balance at 1 January 2020	52	136	10,454	(1,781)	11	8,872	3	8,875
Net income	–	–	1,169	–	–	1,169	(3)	1,166
Other comprehensive income	–	–	(270)	(8)	(4)	(282)	–	(282)
Comprehensive income	–	–	899	(8)	(4)	887	(3)	884
Dividends paid	–	–	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	–	–	1	–	–	1	(2)	(1)
Balance at 30 September 2020	52	136	10,214	(1,789)	7	8,620	(3)	8,617

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 September 2020 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 and aggregates 51,801,943. The shares have a nominal value of CHF 1 and are fully paid-up. Each share entitles the holder to one vote. The majority shareholder of Swisscom Ltd 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 28 October 2020. As of this date, no material events after the reporting date have occurred.

Basis of preparation

The consolidated interim financial statements for the nine months to 30 September 2020 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 2019. The consolidated interim financial statements were prepared in accordance with the accounting policies described in the 2019 consolidated financial statements and the revised accounting principles adopted on 1 January 2020.

In preparing the consolidated interim financial statements, management is required to make accounting 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 1.08 was used as the end-of-period rate (31 December 2019: CHF/EUR 1.085) and 1.07 as the average rate for the period (prior year: CHF/EUR 1.118).

Impact of the Covid-19 pandemic

Since March 2020, government measures against the spread of Covid-19 restricted economic activities in Switzerland and Italy. With the exception of the roaming business, the impact on Swisscom’s core business or telecommunications business is minimal. The roaming business recorded a decline as a result of reduced travel activity. Furthermore, Covid-19 resulted in a negative business trend in the cinema and event business. Based on Covid-19, Swisscom has reassessed the key estimates and assumptions as at 30 September 2020. The key estimates and assumptions reported in the consolidated financial statements as of 31 December 2019 remained essentially unchanged as of 30 September 2020. It is not possible to definitively quantify the potential financial impact of Covid-19 as it depends on various factors (such as the extent and duration of the pandemic, government support measures to benefit the economy, customer behaviour in Switzerland and Italy, etc.), and there is a high degree of uncertainty regarding these factors.

1 Changes in accounting principles

As of 1 January 2020, Swisscom adopted various amendments to the existing International Financial Reporting Standards (IFRS) and Interpretations, none of which have a material impact on the consolidated financial statements of Swisscom.

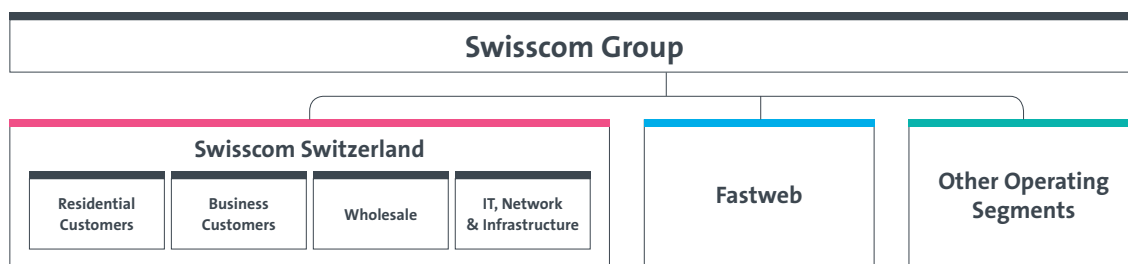
2 Segment information

Changes in segment reporting

As of 1 January 2020, Swisscom amended its organisational structure in Switzerland and renamed the former "Enterprise Customers" segment "Business Customers". In order to provide all business customers with a customer experience tailored to their needs, Swisscom merged the SME segment and the corporate customer segment. As a result, the telecommunications and solutions business with small and medium-sized enterprises is now reported in the Business Customers segment (previously Residential Customers) in segment reporting. In addition, Swisscom has bundled its Customer Field Services (up to now, in some cases within Residential Customers) at its subsidiary cablex AG (Other Operating Segments). This makes it possible to create even more customer experiences and to be even closer to customers. In addition, various areas were transferred between the segments of Swisscom Switzerland and Group Headquarters as of 1 January 2020. The prior-year amounts were restated as follows:

In CHF million	Reported	Adjustment	Restated
Net revenue			
financial year 2019			
Residential Customers	5,691	(955)	4,736
Business Customers (former Enterprise Customers)	2,312	928	3,240
Wholesale	968	–	968
IT, Network & Infrastructure	85	–	85
Elimination	(493)	37	(456)
Swisscom Switzerland	8,563	10	8,573
Fastweb	2,468	–	2,468
Other Operating Segments	929	150	1,079
Group Headquarters	1	–	1
Elimination	(508)	(160)	(668)
Total net revenue	11,453	–	11,453
Segment result			
financial year 2019			
Residential Customers	3,265	(631)	2,634
Business Customers (former Enterprise Customers)	603	673	1,276
Wholesale	524	(14)	510
IT, Network & Infrastructure	(2,642)	(33)	(2,675)
Swisscom Switzerland	1,750	(5)	1,745
Fastweb	155	–	155
Other Operating Segments	114	(1)	113
Group Headquarters	(74)	6	(68)
Elimination	(77)	–	(77)
Total segment result	1,868	–	1,868

General information



Reporting is divided into the segments “Residential Customers”, “Business 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.

