

2018

Interim Report
January–June



swisscom

KPIs

In CHF million, except where indicated

		1 st half-year 2018	1 st half-year 2017	Change
Revenue and results				
Net revenue ¹		5,805	5,690	2.0%
Operating income before depreciation and amortisation (EBITDA) ^{1,2}		2,143	2,260	-5.2%
EBITDA as % of net revenue	%	36.9	39.7	
Operating income (EBIT) ³		1,063	1,203	-11.6%
Net income		787	839	-6.2%
Earnings per share	CHF	15.25	16.22	-6.0%
Balance sheet and cash flows				
Equity at end of period		7,685	6,531	17.7%
Equity ratio at end of period ⁴	%	34.4	30.3	
Operating free cash flow ⁵		751	1,012	-25.8%
Capital expenditure in property, plant and equipment and intangible assets		1,069	1,057	1.1%
Net debt at end of period ⁶		8,146	8,441	-3.5%
Operational data at end of period				
Fixed telephony access lines in Switzerland	in thousand	1,906	2,208	-13.7%
Broadband access lines retail in Switzerland	in thousand	2,028	1,989	2.0%
Swisscom TV access lines in Switzerland	in thousand	1,501	1,447	3.7%
Mobile access lines in Switzerland	in thousand	6,615	6,593	0.3%
Revenue generating units (RGU) in Switzerland ⁷	in thousand	12,050	12,237	-1.5%
Unbundled fixed access lines in Switzerland	in thousand	95	116	-18.1%
Broadband access lines wholesale in Switzerland	in thousand	462	402	14.9%
Broadband access lines in Italy	in thousand	2,500	2,411	3.7%
Mobile access lines in Italy	in thousand	1,280	880	45.5%
Swisscom share				
Number of shares issued at end of period	in thousand	51,802	51,802	-
Market capitalisation at end of period ⁸		22,959	23,969	-4.2%
Closing price at end of period	CHF	443.20	462.70	-4.2%
Employees				
Full-time equivalent employees at end of period	number	19,895	20,775	-4.2%
Average number of full-time equivalent employees	number	20,284	21,005	-3.4%

¹ Since 1 January 2018, Swisscom has applied IFRS 15 "Revenue from Contracts with Customers". The prior year's figures have not been adjusted.

Without the application of IFRS 15, net revenue would have been CHF 2 million higher and EBITDA would have been CHF 33 million higher in the first half year of 2018.

² Definition operating income before depreciation and amortization (EBITDA): operating income before depreciation and amortization, gain on sale of subsidiaries, net financial result, share of results of equity-accounted investees and income tax expense.

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: operating income before depreciation and amortisation (EBITDA), change in operating assets and liabilities (excluding cash and cash equivalents) less net capital expenditure in tangible and intangible assets and dividends paid to non-controlling interests.

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

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 2018. Net revenue increased by 2.0% or CHF 115 million to CHF 5,805 million. Due to one-off items, operating income before depreciation and amortisation (EBITDA) fell 5.2% or CHF 117 million to CHF 2,143 million while net income declined 6.2% or CHF 52 million to CHF 787 million. On a like-for-like basis, EBITDA dropped by CHF 13 million or 0.6%. The financial outlook for 2018 remains unchanged.

The growth in net revenue of CHF 115 million is mainly comprised of a decline in the Swiss core business of CHF 87 million and growth at Italian subsidiary Fastweb of CHF 185 million. In the Swiss core business, revenue decreased on the back of the continuing drop-off in fixed-line telephony connections and pressure on prices. The higher revenue at Fastweb is attributable on the one hand to currency translation effects (CHF 90 million) resulting from the higher EUR exchange rate, and on the other to growth in local currency (CHF 95 million or EUR 88 million) in all segments, driven primarily by customer growth. In the broadband business, Fastweb saw its number of subscribers increase year-on-year by 3.7% to 2.5 million, and in mobile telephony by 45% to 1.3 million. In the first half of 2017, Fastweb EBITDA included one-off income from legal disputes amounting to EUR 95 million (CHF 102 million). Furthermore, the year-on-year development of EBITDA was impacted by new requirements governing the revenue recognition of customer contracts (IFRS 15). In the Swiss core business, EBITDA fell by 2.8% on a like-for-like basis, while at Fastweb it rose in local currency by 4.9% on a like-for-like basis as a result of the growth in revenue.

Swisscom's capital expenditure rose by 1.1% to CHF 1,069 million; on the basis of constant exchange rates, it fell by 1.4%. Investment in Switzerland remained virtually unchanged at 721 million (−1.0%). Capital expenditure at Fastweb remained at a high level, totalling EUR 297 million (−1.7%). Operating free cash flow declined by CHF 261 million to CHF 751 million, primarily due to seasonal effects of the net working capital. At CHF 8,146 million, net debt is CHF 295 million lower compared with a year ago. Headcount at Swisscom contracted by 880 FTEs or 4.2% year-on-year to 19,895 FTEs. In comparison with the previous year, headcount in Switzerland fell by 771 FTEs to 17,203 FTEs as a result of the declining core business.

For the 2018 financial year, Swisscom still expects net revenue of around CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of less than CHF 2.4 billion. Subject to achieving its targets, Swisscom will propose payment of an unchanged dividend of CHF 22 per share for the 2018 financial year at the 2019 Annual General Meeting.

Segment results

In CHF million	2. quarter 2018	2. quarter 2017	Change	1 st half-year 2018	1 st half-year 2017	Change
Net revenue						
Swisscom Switzerland	2,194	2,241	-2.1%	4,400	4,487	-1.9%
Fastweb	606	511	18.6%	1,180	995	18.6%
Other Operating segments	228	210	8.6%	425	397	7.1%
Group Headquarters	1	1	-	1	1	-
Intersegment elimination	(109)	(104)	4.8%	(201)	(190)	5.8%
Net revenue¹	2,920	2,859	2.1%	5,805	5,690	2.0%
Operating income before depreciation and amortisation (EBITDA)						
Swisscom Switzerland	894	924	-3.2%	1,786	1,852	-3.6%
Fastweb	195	279 ³	-30.1%	362	434 ³	-16.6%
Other Operating segments	47	40	17.5%	86	80	7.5%
Group Headquarters	(31)	(21)	47.6%	(53)	(47)	12.8%
Reconciliation to pension cost ²	(14)	(27)	-48.1%	(29)	(47)	-38.3%
Intersegment elimination	(6)	(8)	-25.0%	(9)	(12)	-25.0%
Operating income before depreciation and amortisation (EBITDA)¹	1,085	1,187	-8.6%	2,143	2,260	-5.2%

¹ Since 1 January 2018, Swisscom has applied IFRS 15 "Revenue from Contracts with Customers". The prior year's figures have not been adjusted. Without the application of IFRS 15, net revenue would have been CHF 2 million higher (Swisscom Switzerland CHF 1 million and Fastweb CHF 1 million) and EBITDA would have been CHF 33 million higher (Swisscom Switzerland CHF 18 million and Fastweb CHF 15 million) in the first half year of 2018.

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.

³ Including income from legal disputes amounting to CHF 102 million (EUR 95 million).