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, Business Customers and Wholesale segments thus correspond to a contribution margin before network costs.

Segment expense encompasses the direct and indirect costs, which include personnel expense, other operating costs less capitalised costs of self-constructed assets, and other income. 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 nine months of 2020, an expense of CHF 47 million is disclosed under “Eliminations” as a pension cost reconciliation item in accordance with IAS 19 (prior year: CHF 44 million).

Leases between the segments are not accounted for in accordance with IFRS 16. The reported lease expense of the segments comprises depreciation and interest on leases excl. depreciation of indefeasible rights of use (IRU) of CHF 18 million (prior year: CHF 23 million), impairment losses on rights-of-use assets of CHF 7 million (prior year: none) and the accounting for the rental of buildings between segments. The lease expense of assets of low value is reported as direct costs.

Capital expenditure consists of the purchase of property, plant and equipment and intangible assets and payments for indefeasible rights of use (IRU). In general, IRUs are paid in full at the beginning of the use and are classified as leases under IFRS 16. From an economic point of view, IRU payments will be considered as capital expenditure in the segment information. Capital expenditure in the first nine months of 2020 includes IRU payments of CHF 11 million (prior year: CHF 42 million).

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 contract assets deriving from this business being recognised. In the 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 2020

2020, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Headquarters	Elimination	Total
Residential Customers	3,320	903	–	–	–	4,223
Enterprise Customers	2,276	707	329	–	–	3,312
Wholesale customers	490	176	–	–	–	666
Net revenue from external customers	6,086	1,786	329	–	–	8,201
Net revenue from other segments	62	6	430	–	(498)	–
Net revenue	6,148	1,792	759	–	(498)	8,201
Direct costs	(1,232)	(648)	(51)	–	25	(1,906)
Indirect costs	(2,189)	(536)	(570)	(48)	404	(2,939)
Segment result before depreciation and amortisation	2,727	608	138	(48)	(69)	3,356
Lease expense	(174)	(42)	(9)	(1)	–	(226)
Depreciation, amortisation and impairment losses	(1,140)	(462)	(45)	–	6	(1,641)
Segment result	1,413	104	84	(49)	(63)	1,489
Interest expense on lease liabilities						34
Operating income						1,523
Financial income and financial expense, net						(113)
Result of equity-accounted investees						4
Income before income taxes						1,414
Income tax expense						(248)
Net income						1,166
Segment result before depreciation and amortisation	2,727	608	138	(48)	(69)	3,356
Lease expense	(174)	(42)	(9)	(1)	–	(226)
Capital expenditure	(1,186)	(439)	(30)	–	23	(1,632)
Operating free cash flow proxy	1,367	127	99	(49)	(46)	1,498

Segment information Swisscom Switzerland 2020

2020, in CHF million	Residential Customers	Business Customers	Wholesale	IT, Network & Infrastructure	Elimination	Total Swisscom Switzerland
Fixed-line	1,505	676	–	–	–	2,181
Mobile	1,460	575	–	–	–	2,035
Revenue other	–	45	–	–	–	45
Telecom services	2,965	1,296	–	–	–	4,261
Solutions business	–	786	–	–	–	786
Merchandise	356	170	–	–	–	526
Wholesale	–	–	490	–	–	490
Revenue other	(1)	7	–	17	–	23
Net revenue from external customers	3,320	2,259	490	17	–	6,086
Net revenue from other segments	58	55	237	47	(335)	62
Net revenue	3,378	2,314	727	64	(335)	6,148
Direct costs	(750)	(598)	(324)	(9)	449	(1,232)
Indirect costs	(557)	(702)	(12)	(804)	(114)	(2,189)
Segment result before depreciation and amortisation	2,071	1,014	391	(749)	–	2,727
Lease expense	(33)	(25)	–	(116)	–	(174)
Depreciation, amortisation and impairment losses	(55)	(57)	–	(1,028)	–	(1,140)
Segment result	1,983	932	391	(1,893)	–	1,413
Capital expenditure	(19)	(27)	–	(1,140)	–	(1,186)