Swisscom Switzerland

In CHF million, except where indicated	2. quarter 2018	2. quarter 2017	Change	1 st half-year 2018	1 st half-year 2017	Change
Net revenue and results						
Telecom services	1,571	1,621	-3.1%	3,129	3,253	-3.8%
Solution business	252	271	-7.0%	520	532	-2.3%
Merchandise	163	145	12.4%	333	292	14.0%
Wholesale	145	135	7.4%	286	273	4.8%
Other revenue	43	50	-14.0%	92	99	-7.1%
Revenue from external customers	2,174	2,222	-2.2%	4,360	4,449	-2.0%
Intersegment revenue	20	19	5.3%	40	38	5.3%
Net revenue¹	2,194	2,241	-2.1%	4,400	4,487	-1.9%
Direct costs	(455)	(436)	4.4%	(914)	(876)	4.3%
Indirect costs	(845)	(881)	-4.1%	(1,700)	(1,759)	-3.4%
Segment expenses	(1,300)	(1,317)	-1.3%	(2,614)	(2,635)	-0.8%
Segment result before depreciation and amortisation (EBITDA)¹	894	924	-3.2%	1,786	1,852	-3.6%
Margin as % of net revenue	40.7	41.2		40.6	41.3	
Depreciation, amortisation and impairment losses	(384)	(379)	1.3%	(762)	(746)	2.1%
Segment result	510	545	-6.4%	1,024	1,106	-7.4%
Operational data at end of period in thousand						
Fixed telephony access lines				1,906	2,208	-13.7%
Broadband access lines retail				2,028	1,989	2.0%
Swisscom TV access lines				1,501	1,447	3.7%
Mobile access lines				6,615	6,593	0.3%
Revenue generating units (RGU)				12,050	12,237	-1.5%
Unbundled fixed access lines				95	116	-18.1%
Broadband access lines wholesale				462	402	14.9%
Capital expenditure and headcount						
Capital expenditure in property, plant and equipment and intangible assets				711	719	-1.1%
Full-time equivalent employees at end of period (number)				14,587	15,420	-5.4%

¹ Since 1 January 2018, Swisscom has applied IFRS 15 "Revenue from Contracts with Customers". The prior year's figures have not been adjusted. Without the application of IFRS 15, net revenue would have been CHF 1 million higher and EBITDA would have been CHF 18 million higher in the first half year of 2018.

Net revenue for Swisscom Switzerland fell by CHF 87 million or 1.9% to CHF 4,400 million in the first half of 2018 as a result of the continuing decline in traditional fixed-line telephony and price pressure. Revenue from telecommunications services was down CHF 124 million or 3.8% to CHF 3,129 million. Of this decline, CHF 95 million (-3.5%) was attributable to the Residential Customers segment and CHF 29 million (-5.2%) to the Enterprise Customers segment. Compared to the previous year, the number of fixed-line telephony connections decreased by 302,000 or 13.7% to 1.91 million. In the saturated market, subscriber numbers in mobile telecommunications remained flat. Swisscom saw slight growth in postpaid offerings in the first half of 2018 (+7,000), while the number of prepaid customers fell (-29,000). The trend towards the bundled offering inOne is set to continue. As at the end of June 2018, the bundled offering inOne had over 1.89 million customers (+550,000 in the first half of 2018). In addition, the number of broadband connections grew by 39,000 compared to the previous year to 2.03 million. The number of TV connections increased year-on-year by 54,000 to over 1.5 million.

Segment expense fell by CHF 21 million or 0.8% to CHF 2,614 million, with direct costs increasing and indirect costs decreasing versus the prior year. The rise in direct costs of CHF 38 million or 4.3% to CHF 914 million is due to the volume driven higher costs to purchase products. Indirect costs fell by CHF 59 million or 3.4% to CHF 1,700 million, driven by the declining headcount and lower costs for external staff. Headcount fell year-on-year as a result of efficiency measures by 833 FTEs or 5.4% to 14,587, including 570 FTEs in the first half of 2018. The segment result before depreciation and amortisation was CHF 66 million or 3.6% lower at CHF 1,786 million. Capital expenditure remained virtually on a par with the previous year at CHF 711 million (-1.1%). Progress continues to be made on expanding the broadband networks. At the end of June 2018, Swisscom had connected over 4.0 million households and businesses in Switzerland with ultra-fast broadband (with speeds of more than 50 Mbps), around 2.7 million of which benefit from speeds of more than 100 Mbps.

Fastweb

In EUR million, except where indicated	2. quarter 2018	2. quarter 2017	Change	1 st half-year 2018	1 st half-year 2017	Change
Residential Customers	264	238	10.9%	521	470	10.9%
Corporate Business	188	173	8.7%	368	341	7.9%
Wholesale	66	57	15.8%	119	108	10.2%
Revenue from external customers	518	468	10.7%	1,008	919	9.7%
Intersegment revenue	1	2	-50.0%	3	4	-25.0%
Net revenue¹	519	470	10.4%	1,011	923	9.5%
Segment expenses	(353)	(212) ²	66.5%	(701)	(520) ²	34.8%
Segment result before depreciation and amortisation (EBITDA)¹	166	258²	-35.7%	310	403²	-23.1%
Margin as % of net revenue	32.0	54.9		30.7	43.7	
Depreciation, amortisation and impairment losses	(121)	(130)	-6.9%	(250)	(261)	-4.2%
Segment result	45	128	-64.8%	60	142	-57.7%
Capital expenditure in property, plant and equipment and intangible assets				297	302	-1.7%
Full-time equivalent employees at end of period (number)				2,483	2,494	-0.4%
Broadband access lines in thousand				2,500	2,411	3.7%
Mobile access lines in thousand				1,280	880	45.5%

¹ Since 1 January 2018, Swisscom has applied IFRS 15 "Revenue from Contracts with Customers". The prior year's figures have not been adjusted.

Without the application of IFRS 15, net revenue would have been EUR 1 million higher and EBITDA would have been EUR 13 million higher in the first half year of 2018.

² Including income from legal disputes amounting to EUR 95 million.

In the first half of 2018, Fastweb posted an increase in net revenue of EUR 88 million or 9.5% to EUR 1,011 million. Despite difficult market conditions, Fastweb's broadband customer base grew by 89,000 or 3.7% year-on-year to 2.5 million. Fastweb is also growing in mobile telephony. Compared to the previous year, the number of mobile access lines increased by 400,000 or 45.5% to 1.3 million. Although competition in the Residential Customers segment remains strong, the average revenue per broadband customer was stabilised versus the prior year. Residential customer revenue rose year-on-year by EUR 51 million or 10.9% to EUR 521 million, driven by customer growth. Despite the high level of competition, Fastweb held its strong position in the market for business customers. Revenue from business customers was up EUR 27 million or 7.9% to EUR 368 million. Revenue from wholesale business increased by EUR 11 million or 10.2% to EUR 119 million.

The segment result before depreciation and amortisation was CHF 93 million or 23.1% lower at CHF 310 million. In the second quarter of 2017, one-off income from legal disputes amounting to EUR 95 million was received. EBITDA increased by 4.9% on a like-for-like basis. The increase as a result of the higher revenue was partially offset by a non-recurring item resulting from changes to regulatory conditions in the previous year. The EBITDA margin declined by 1.5 percentage points to 31.9% on a like-for-like basis. The expansion of Italy's ultra-fast broadband network is continuing as planned. Capital expenditure remains at a high level, totalling EUR 297 million as in the previous year. Fastweb's headcount was also unchanged year-on-year at 2,483 FTEs.

Other Operating Segments

The net revenue of Other Operating Segments rose year-on-year by CHF 28 million or 7.1% to CHF 425 million. The increase was mainly due to higher revenue from construction services rendered by cabling. The segment result before depreciation and amortisation rose 7.5% compared to the previous year to CHF 86 million. This corresponds to a profit margin of 20.2%. Headcount declined by 22 FTEs to 2,563 FTEs, driven by the sale of foreign Group companies following the restructuring of the portfolio.

Depreciation and amortisation, non-operating results

In CHF million, except where indicated

	2. quarter 2018	2. quarter 2017	Change	1 st half-year 2018	1 st half-year 2017	Change
Operating income before depreciation and amortisation (EBITDA)	1,085	1,187	-8.6%	2,143	2,260	-5.2%
Depreciation, amortisation and impairment losses	(540)	(534)	1.1%	(1,080)	(1,057)	2.2%
Operating income (EBIT)	545	653	-16.5%	1,063	1,203	-11.6%
Net interest expense	(35)	(37)	-5.4%	(70)	(73)	-4.1%
Other financial result	6	(12)		-	(25)	-100.0%
Result of equity-accounted investees	2	(2)		-	(3)	-100.0%
Income before income taxes	518	602	-14.0%	993	1,102	-9.9%
Income tax expense	(110)	(136)	-19.1%	(206)	(263)	-21.7%
Net income	408	466	-12.4%	787	839	-6.2%
Share of net income attributable to equity holders of Swisscom Ltd	409	467	-12.4%	790	840	-6.0%
Share of net income attributable to non-controlling interests	(1)	(1)		(3)	(1)	
Earnings per share (in CHF)	7.90	9.02	-12.4%	15.25	16.22	-6.0%

Depreciation and amortisation increased year-on-year by CHF 23 million or 2.2% to CHF 1,080 million, remaining virtually unchanged at constant exchange rates (+0.1%). Net interest expense was CHF 3 million lower at CHF 70 million as a result of the lower average interest costs for financial debt. The other financial result remained at break-even, with exchange losses impacting financial results in the previous year. Income tax expense was CHF 206 million (prior year: CHF 263 million), corresponding to an effective income tax rate of 20.7% (prior year: 23.9%). The decrease in the effective income tax rate is primarily attributable to the effects of prior periods in 2017. Net income posted by Swisscom fell year-on-year by CHF 52 million or 6.2% to CHF 787 million, primarily due to special effects. Earnings per share is calculated based on the share of net income attributable to equity holders of Swisscom Ltd and the average number of shares outstanding. Earnings per share fell from CHF 16.22 to CHF 15.25.

Cash flows

In CHF million

	1 st half-year 2018	1 st half-year 2017	Change
Operating income before depreciation and amortisation (EBITDA)	2,143	2,260	(117)
Capital expenditure in property, plant and equipment and intangible assets	(1,069)	(1,057)	(12)
Change in defined benefit obligations	30	(24)	54
Change in net working capital and other cash flows from operating activities	(352)	(159)	(193)
Dividends paid to non-controlling interests	(1)	(8)	7
Operating free cash flow	751	1,012	(261)
Net interest paid	(17)	(21)	4
Income taxes paid	(272)	(235)	(37)
Free cash flow	462	756	(294)
Net expenditures for company acquisitions and disposals	(37)	(74)	37
Other cash flows from investing activities, net	16	10	6
Issuance and repayment of financial liabilities, net	687	441	246
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	-
Other cash flows from financing activities	(5)	(6)	1
Net decrease in cash and cash equivalents	(17)	(13)	(4)

Free cash flow declined year-on-year by CHF 294 million to CHF 462 million, due to lower operating free cash flow. Operating free cash flow declined by CHF 261 million to CHF 751 million, fuelled by lower operating income before depreciation and amortisation as well as the higher net working capital. Net working capital increased by

CHF 358 million compared to the end of 2017, mainly as a result of seasonal effects due to accruals for prepaid expenses for the financial year 2018 as well as lower trade payables. In the second quarter of 2017, the Swisscom pension fund (comPlan) received a one-time payment of CHF 50 million as a result of the regulatory changes communicated in October 2016. Capital expenditure increased year-on-year by CHF 12 million or 1.1% to CHF 1,069 million.

In the first quarter of 2018, Swisscom issued a debenture bond for CHF 150 million. It has a coupon of 1.0% and matures in 2035. In addition, in April 2018 Swisscom issued a debenture bond for EUR 500 million. It has a coupon of 1.125% and matures in 2026. The funds received were applied to repay existing debt.

Balance sheet

In CHF million, except where indicated	30.06.2018	01.01.2018 ¹	Change
Property, plant and equipment	10,747	10,697	0.5%
Goodwill	5,180	5,186	-0.1%
Intangible assets	1,614	1,758	-8.2%
Trade receivables	2,206	2,359	-6.5%
Trade payables	(1,564)	(1,753)	-10.8%
Provisions	(1,036)	(1,077)	-3.8%
Deferred gain on sale and leaseback of real estate	(140)	(146)	-4.1%
Other operating assets and liabilities, net	277	(51)	-
Net operating assets	17,284	16,973	1.8%
Net debt	(8,146)	(7,447)	9.4%
Defined benefit obligations	(951)	(1,048)	-9.3%
Income tax assets and liabilities, net	(767)	(804)	-4.6%
Equity-accounted investees and other non-current financial assets	265	264	0.4%
Equity	7,685	7,938	-3.2%
Equity ratio at end of period (in %)	34.3	36.0	

¹ Including cumulative effect of initially applying IFRS 9 and IFRS 15.

Equity fell by CHF 253 million to CHF 7,685 million, which corresponds to an equity ratio of 34.3% (36.0% as at 31 December 2017). The dividend payment amounted to CHF 1,140 million, compared to net income of CHF 787 million and other net positive effects recognised in equity of CHF 112 million. Cumulative currency translation losses included in equity remained unchanged from the end of 2017 at around CHF 1.7 billion.

Outlook

The financial outlook for 2018 remains unchanged. For 2018, Swisscom anticipates net revenue of around CHF 11.6 billion, EBITDA of around CHF 4.2 billion and capital expenditure of less than CHF 2.4 billion. Due to strong competition and price pressure, Swisscom's revenue without Fastweb is expected to decline; however, this should be partially offset by a rise in Fastweb's revenue. EBITDA for Swisscom, excluding Fastweb, is expected to be lower year-on-year. The expected reduction in EBITDA is attributable to price pressure and continued declines in the number of fixed-line telephony connections. EBITDA will be positively affected by cost savings. Fastweb's EBITDA is expected to be higher. From 2018 onwards, a new accounting standard for recognising revenue (IFRS 15) is to be applied, which is likely to have a negative effect on EBITDA of around CHF 50 million. By contrast, at the current euro exchange rate, the currency translation of Fastweb should positively affect revenue and EBITDA. Capital expenditure is expected to be slightly lower in Switzerland and slightly higher at Fastweb. Subject to achieving its targets, Swisscom will propose payment of an unchanged, attractive dividend of CHF 22 per share for the 2018 financial year at the 2019 Annual General Meeting.