Segment information 2019

2019, in CHF million, restated	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Headquarters	Elimination	Total
Residential Customers	3,440	915	–	–	–	4,355
Enterprise Customers	2,380	701	383	–	–	3,464
Wholesale customers	489	148	–	–	–	637
Net revenue from external customers	6,309	1,764	383	–	–	8,456
Net revenue from other segments	65	6	419	–	(490)	–
Net revenue	6,374	1,770	802	–	(490)	8,456
Direct costs	(1,356)	(629)	(44)	–	6	(2,023)
Indirect costs	(2,277)	(535)	(614)	(55)	408	(3,073)
Segment result before depreciation and amortisation	2,741	606	144	(55)	(76)	3,360
Lease expense	(167)	(41)	(9)	(2)	13	(206)
Depreciation, amortisation and impairment losses	(1,142)	(464)	(50)	–	7	(1,649)
Segment result	1,432	101	85	(57)	(56)	1,505
Interest expense on lease liabilities						24
Operating income						1,529
Financial income and financial expense, net						(119)
Result of equity-accounted investees						1
Income before income taxes						1,411
Income tax expense						(230)
Net income						1,181
Segment result before depreciation and amortisation	2,741	606	144	(55)	(76)	3,360
Lease expense	(167)	(41)	(9)	(2)	13	(206)
Capital expenditure	(1,324)	(495)	(32)	–	18	(1,833)
Operating free cash flow proxy	1,250	70	103	(57)	(45)	1,321

Segment information Swisscom Switzerland 2019

2019, in CHF million, restated	Residential Customers	Business Customers	Wholesale	IT, Network & Infrastructure	Elimination	Total Swisscom Switzerland
Fixed-line	1,540	712	–	–	–	2,252
Mobile	1,549	641	–	–	–	2,190
Revenue other	–	45	–	–	–	45
Telecom services	3,089	1,398	–	–	–	4,487
Solutions business	–	771	–	–	–	771
Merchandise	357	190	–	–	–	547
Wholesale	–	–	489	–	–	489
Revenue other	(6)	3	–	18	–	15
Net revenue from external customers	3,440	2,362	489	18	–	6,309
Net revenue from other segments	56	64	260	47	(362)	65
Net revenue	3,496	2,426	749	65	(362)	6,374
Direct costs	(820)	(653)	(345)	(8)	470	(1,356)
Indirect costs	(571)	(719)	(11)	(868)	(108)	(2,277)
Segment result before depreciation and amortisation	2,105	1,054	393	(811)	–	2,741
Lease expense	(37)	(22)	–	(108)	–	(167)
Depreciation, amortisation and impairment losses	(70)	(62)	–	(1,009)	(1)	(1,142)
Segment result	1,998	970	393	(1,928)	(1)	1,432
Capital expenditure	(16)	(34)	–	(1,274)	–	(1,324)

3 Operating costs

Direct costs

In CHF million	1.01.–30.09.2020	1.01.–30.09.2019
Customer premises equipment and merchandise	664	744
Services purchased	455	446
Costs to obtain a contract	206	244
Costs to fulfill a contract	26	14
Network access costs of swiss subsidiaries	258	289
Network access costs of foreign subsidiaries	297	286
Total direct costs	1,906	2,023

Indirect costs

In CHF million	1.01.–30.09.2020	1.01.–30.09.2019
Salary and social security expenses	1,974	2,018
Other personnel expense	42	46
Total personnel expense	2,016	2,064
Information technology cost	179	185
Maintenance expense	181	233
Energy costs	87	87
Advertising and selling expenses	123	153
Consultancy expenses and freelance workforce	95	112
Administration expense	44	75
Allowances for receivables	70	60
Miscellaneous operating expenses	485	502
Total other operating expense	1,264	1,407
Capitalised self-constructed tangible and intangible assets	(268)	(267)
Own work for capitalised contract costs	(26)	(48)
Gain on sale of property, plant and equipment	(8)	(12)
Miscellaneous income	(39)	(71)
Total capitalised self-constructed assets and other income	(341)	(398)
Total indirect costs	2,939	3,073

Capitalised costs of self-constructed tangible and intangible 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 6 April 2020, 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 14 April 2020.

5 Financial liabilities

In CHF million	Carrying amount 01.01.2020	Issuance	Repayment	Other changes ¹	Carrying amount 30.09.2020	Fair Value
Financial liabilities						
Bank loans	1,080	149	(277)	(30)	922	961
Debenture bonds	5,915	620	(540)	14	6,009	6,264
Private placements	151	–	–	(1)	150	160
Derivative financial instruments	84	–	–	7	91	91
Other financial liabilities	230	12	(15)	(17)	210	222
Total financial liabilities	7,460	781	(832)	(27)	7,382	7,698

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

In the third quarter of 2020, Swisscom issued a CHF 100 million debenture bond with a term of 11 years and a coupon of 0.125%. The funds received were used to repay existing loans. Swisscom repaid a EUR 500 million (CHF 540 million) debenture bond upon maturity in the third quarter of 2020.