Consolidated interim financial statements

Consolidated statement of comprehensive income (unaudited)

In CHF million, except for per share amounts

	Note	2. quarter 2018	2. quarter 2017	1 st half-year 2018	1 st half-year 2017
Income statement					
Net revenue	2	2,920	2,859	5,805	5,690
Direct costs	3	(692)	(607)	(1,396)	(1,213)
Personnel expense	3	(714)	(738)	(1,437)	(1,491)
Other operating expense	3	(540)	(517)	(1,043)	(1,007)
Capitalised self-constructed assets and other income	3	111	190	214	281
Operating income before depreciation, amortisation and impairment losses		1,085	1,187	2,143	2,260
Depreciation, amortisation and impairment losses		(540)	(534)	(1,080)	(1,057)
Operating income		545	653	1,063	1,203
Financial income	6	13	6	30	11
Financial expense	6	(42)	(55)	(100)	(109)
Result of equity-accounted investees		2	(2)	–	(3)
Income before income taxes		518	602	993	1,102
Income tax expense		(110)	(136)	(206)	(263)
Net income		408	466	787	839
Other comprehensive income					
Actuarial gains and losses from defined benefit pension plans		45	284	103	325
Change in fair value of equity instruments		(1)	–	2	–
Items that will not be reclassified to income statement		44	284	105	325
Foreign currency translation adjustments of foreign subsidiaries		(16)	36	(3)	31
Change in available-for-sale financial assets		–	(2)	–	–
Change in cash flow hedges		(4)	(2)	8	(6)
Other comprehensive income from equity-accounted investees		1	–	2	–
Items that will be reclassified subsequently to income statement		(19)	32	7	25
Other comprehensive income		25	316	112	350
Comprehensive income					
Net income		408	466	787	839
Other comprehensive income		25	316	112	350
Comprehensive income		433	782	899	1,189
Share of net income and comprehensive income					
Equity holders of Swisscom Ltd		409	467	790	840
Non-controlling interests		(1)	(1)	(3)	(1)
Net income		408	466	787	839
Equity holders of Swisscom Ltd		434	783	902	1,190
Non-controlling interests		(1)	(1)	(3)	(1)
Comprehensive income		433	782	899	1,189
Earnings per share					
Basic and diluted earnings per share (in CHF)		7.90	9.02	15.25	16.22

Consolidated balance sheet (unaudited)

In CHF million	Note	30.06.2018	31.12.2017
Assets			
Cash and cash equivalents		506	525
Trade receivables	7	2,206	2,389
Other operating assets	7	1,339	729
Other financial assets	5	85	78
Current income tax assets		15	10
Total current assets		4,151	3,731
Property, plant and equipment		10,747	10,697
Goodwill		5,180	5,186
Intangible assets		1,614	1,758
Equity-accounted investees		160	152
Other financial assets	5	346	337
Deferred income tax assets		204	197
Total non-current assets		18,251	18,327
Total assets		22,402	22,058
Liabilities and equity			
Financial liabilities	5	1,869	1,834
Trade payables	7	1,564	1,753
Provisions	8	160	177
Other operating liabilities	7	1,062	1,165
Current income tax liabilities		143	213
Total current liabilities		4,798	5,142
Financial liabilities	5	7,109	6,452
Defined benefit obligations		951	1,048
Provisions	8	876	900
Deferred gain on sale and leaseback of real estate		140	146
Deferred income tax liabilities		843	725
Total non-current liabilities		9,919	9,271
Total liabilities		14,717	14,413
Share capital		52	52
Capital reserves		136	136
Retained earnings		9,196	9,155
Foreign currency translation adjustments		(1,692)	(1,689)
Other reserves		6	2
Equity attributable to equity-holders of Swisscom Ltd		7,698	7,656
Non-controlling interests		(13)	(11)
Total equity		7,685	7,645
Total liabilities and equity		22,402	22,058

Consolidated statement of cash flows (unaudited)

In CHF million	Note	1 st half-year 2018	1 st half-year 2017
Net income		787	839
Income tax expense		206	263
Result of equity-accounted investees		–	3
Financial income	6	(30)	(11)
Financial expense	6	100	109
Depreciation, amortisation and impairment losses		1,080	1,057
Gain on sale of property, plant and equipment		(4)	(1)
Loss on disposal of property, plant and equipment		3	–
Expense for share-based payments		1	1
Change in provisions		(28)	(22)
Change in defined benefit obligations		30	(24)
Change in operating assets and liabilities	7	(324)	(137)
Change in deferred gain from the sale and leaseback of real estate		(6)	(3)
Interest received		11	11
Interest paid		(28)	(32)
Dividend received		18	15
Income taxes paid		(272)	(235)
Cash flow from operating activities		1,544	1,833
Purchase of property, plant and equipment and intangible assets		(1,069)	(1,057)
Sale of property, plant and equipment and intangible assets		6	2
Acquisition of subsidiaries, net of cash and cash equivalents acquired		(18)	(55)
Purchase of equity-accounted investees		(19)	(8)
Sale of equity-accounted investees		–	1
Purchase of other financial assets		(19)	(22)
Proceeds from other financial assets		17	18
Cash flow used in investing activities		(1,102)	(1,121)
Issuance of financial liabilities	5	738	523
Repayment of financial liabilities	5	(51)	(82)
Dividends paid to equity holders of Swisscom Ltd	4	(1,140)	(1,140)
Dividends paid to non-controlling interests		(1)	(8)
Acquisition of non-controlling interests		–	(12)
Other cash flows from financing activities		(5)	(6)
Cash flow used in financing activities		(459)	(725)
Net decrease in cash and cash equivalents		(17)	(13)
Cash and cash equivalents at 1 January		525	329
Foreign currency translation adjustments in respect of cash and cash equivalents		(2)	2
Cash and cash equivalents at the end of financial period		506	318

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 31 December 2016	52	136	8,148	(1,834)	12	6,514	8	6,522
Net income	–	–	840	–	–	840	(1)	839
Other comprehensive income	–	–	325	–	25	350	–	350
Comprehensive income	–	–	1,165	–	25	1,190	(1)	1,189
Dividends paid	–	–	(1,140)	–	–	(1,140)	(8)	(1,148)
Transactions with non-controlling interests	–	–	(27)	–	–	(27)	(6)	(33)
Treasury shares	–	–	1	–	–	1	–	1
Balance at 30 June 2017	52	136	8,147	(1,834)	37	6,538	(7)	6,531
Balance at 31 December 2017	52	136	9,155	(1,689)	2	7,656	(11)	7,645
Change in accounting policies ¹	–	–	297	–	(4)	293	–	293
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)
Transactions with non-controlling interests	–	–	(13)	–	–	(13)	2	(11)
Balance at 30 June 2018	52	136	9,196	(1,692)	6	7,698	(13)	7,685

¹ See Note 1.

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 2018 comprise Swisscom Ltd, as parent company, and its subsidiaries. Swisscom Ltd is a limited-liability company incorporated in accordance with Swiss law, under a private statute, and has its registered office in Ittigen (Berne). Its address is: Swisscom Ltd, Alte Tiefenastrasse 6, 3048 Worblaufen. Swisscom is listed on the SIX Swiss Exchange. The number of issued shares, as in the prior year, aggregated 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 15 August 2018.

Basis of preparation

The consolidated interim financial statements for the six months to 30 June 2018 were prepared in accordance with International Accounting Standard “IAS 34 Interim Financial Reporting” and should be read in conjunction with the consolidated financial statements for the financial year ended 31 December 2017. The consolidated interim financial statements were prepared in accordance with the accounting policies described in the 2017 consolidated financial statements and the revised accounting principles adopted on 1 January 2018.

In preparing the consolidated interim financial statements, management is required to make accounting estimates and assumptions. Adjustments are made for changes in accounting 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 1.157 was used as the end-of-period rate (31 December 2017: CHF/EUR 1.17) and 1.167 as the average rate for the period (prior year: CHF/EUR 1.077).

1 Changes in accounting principles

Newly applicable IFRS standards effective 1 January 2018

As of 1 January 2018, 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.

The newly applicable IFRS standards effective 1 January 2018 have the following impact on equity:

In CHF million	31.12.2017	Application IFRS 9	Application IFRS 15	01.01.2018
Trade receivables	2,389	(30)	–	2,359
Other operating assets	729	(2)	428	1,155
Deferred income tax assets	197	7	–	204
Other financial assets	415	11	–	426
Other assets	18,328	–	–	18,328
Total assets	22,058	(14)	428	22,472
Other operating liabilities	1,165	–	41	1,206
Deferred income tax liabilities	725	1	79	805
Other liabilities	12,523	–	–	12,523
Total liabilities	14,413	1	120	14,534
Total equity	7,645	(15)	308	7,938
Total liabilities and equity	22,058	(14)	428	22,472

IFRS 9 “Financial Instruments”

The standard includes new rules for the classification and measurement of financial assets and liabilities, the accounting for impairment and hedge accounting. In certain cases, changes in the classification of financial assets will result from the new provisions. Equity instruments which used to be accounted for at acquisition cost now have to be measured at fair value. Pursuant to the new provisions regarding impairment, losses on financial assets need to be recognised earlier. No changes result for Swisscom in the hedge accounting. The first-time application of IFRS 9 reduced equity on 1 January 2018 by CHF 15 million. The prior year’s figures have not been adjusted.

IFRS 15 “Revenue from Contracts with Customers”

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

Revenue

- If a mobile handset is sold as a part of a bundled offering with a mobile phone contract, it is treated as a multi-component transaction. Previously, the subsidy awarded on the mobile handset with such multi-component contracts was assigned in full to the mobile handset and recognised once the contract was concluded. Now, the revenue will be reallocated over the pre-delivered components (mobile handset), with the result that the revenue will be recognised earlier. The total revenue remains unchanged over the duration of the contract.
- Swisscom provides bundled service offerings which include Internet and TV as well as an optional fixed-line connection with telephony services. The service fees are fixed. In connection with such bundled offerings, routers and set-top boxes are sold which used to be recognised as revenue at the time of sale. Given the technical requirements, the routers and set-top boxes can be used exclusively for Swisscom services. By the same token, Swisscom services can only be used with Swisscom routers and set-top boxes. The routers and set-top boxes thus do not constitute separate performance obligations. The revenue from the sale of the routers and set-top boxes is distributed accordingly over the entire term of the underlying service contract.
- Activation fees used to be deferred and released to income over the minimum term of the contract. If no minimum contract term was agreed, revenue was recognised on the date of activation. Going forward, activation fees which cannot be refunded and do not constitute a separate service obligation will be included in the total transaction price and allocated proportionately to the individual performance obligations of the customer contract.

Contract costs

- Handset subsidies and commissions paid to dealers (costs of obtaining a contract) used to be recognised as expense immediately. Going forward, directly attributable contract costs of obtaining a contract will be activated and recognised as an expense over the entire term of the contract.
- The costs of routers and set-top boxes used to be recognised as an expense at the time of sale, as was the case for recognising revenue. In the future, these will also be activated as directly attributable costs to fulfill a contract and recognised as an expense over the entire term of the underlying service contract.

Swisscom has chosen the modified retrospective approach for the first-time application of IFRS 15. According to this transition method, Swisscom only has to apply IFRS 15 retrospectively to contracts which had not yet been executed as at 1 January 2018. The resulting transition effect was recognised in equity with no effect on profit or loss effective 1 January 2018. The prior year's figures have not been adjusted.

The transition effective 1 January 2018 resulted in an increase in equity of CHF 308 million. The effect results from the initial recognition of contract assets and liabilities as well as deferred costs of obtaining a contract and costs to fulfill a contract. The development of the IFRS 15 effect is dependent on future business models and products, the sales channel mix, and volume, price and cost trends.

The relevant items in the financial statements under the previous and new accounting policies are set out below:

In CHF million	IFRS 15 30.06.2018	IAS 18/IAS 11 30.06.2018	Adjustment
Income statement			
Net revenue	5,805	5,807	(2)
Direct costs	(1,396)	(1,352)	(44)
Personnel expense	(1,437)	(1,437)	–
Other operating expense	(1,043)	(1,043)	–
Capitalised self-constructed assets and other income	214	201	13
Operating income before depreciation, amortisation and impairment losses	2,143	2,176	(33)
Depreciation, amortisation and impairment losses	(1,080)	(1,080)	–
Operating income	1,063	1,096	(33)
Financial income	30	30	–
Financial expense	(100)	(100)	–
Result of equity-accounted investees	–	–	–
Income before income taxes	993	1,026	(33)
Income tax expense	(206)	(213)	7
Net income	787	813	(26)

In CHF million	IFRS 15 30.06.2018	IAS 18/IAS 11 30.06.2018	Adjustment
Balance sheet			
Other operating assets	1,339	943	396
Other assets	21,063	21,063	–
Total assets	22,402	22,006	396
Other operating liabilities	1,062	1,020	42
Deferred tax liabilities	843	771	72
Other liabilities	12,812	12,812	–
Total liabilities	14,717	14,603	114
Total equity	7,685	7,403	282
Total liabilities and equity	22,402	22,006	396

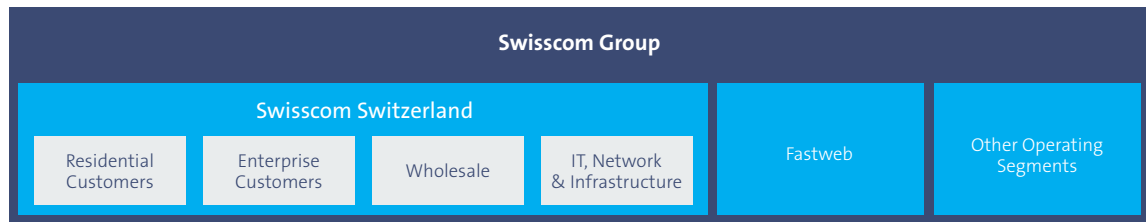
Amended International Financial Reporting Standards and Interpretations, whose application is not yet mandatory

IFRS 16 “Leases”

For the lessee, IFRS 16 (valid from 1 January 2019) provides for a comprehensive model for dealing with lease arrangements in financial statements. The differentiation between finance and operating lease arrangements which was required until now under IAS 17 is thus dropped in future for the lessee. The lessee shall recognise leasing obligations in its balance sheet for all future lease payments to be made as well as recognising a right to use the underlying asset. For financial reporting purposes, the lessor shall continue to differentiate between finance and operating lease arrangements. In this respect, the accounting model foreseen under IFRS 16 does not materially differ from the previous provisions under IAS 17. Swisscom expects that the comprehensive modifications will have a material impact on the consolidated financial statements. Swisscom will not fully apply IFRS 16 retroactively. The analysis of the financial effects from implementing the new standard is still ongoing. For this reason, it is currently not possible to provide a reliable estimate of the quantitative effects.