In the second quarter of 2020, Swisscom became the first listed company in Switzerland to issue a Green Bond in EUR. The debenture bond issued amounts to EUR 500 million (CHF 519 million). The coupon is 0.375% and the term 8.5 years. The funds raised will be used within Swisscom's Green Bond Framework or to repay existing debts.

6 Financial result

In CHF million	1.01.–30.09.2020	1.01.–30.09.2019
Interest income on financial assets	5	9
Foreign exchange gains	5	–
Other financial income	33	16
Total financial income	43	25
Interest expense on financial liabilities	(55)	(53)
Interest expense on lease liabilities	(34)	(24)
Interest expense on defined benefit obligations	(1)	(6)
Present-value adjustments on provisions	(36)	(6)
Change in fair value of interest rate swaps	(14)	(40)
Other financial expense	(16)	(15)
Total financial expense	(156)	(144)
Financial income and financial expense, net	(113)	(119)
Interest expense on lease liabilities	(34)	(24)
Net interest expense on financial assets and liabilities	(50)	(44)

7 Operating net working capital

Operating assets and liabilities changed as follows in the first nine months of 2020:

In CHF million	01.01.2020	Operational changes	Other changes ¹	30.09.2020
Trade receivables	2,183	(46)	2	2,139
Other operating assets	1,156	(84)	(1)	1,071
Trade payables	(1,614)	130	2	(1,482)
Other operating liabilities	(1,194)	26	2	(1,166)
Total operating assets and liabilities, net	531	26	5	562

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

Other operating assets and liabilities

In CHF million	30.09.2020	31.12.2019
Other operating assets		
Contract assets	151	222
Contract costs	209	262
Inventories	162	125
Prepaid expenses	384	338
Other operating assets	165	209
Total other operating assets	1,071	1,156
Other operating liabilities		
Contract liabilities	617	684
Accruals for variable performance-related bonus	99	145
Other operating liabilities	450	365
Total other operating liabilities	1,166	1,194

8 Provisions and contingent liabilities

Provisions

In CHF million	Dismantlement and restoration costs	Regulatory and competition law proceedings	Termination benefits	Others	Total
Balance at 1 January 2020	680	206	91	157	1,134
Additions to provisions	–	7	1	36	44
Adjustments recognised under property, plant and equipment	59	–	–	–	59
Present-value adjustments	3	33	–	–	36
Release of unused provisions	–	–	(1)	(7)	(8)
Use of provisions	(5)	(15)	(22)	(21)	(63)
Balance at 30 September 2020	737	231	69	165	1,202
Thereof current provisions	–	–	66	59	125
Thereof non-current provisions	737	231	3	106	1,077

In 2009, the Competition Commission (COMCO) imposed a fine of CHF 220 million on Swisscom for abuse of a market-dominant position in the area of ADSL services during the period through to 2007. Swisscom lodged an appeal against the fine before the Federal Administrative Court. In 2015, the Federal Administrative Court upheld the COMCO decision in principle, and reduced the fine imposed on Swisscom by COMCO from CHF 220 million to CHF 186 million. Swisscom believed the penalty to be unjustified and lodged an appeal to the Federal Court. In December 2019, the Federal Supreme Court dismissed Swisscom's appeal in the last instance and confirmed the sanction of CHF 186 million. As a result of the legally binding determination of market abuse, civil law claims were filed by telecommunications service providers in the second quarter of 2020. Based on legal assessments, Swisscom has recognised provisions for any civil claims in the past. Due to a reassessment of the time value of money, present value adjustments of CHF 31 million were recorded on these provisions in the second quarter of 2020. Any payments to be made will depend upon the date on which legally binding decrees and decisions are issued, and could probably occur within five years.

Contingent liabilities arising from competition law proceedings

On 25 August 2020, the Competition Commission launched an investigation against Swisscom into allegations that it abused its market-dominant position for broadband connections to interconnect company sites. On the basis of a legal opinion, Swisscom concludes that a cash outflow is not probable and has not recognised any provision in the consolidated financial statements at 30 September 2020 as a result.

With regard to the contingent liabilities reported in the 2019 consolidated financial statements in connection with antitrust 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 September 2020.

Alternative performance measures

Swisscom uses key indicators defined in the International Financial Reporting Standards (IFRS) throughout its entire financial reporting, as well as selected alternative performance measures (APMs). These alternative indicators provide useful information on the Group's financial situation and are used for financial management and control purposes. As these measures are not defined under IFRS, the calculation may differ from the published APMs of other companies. For this reason, comparability across companies may be limited. The key alternative performance measures used at Swisscom for the interim financial reporting as at 30 September 2020 are defined as follows:

Key performance measure	Swisscom definition
Adjustments	Significant items that, due to their exceptional nature, cannot be considered part of the Swisscom Group's ongoing performance, such as termination benefits and significant positions in connection with legal cases or other non-recurring items. In addition, the application of changes in the IFRS accounting principles and standards can have an impact on comparability with the previous year if these principles are not applied retrospectively.
At constant exchange rates	Key performance measures considering currency effects (figures for 2020 are translated at the 2019 exchange rate to calculate the currency effect).
Operating income before depreciation and amortisation (EBITDA)	Operating income before depreciation, amortisation and impairment losses of property, plant and equipment, intangible assets and right-of-use assets, financial expense and financial income, result of equity-accounted investees and income tax expense.
Operating income (EBIT)	Operating income before financial expense and financial income, result of equity-accounted investees and income tax expense.
Capital expenditure	Purchase of property, plant and equipment and intangible assets and payments for indefeasible rights of use (IRU) which are classified as leases under IFRS 16. In general, IRUs are paid in full at the beginning of use.
Operating free cash flow proxy	Operating income before depreciation and amortisation (EBITDA) less purchase of property, plant and equipment and intangible assets and payments for indefeasible rights of use (IRU) and lease expense. Lease expense include interest expense on lease liabilities and depreciation of right-of-use assets excl. depreciation of IRUs and impairment losses of right-of-use assets.
Free cash flow	Cash flows from operating and investing activities excl. cash flows from the purchase and sale of subsidiaries and purchase of and proceeds from equity-accounted investees and other financial assets.
Net debt	Financial liabilities less cash and cash equivalents, current financial assets, derivative financial instruments held to hedge financial liabilities and other non-current financial assets directly related to non-current financial liabilities (certificates of deposit and U.S. treasury bond strips). See interim report page 10.
Net debt incl. lease liabilities	Net debt and lease liabilities.

Reconciliation of alternative performance measures

In CHF million	1.01.–30.09.2020	1.01.–30.09.2019	Change reported	Change at constant exchange rates
Net revenue				
Net revenue	8,201	8,456	-3.0%	-2.1%
Operating income before depreciation and amortisation (EBITDA)				
EBITDA	3,356	3,360	-0.1%	0.7%
Adjustments lease expense	–	15	–	
EBITDA adjusted	3,356	3,375	-0.6%	0.2%
Capital expenditure				
Capital expenditure in property, plant and equipment and intangible assets	1,621	1,791	-9.5%	-9.0%
Payments for infeasible rights of use (IRU)	11	42	-73.8%	
Capital expenditure	1,632	1,833	-11.0%	-10.5%

In CHF million	1.01.–30.09.2020	1.01.–30.09.2019	Change reported
Operating free cash flow proxy			
Cash flow from operating activities	3,032	2,932	100
Capital expenditure	(1,632)	(1,833)	201
Depreciation of right-of-use assets	(217)	(205)	(12)
Depreciation of infeasible rights of use (IRU)	18	23	(5)
Impairment losses of right-of-use assets	7	–	7
Change in deferred gain from the sale and leaseback of real estate	9	9	–
Change in operating assets and liabilities	26	38	(12)
Change in provisions	27	5	22
Change in defined benefit obligations	(46)	(42)	(4)
Gain on sale of property, plant and equipment	8	12	(4)
Expense for share-based payments	(1)	(1)	–
Revenue from finance leases	49	–	49
Interest received	(23)	(24)	1
Interest payments on financial liabilities	82	78	4
Dividends received	(15)	(18)	3
Income taxes paid	174	347	(173)
Operating free cash flow proxy	1,498	1,321	177
Free cash flow			
Cash flow from operating activities	3,032	2,932	100
Cash flow used in investing activities	(1,706)	(2,190)	484
Repayment of lease liabilities	(207)	(228)	21
Acquisition of subsidiaries, net of cash and cash equivalents acquired	30	385	(355)
Sale of subsidiaries, net of cash and cash equivalents sold	–	(1)	1
Expenses for shareholdings accounted for using the equity method	15	13	2
Purchase of other financial assets	122	53	69
Proceeds from other financial assets	(19)	(66)	47
Free cash flow	1,267	898	369