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”. “Group Headquarters”, which includes non-allocated costs, is reported 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. Segment expense encompasses the direct and indirect costs, which include personnel expense, other operating costs less capitalised costs of self-constructed assets and other income. Retirement-benefit expense includes ordinary employer contributions. The difference between the ordinary employer contributions and the pension cost as provided for under IAS 19 is reported in the column “Eliminations”. In the first half of 2018, an expense of CHF 29 million is disclosed under “Eliminations” as a pension cost reconciliation item in accordance with IAS 19 (prior year: CHF 47 million). The results of the Residential Customers, Enterprise Customers and Wholesale segments correspond to a contribution margin before network costs. The segment result of IT, Network & Infrastructure consists of operating expenses and depreciation and amortisation less revenues from the rental and administration of buildings and vehicles as well as capitalised costs of property, plant and equipment and other income. The segment results of Swisscom Switzerland and of the Other Operating Segments do not reflect the retirement-benefit reconciliation item in accordance with IAS 19. The segment results of Fastweb correspond to the operating results.

Various areas have been transferred between the segments of Swisscom Switzerland. The prior-year figures have been restated accordingly.

Segment information 2018

1 st half-year 2018, in CHF million	Swisscom Switzerland	Fastweb	Other operating segments	Group Head- quarters	Elimination	Total
Residential Customers	2,904	608	–	–	–	3,512
Corporate Business	1,170	430	269	–	–	1,869
Wholesale customers	286	138	–	–	–	424
Net revenue from external customers	4,360	1,176	269	–	–	5,805
Net revenue with other segments	40	4	156	1	(201)	–
Net revenue	4,400	1,180	425	1	(201)	5,805
Direct costs	(914)	(467)	(28)	–	13	(1,396)
Indirect costs ¹	(1,700)	(351)	(311)	(54)	150	(2,266)
Segment result before depreciation and amortisation	1,786	362	86	(53)	(38)	2,143
Depreciation, amortisation and impairment losses	(762)	(292)	(30)	–	4	(1,080)
Segment result	1,024	70	56	(53)	(34)	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	1,786	362	86	(53)	(38)	2,143
Capital expenditure in property, plant and equipment and intangible assets	(711)	(347)	(19)	–	8	(1,069)
Change in provisions	(45)	2	–	15	–	(28)
Change in defined benefit obligations	3	–	(1)	(1)	29	30
Change in operating net working capital	(363)	11	6	29	(7)	(324)
Other ²	(1)	–	–	–	–	(1)
Operating free cash flow	669	28	72	(10)	(8)	751

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

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

Segment information Swisscom Switzerland 2018

1 st half-year 2018, in CHF million	Residential Customers	Enterprise Customers	Wholesale	IT, Network & Infrastructure	Elimination	Total Swisscom Switzerland
Telecom services	2,602	527	–	–	–	3,129
Solution business	–	520	–	–	–	520
Merchandise	232	101	–	–	–	333
Wholesale	–	–	286	–	–	286
Other revenue	70	12	–	10	–	92
Net revenue from external customers	2,904	1,160	286	10	–	4,360
Intersegment revenue	41	53	140	70	(264)	40
Net revenue	2,945	1,213	426	80	(264)	4,400
Direct costs	(651)	(366)	(194)	(6)	303	(914)
Indirect costs ¹	(554)	(461)	(9)	(637)	(39)	(1,700)
Segment result before depreciation and amortisation	1,740	386	223	(563)	–	1,786
Depreciation, amortisation and impairment losses	(76)	(36)	–	(650)	–	(762)
Segment result	1,664	350	223	(1,213)	–	1,024
Capital expenditure in property, plant and equipment and intangible assets	(79)	(25)	–	(607)	–	(711)

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

Segment information 2017

1 st half-year 2017, in CHF million, adjusted	Swisscom Switzerland	Fastweb	Other operating segments	Group Head- quarters	Elimination	Total
Residential Customers	2,978	507	–	–	–	3,485
Corporate Business	1,198	368	251	–	–	1,817
Wholesale customers	273	115	–	–	–	388
Net revenue from external customers	4,449	990	251	–	–	5,690
Net revenue with other segments	38	5	146	1	(190)	–
Net revenue	4,487	995	397	1	(190)	5,690
Direct costs	(876)	(334)	(15)	–	12	(1,213)
Indirect costs ¹	(1,759)	(227)	(302)	(48)	119	(2,217)
Segment result before depreciation and amortisation	1,852	434	80	(47)	(59)	2,260
Depreciation, amortisation and impairment losses	(746)	(281)	(34)	–	4	(1,057)
Segment result	1,106	153	46	(47)	(55)	1,203
Financial income and financial expense, net						(98)
Result of equity-accounted investees						(3)
Income before income taxes						1,102
Income tax expense						(263)
Net income						839
Segment result before depreciation and amortisation	1,852	434	80	(47)	(59)	2,260
Capital expenditure in property, plant and equipment and intangible assets	(719)	(326)	(24)	–	12	(1,057)
Change in provisions	(20)	(2)	3	(3)	–	(22)
Change in defined benefit obligations	(19)	(1)	–	(51)	47	(24)
Change in operating net working capital	(168)	25	(7)	19	(6)	(137)
Other ²	(8)	–	–	–	–	(8)
Operating free cash flow	918	130	52	(82)	(6)	1,012

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

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

Segment information Swisscom Switzerland 2017

1 st half-year 2017, in CHF million, adjusted	Residential Customers	Enterprise Customers	Wholesale	IT, Network & Infrastructure	Elimination	Total Swisscom Switzerland
Telecom services	2,697	556	–	–	–	3,253
Solution business	–	532	–	–	–	532
Merchandise	203	89	–	–	–	292
Wholesale	–	–	273	–	–	273
Other revenue	78	8	–	13	–	99
Net revenue from external customers	2,978	1,185	273	13	–	4,449
Intersegment revenue	40	54	148	71	(275)	38
Net revenue	3,018	1,239	421	84	(275)	4,487
Direct costs	(618)	(361)	(206)	(6)	315	(876)
Indirect costs ¹	(574)	(467)	(8)	(670)	(40)	(1,759)
Segment result before depreciation and amortisation	1,826	411	207	(592)	–	1,852
Depreciation, amortisation and impairment losses	(65)	(39)	–	(641)	(1)	(746)
Segment result	1,761	372	207	(1,233)	(1)	1,106
Capital expenditure in property, plant and equipment and intangible assets	(86)	(36)	–	(597)	–	(719)