Further information

Share information

Swisscom share performance indicators

1.01.–30.09.2020

	SIX Swiss Exchange
Closing price as at 31 December 2019 in CHF ¹	512.60
Closing price as at 30 September 2020 in CHF ¹	488.60
Year high in CHF ¹	577.80
Year low in CHF ¹	446.70
Total volume of traded shares	36,586,673
Total turnover in CHF million	18,784.89
Daily average of traded shares	193,580
Daily average in CHF million	99.39

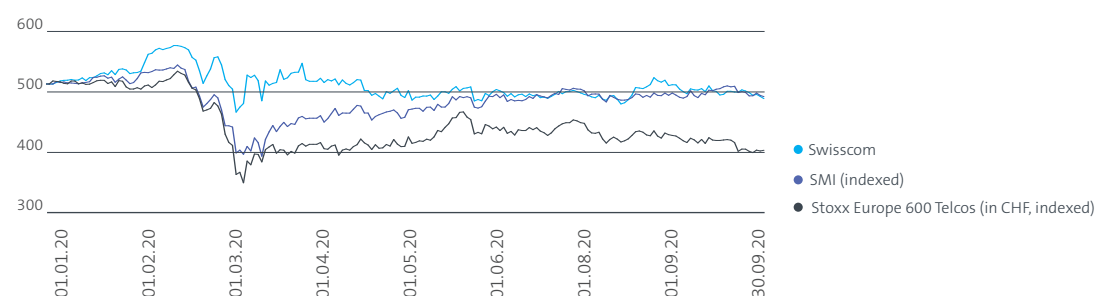
Source: Bloomberg

¹ paid prices

Share performance

Share performance since 1 January 2020

in CHF



Financial calendar

- 04 February 2021 2020 Annual Results and Annual Report
- 29 April 2021 2021 First-Quarter Results
- 05 August 2021 2021 Second-Quarter Results
- 28 October 2021 2021 Third-Quarter Results

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 2019 and 2020

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2019	1. quarter	2. quarter	3. quarter	4. quarter	2020
Income statement										
Net revenue	2,860	2,803	2,793	2,997	11,453	2,737	2,706	2,758		8,201
Direct costs	(683)	(656)	(684)	(792)	(2,815)	(626)	(624)	(656)		(1,906)
Personnel expense	(724)	(687)	(653)	(736)	(2,800)	(700)	(679)	(637)		(2,016)
Other operating expense	(448)	(500)	(459)	(582)	(1,989)	(407)	(416)	(441)		(1,264)
Capitalised self-constructed assets and other income	114	161	123	111	509	107	110	124		341
Operating income (EBITDA)	1,119	1,121	1,120	998	4,358	1,111	1,097	1,148		3,356
Depreciation and amortisation	(547)	(550)	(529)	(540)	(2,166)	(537)	(541)	(538)		(1,616)
Depreciation of right-of-use assets	(67)	(69)	(69)	(77)	(282)	(70)	(77)	(70)		(217)
Operating income (EBIT)	505	502	522	381	1,910	504	479	540		1,523
Net interest expense on financial assets and liabilities	(15)	(16)	(13)	(18)	(62)	(12)	(18)	(20)		(50)
Interest expenses on lease liabilities	(8)	(7)	(9)	(18)	(42)	(11)	(11)	(12)		(34)
Other financial result	3	(28)	(26)	(3)	(54)	(14)	(38)	23		(29)
Equity-accounted investees	2	–	(1)	(29)	(28)	1	2	1		4
Income before income taxes	487	451	473	313	1,724	468	414	532		1,414
Income tax expense	(104)	(54)	(72)	175	(55)	(74)	(72)	(102)		(248)
Net income	383	397	401	488	1,669	394	342	430		1,166
Attributable to equity holders of Swisscom Ltd	385	397	401	489	1,672	395	343	431		1,169
Attributable to non-controlling interests	(2)	–	–	(1)	(3)	(1)	(1)	(1)		(3)
Earnings per share (in CHF)	7.43	7.66	7.74	9.44	32.28	7.63	6.62	8.32		22.57
Net revenue										
Swisscom Switzerland	2,166	2,095	2,113	2,199	8,573	2,071	2,025	2,052		6,148
Fastweb	581	602	587	698	2,468	580	599	613		1,792
Other Operating Segments	265	275	262	277	1,079	243	247	269		759
Group Headquarters	–	–	–	1	1	–	–	–		–
Intersegment elimination	(152)	(169)	(169)	(178)	(668)	(157)	(165)	(176)		(498)
Total net revenue	2,860	2,803	2,793	2,997	11,453	2,737	2,706	2,758		8,201
Operating income before depreciation and amortisation (EBITDA)										
Swisscom Switzerland	928	908	905	743	3,484	923	891	913		2,727
Fastweb	182	211	213	228	834	181	208	219		608
Other Operating Segments	50	48	46	45	189	42	40	56		138
Group Headquarters	(17)	(20)	(18)	(11)	(66)	(14)	(19)	(15)		(48)
Reconciliation pension cost	(14)	(15)	(15)	(3)	(47)	(15)	(16)	(16)		(47)
Elimination	(10)	(11)	(11)	(4)	(36)	(6)	(7)	(9)		(22)
Total EBITDA	1,119	1,121	1,120	998	4,358	1,111	1,097	1,148		3,356
Capital expenditure										
Swisscom Switzerland	353	601	370	437	1,761	367	409	410		1,186
Fastweb	161	174	160	172	667	148	146	145		439
Other Operating Segments	8	11	13	15	47	7	11	12		30
Intersegment elimination	(4)	(7)	(7)	(19)	(37)	(6)	(7)	(10)		(23)
Total capital expenditure	518	779	536	605	2,438	516	559	557		1,632