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

3 Operating costs

Direct costs

In CHF million	1.1.–30.6.2018	1.1.–30.6.2017
Customer premises equipment and merchandise	544	511
Services purchased	279	210
Costs of obtaining a contract	172	141
Costs to fulfill a contract	24	–
Traffic fees of foreign subsidiaries	216	179
International traffic fees	111	117
National traffic fees	50	55
Total direct costs	1,396	1,213

Indirect costs

In CHF million	1.1.–30.6.2018	1.1.–30.6.2017
Salary and social security expenses	1,406	1,454
Other personnel expense	31	37
Total personnel expense	1,437	1,491
Information technology cost	136	143
Maintenance expense	150	128
Rental expense	100	101
Energy costs	55	54
Advertising and selling expenses	93	110
Consultancy expenses and freelance workforce	89	80
Administration expense	50	54
Allowances for receivables	37	44
Miscellaneous operating expenses	333	293
Total other operating expense	1,043	1,007
Capitalised self-constructed assets	(167)	(158)
Gain on sale of property, plant and equipment	(4)	(1)
Miscellaneous income	(43)	(122)
Total capitalised self-constructed assets and other income	(214)	(281)
Total indirect costs	2,266	2,217

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

4 Dividends

On 4 April 2018, the Annual General Meeting of Swisscom Ltd approved the payment of a gross dividend of CHF 22 per share. A total dividend amount of CHF 1,140 million was paid out on 10 April 2018.

5 Financial instruments and net debt

Swisscom aims not to exceed a net debt of 1.9 times EBITDA (operating income before interest, taxes, depreciation and amortisation). Exceeding this limit temporarily is permitted. As at 31 December 2017, the net debt/EBITDA ratio was 1.7. Net debt comprises financial liabilities less cash and cash equivalents, current financial assets and non-current certificates of deposit, and derivative financial instruments for financing.

Below is a breakdown of financial liabilities and net debt in the first six months of 2018 as well as the fair values of financial assets and liabilities:

In CHF million	Carrying amount 31.12.2017	Issuance	Repayment	Other changes ^a	Carrying amount 30.06.2018	Fair Value ^b
Bank loans	760	2	(35)	(9)	718	746 ²
Debenture bonds	6,137	735	–	29	6,901	7,094 ²
Private placements	493	–	–	2	495	500 ²
Finance lease liabilities	461	–	(14)	3	450	858 ²
Derivative financial instruments	60	–	–	(11)	49	49 ²
Other financial liabilities	375	1	(2)	(9)	365	365 ²
Total financial liabilities	8,286	738	(51)	5	8,978	9,612
Cash and cash equivalents	(525)				(506)	(506) ²
Other financial assets	(314)				(326)	(326) ²
Net debt	7,447				8,146	

^a Interest expense, interest payments as well as other changes.

^b Fair value hierarchy.

^c Not included are other financial assets with a carrying amount of CHF 105 million, trade receivables and payables as well as other receivables and liabilities whose carrying amount corresponds to a reasonable estimation of their fair value.

In the first quarter of 2018, Swisscom issued a debenture bond for CHF 150 million. It has a coupon of 1.0% and matures in 2035. In addition, in April 2018 Swisscom issued a debenture bond for EUR 500 million (CHF 585 million). It has a coupon of 1.125% and matures in 2026. The funds received were applied to repay existing debt. The debenture bond in EUR was designated for hedge accounting of net investments in foreign operations.

6 Financial result

In CHF million	1.1.–30.6.2018	1.1.–30.6.2017
Interest income on financial assets	5	6
Change in fair value of interest rate swaps	9	2
Capitalised borrowing costs	2	3
Foreign exchange gains	5	–
Other financial income	9	–
Total financial income	30	11
Interest expense on financial liabilities	(75)	(79)
Interest expense on defined benefit obligations	(3)	(6)
Foreign exchange losses	–	(10)
Present-value adjustments on provisions	(4)	(3)
Other financial expense	(18)	(11)
Total financial expense	(100)	(109)
Financial income and financial expense, net	(70)	(98)
Net interest expense	(70)	(73)

7 Operating net working capital

Operating assets and liabilities changed as follows in the first half of 2018:

In CHF million	31.12.2017	Application IFRS 9 & 15	Operational changes	Other changes ¹	30.06.2018
Trade receivables	2,389	(30)	(139)	(14)	2,206
Other operating assets	729	426	174	10	1,339
Trade payables	(1,753)	–	151	38	(1,564)
Other operating liabilities	(1,165)	(41)	138	6	(1,062)
Total operating assets and liabilities, net	200	355	324	40	919

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

Other operating assets

In CHF million	30.06.2018	01.01.2018 ¹
Contract assets	318	286
Contract costs	266	272
Other receivables	46	37
Inventories	154	168
Other non-financial assets	555	397
Total other operating assets	1,339	1,160

¹ Including cumulative effect of initially applying IFRS 9 and IFRS 15.

Other operating liabilities

In CHF million	30.06.2018	01.01.2018 ¹
Contract liabilities	593	690
Other payables	223	292
Other non-financial liabilities	246	222
Total other operating liabilities	1,062	1,204

¹ Including cumulative effect of initially applying IFRS 9 and IFRS 15.

8 Provisions and contingent liabilities

In CHF million	Dismantlement and restoration costs	Regulatory and competition law proceedings	Termination benefits	Other	Total
Balance at 31 December 2017	600	156	112	209	1,077
Additions of provisions	2	1	–	20	23
Present-value adjustments	(12)	–	–	–	(12)
Release of unused provisions	(4)	–	–	(16)	(20)
Use of provisions	(1)	–	(17)	(14)	(32)
Balance at 30 June 2018	585	157	95	199	1,036
Thereof current provisions	–	2	85	73	160
Thereof non-current provisions	585	155	10	126	876

The provisions recognised in the consolidated financial statements 2017 have not changed materially during the current financial year.

Contingent liabilities for antitrust proceedings

With regard to the contingent liabilities reported in the 2017 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 June 2018.

9 Events after the balance sheet date

Italian subsidiary Fastweb signed an agreement at the end of July 2018 to acquire Tiscali's fixed wireless division and 3.5 GHz frequency spectrum, thereby strengthening the mobile and convergent business in the long term. The deal is worth around EUR 150 million (CHF 174 million). The transaction is subject to approval by the respective authorities. The deal is expected to be completed by the end of 2018.