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2019	1. quarter	2. quarter	3. quarter	4. quarter	2020
Operating free cash flow proxy										
Operating income (EBITDA)	1,119	1,121	1,120	998	4,358	1,111	1,097	1,148		3,356
Lease expense	(68)	(69)	(69)	(88)	(294)	(75)	(75)	(76)		(226)
EBITDA after lease expense (EBITDA AL)	1,051	1,052	1,051	910	4,064	1,036	1,022	1,072		3,130
Capital expenditure	(518)	(779)	(536)	(605)	(2,438)	(516)	(559)	(557)		(1,632)
Operating free cash flow proxy	533	273	515	305	1,626	520	463	515		1,498
Net debt										
Net debt	6,736	7,787	7,182	6,758	6,758	6,552	7,171	6,625		6,625
Net debt incl. lease liabilities.	8,455	9,542	8,933	8,785	8,785	8,528	9,129	8,622		8,622
Full-time equivalent employees										
Swisscom Switzerland	13,352	13,271	13,158	13,055	13,055	12,813	12,608	12,619		12,619
Fastweb	2,458	2,451	2,467	2,456	2,456	2,515	2,605	2,634		2,634
Other Operating Segments	3,694	3,633	3,668	3,605	3,605	3,583	3,567	3,560		3,560
Group Headquarters	215	209	207	201	201	199	204	213		213
Total headcount	19,719	19,564	19,500	19,317	19,317	19,110	18,984	19,026		19,026
Fastweb, in EUR million										
Residential Customers	269	273	277	285	1,104	280	282	282		844
Enterprise Customers	202	214	211	235	862	211	224	226		661
Wholesale	42	45	45	113	245	50	55	59		164
Revenue from external customers	513	532	533	633	2,211	541	561	567		1,669
Segment result (EBITDA)	162	187	194	207	750	170	195	203		568
Margin as % of net revenue	31.5	35.0	36.3	32.6	33.8	31.3	34.7	33.9		33.9
Lease expense	(12)	(13)	(13)	(12)	(50)	(13)	(13)	(13)		(39)
EBITDA after lease expense (EBITDA AL)	150	174	181	195	700	157	182	190		529
Capital expenditure	(143)	(154)	(146)	(156)	(599)	(138)	(138)	(134)		(410)
Operating free cash flow proxy	7	20	35	39	101	19	44	56		119
Broadband access lines in thousand	2,575	2,600	2,610	2,637	2,637	2,659	2,692	2,704		2,704
Mobile access lines in thousand	1,440	1,549	1,663	1,746	1,746	1,779	1,830	1,889		1,889
Information by geographical regions										
Net revenue in Switzerland	2,277	2,197	2,203	2,292	8,969	2,155	2,106	2,140		6,401
Net revenue in other countries	583	606	590	705	2,484	582	600	618		1,800
Total net revenue	2,860	2,803	2,793	2,997	11,453	2,737	2,706	2,758		8,201
EBITDA in Switzerland	939	913	907	749	3,508	924	890	922		2,736
EBITDA in other countries	180	208	213	249	850	187	207	226		620
Total EBITDA	1,119	1,121	1,120	998	4,358	1,111	1,097	1,148		3,356
Capital expenditure in Switzerland	357	604	377	432	1,770	367	412	412		1,191
Capital expenditure in other countries	161	175	159	173	668	149	147	145		441
Total capital expenditure	518	779	536	605	2,438	516	559	557		1,632
Headcount in Switzerland	17,035	16,871	16,788	16,628	16,628	16,357	16,119	16,119		16,119
Headcount in other countries	2,684	2,693	2,712	2,690	2,690	2,753	2,865	2,907		2,907
Total headcount (full-time equivalents)	19,719	19,564	19,500	19,318	19,318	19,110	18,984	19,026		19,026

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2019	1. quarter	2. quarter	3. quarter	4. quarter	2020
Swisscom Switzerland										
Revenue and results										
Residential Customers	520	511	518	513	2,062	497	478	485		1,460
Business Customers	217	215	209	203	844	196	189	190		575
Revenue wireless	737	726	727	716	2,906	693	667	675		2,035
Residential Customers	514	517	509	508	2,048	505	500	500		1,505
Business Customers	244	237	231	226	938	226	227	223		676
Revenue fixed-line	758	754	740	734	2,986	731	727	723		2,181
Other revenue Business Customers	16	14	15	15	60	15	15	15		45
Total revenue telecoms services	1,511	1,494	1,482	1,465	5,952	1,439	1,409	1,413		4,261
Solutions business	257	256	258	278	1,049	267	260	259		786
Merchandise	196	169	182	260	807	175	175	176		526
Wholesale	158	162	169	154	643	164	158	168		490
Revenue other	21	(6)	–	18	33	5	1	17		23
Total revenue from external customers	2,143	2,075	2,091	2,175	8,484	2,050	2,003	2,033		6,086
Residential Customers	1,169	1,124	1,147	1,222	4,662	1,120	1,080	1,120		3,320
Business Customers	810	783	769	794	3,156	760	760	739		2,259
Wholesale	158	162	169	154	643	164	158	168		490
IT, Network & Infrastructure	6	6	6	5	23	6	5	6		17
Total revenue from external customers	2,143	2,075	2,091	2,175	8,484	2,050	2,003	2,033		6,086
Segment result before depreciation and amortisation (EBITDA) and Operating free cash flow proxy										
Residential Customers	722	697	686	665	2,770	703	684	684		2,071
Business Customers	356	354	344	340	1,394	336	339	339		1,014
Wholesale	126	129	138	118	511	132	125	134		391
IT, Network & Infrastructure	(275)	(272)	(264)	(380)	(1,191)	(247)	(259)	(243)		(749)
Intersegment elimination	(1)	–	1	–	–	(1)	2	(1)		–
Segment result (EBITDA)	928	908	905	743	3,484	923	891	913		2,727
Margin as % of net revenue	42.8	43.3	42.8	33.8	40.6	44.6	44.0	44.5		44.4
Lease expense	(56)	(56)	(55)	(57)	(224)	(58)	(58)	(58)		(174)
EBITDA after lease expense (EBITDA AL)	872	852	850	686	3,260	865	833	855		2,553
Capital expenditure	(353)	(601)	(370)	(437)	(1,761)	(367)	(409)	(410)		(1,186)
Operating free cash flow proxy	519	251	480	249	1,499	498	424	445		1,367
Operational data in thousand										
Access lines										
Residential Customers	1,356	1,333	1,318	1,307	1,307	1,291	1,276	1,257		1,257
Business Customers	381	350	325	287	287	291	288	289		289
Fixed telephony access lines	1,737	1,683	1,643	1,594	1,594	1,582	1,564	1,546		1,546
Residential Customers	1,743	1,742	1,749	1,757	1,757	1,754	1,750	1,747		1,747
Business Customers	314	308	305	301	301	299	298	298		298
Broadband access lines retail	2,057	2,050	2,054	2,058	2,058	2,053	2,048	2,045		2,045
Residential Customers	1,462	1,467	1,477	1,491	1,491	1,491	1,487	1,486		1,486
Business Customers	61	62	63	64	64	64	64	65		65
TV access lines	1,523	1,529	1,540	1,555	1,555	1,555	1,551	1,551		1,551
Postpaid Residential Customers	2,840	2,872	2,908	2,930	2,930	2,931	2,933	2,962		2,962
Postpaid Business Customers	1,867	1,850	1,845	1,841	1,841	1,842	1,850	1,859		1,859
Mobile access lines Postpaid	4,707	4,722	4,753	4,771	4,771	4,773	4,783	4,821		4,821
Prepaid Residential Customers	1,671	1,646	1,605	1,562	1,562	1,526	1,481	1,432		1,432
Mobile access lines	6,378	6,368	6,358	6,333	6,333	6,299	6,264	6,253		6,253
RGU Residential Customers	9,072	9,060	9,057	9,047	9,047	8,993	8,927	8,884		8,884
RGU Business Customers	2,623	2,570	2,538	2,493	2,493	2,496	2,500	2,511		2,511
Revenue generating units (RGU)	11,695	11,630	11,595	11,540	11,540	11,489	11,427	11,395		11,395
Broadband access lines wholesale	492	502	509	515	515	525	533	543		543
Unbundled fixed access lines	83	79	75	70	70	66	63	59		59

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 US 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.