Further information

Share information

Swisscom share performance indicators

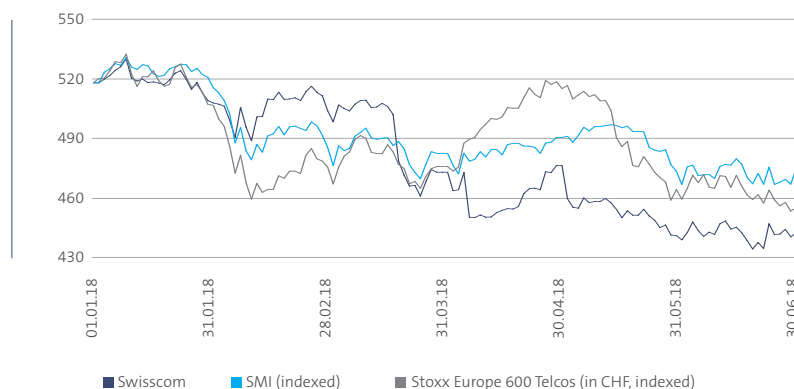
31.12.2017–30.6.2018	SIX Swiss Exchange
Closing price at 31 December 2017 in CHF ¹	518.50
Closing price at 30 June 2018 in CHF ¹	443.20
Year high in CHF ¹	530.60
Year low in CHF ¹	432.90
Total volume of traded shares	20,001,553
Total turnover in CHF million	9,579.46
Daily average of traded shares	322,606
Daily average in CHF million	77.88

Source: Bloomberg

¹ paid prices

Share performance

Share performance since 1 January 2018 in CHF



Financial calendar

- > 1 November 2018 2018 Third-Quarter Results
- > 7 February 2019 2018 Annual Results and Annual Report
- > 2 April 2019 Annual General Meeting in Basel

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 2017 and 2018

In CHF million, except where indicated

	1. quarter	2. quarter	3. quarter	4. quarter	2017	1. quarter	2. quarter	3. quarter	4. quarter	2018
Income statement										
Net revenue	2,831	2,859	2,914	3,058	11,662	2,885	2,920			5,805
Direct costs	(606)	(607)	(698)	(810)	(2,721)	(704)	(692)			(1,396)
Personnel expense	(753)	(738)	(695)	(816)	(3,002)	(723)	(714)			(1,437)
Other operating expense	(490)	(517)	(513)	(632)	(2,152)	(503)	(540)			(1,043)
Capitalised self-constructed assets and other income	91	190	86	141	508	103	111			214
Operating income (EBITDA)	1,073	1,187	1,094	941	4,295	1,058	1,085			2,143
Depreciation and amortisation	(523)	(534)	(531)	(576)	(2,164)	(540)	(540)			(1,080)
Operating income (EBIT)	550	653	563	365	2,131	518	545			1,063
Net interest expense	(36)	(37)	(36)	(40)	(149)	(35)	(35)			(70)
Other financial result	(13)	(12)	16	(2)	(11)	(6)	6			–
Result of associates	(1)	(2)	(3)	(5)	(11)	(2)	2			–
Income before income taxes	500	602	540	318	1,960	475	518			993
Income tax expense	(127)	(136)	(110)	(19)	(392)	(96)	(110)			(206)
Net income	373	466	430	299	1,568	379	408			787
Attributable to equity holders of Swisscom Ltd	373	467	430	300	1,570	381	409			790
Share attributable to non-controlling interests	–	(1)	–	(1)	(2)	(2)	(1)			(3)
Earnings per share (in CHF)	7.20	9.02	8.30	5.79	30.31	7.36	7.90			15.25
Net revenue										
Swisscom Switzerland	2,246	2,241	2,250	2,321	9,058	2,206	2,194			4,400
Fastweb	484	511	556	613	2,164	574	606			1,180
Other Operating segments	187	210	215	238	850	197	228			425
Group Headquarters	–	1	1	(1)	1	–	1			1
Intersegment elimination	(86)	(104)	(108)	(113)	(411)	(92)	(109)			(201)
Total net revenue	2,831	2,859	2,914	3,058	11,662	2,885	2,920			5,805
Segment result before depreciation and amortisation (EBITDA)										
Swisscom Switzerland	928	924	909	739	3,500	892	894			1,786
Fastweb	155	279	194	217	845	167	195			362
Other Operating segments	40	40	49	51	180	39	47			86
Group Headquarters	(26)	(21)	(24)	(40)	(111)	(22)	(31)			(53)
Reconciliation to pension cost	(20)	(27)	(28)	(17)	(92)	(15)	(14)			(29)
Intersegment elimination	(4)	(8)	(6)	(9)	(27)	(3)	(6)			(9)
Total segment result (EBITDA)	1,073	1,187	1,094	941	4,295	1,058	1,085			2,143
Capital expenditure in property, plant and equipment and intangible assets										
Swisscom Switzerland	357	362	364	571	1,654	311	400			711
Fastweb	165	161	158	208	692	185	162			347
Other Operating segments	11	13	15	19	58	8	11			19
Intersegment elimination	(4)	(8)	(7)	(7)	(26)	(3)	(5)			(8)
Total capital expenditure	529	528	530	791	2,378	501	568			1,069
Full-time equivalent employees at end of period										
Swisscom Switzerland	15,719	15,420	15,307	15,157	15,157	15,031	14,587			14,587
Fastweb	2,503	2,494	2,509	2,504	2,504	2,510	2,483			2,483
Other Operating segments	2,575	2,585	2,617	2,580	2,580	2,523	2,563			2,563
Group Headquarters	282	276	271	265	265	262	262			262
Total full-time equivalent employees	21,079	20,775	20,704	20,506	20,506	20,326	19,895			19,895
Operating free cash flow	463	549	660	487	2,159	359	392			751
Net debt	7,689	8,441	7,868	7,447	7,447	7,294	8,146			8,146

In CHF million, except where indicated

	1. quarter	2. quarter	3. quarter	4. quarter	2017	1. quarter	2. quarter	3. quarter	4. quarter	2018
Swisscom Switzerland										
Revenue and results										
Retail Customers	673	677	688	664	2,702	655	659			1,314
Enterprise Customers	121	122	122	119	484	113	118			231
Revenue mobile	794	799	810	783	3,186	768	777			1,545
Retail Customers	680	667	654	661	2,662	643	645			1,288
Enterprise Customers	142	140	136	137	555	131	134			265
Revenue fixed-line	822	807	790	798	3,217	774	779			1,553
Other revenue Enterprise Customers	16	15	15	15	61	16	15			31
Total revenue telecoms services	1,632	1,621	1,615	1,596	6,464	1,558	1,571			3,129
Solution business	261	271	264	288	1,084	268	252			520
Merchandise	147	145	142	214	648	170	163			333
Wholesale	138	135	157	148	578	141	145			286
Other revenue	49	50	49	55	203	49	43			92
Revenue from external customers	2,227	2,222	2,227	2,301	8,977	2,186	2,174			4,360
Retail Customers	1,497	1,481	1,478	1,515	5,971	1,456	1,448			2,904
Enterprise Customers	586	599	586	631	2,402	584	576			1,160
Wholesale	138	135	157	148	578	141	145			286
IT, Network & Infrastructure	6	7	6	7	26	5	5			10
Revenue from external customers	2,227	2,222	2,227	2,301	8,977	2,186	2,174			4,360
Segment result before depreciation and amortisation (EBITDA)										
Retail Customers	923	903	863	793	3,482	880	860			1,740
Enterprise Customers	199	212	212	199	822	194	192			386
Wholesale	104	103	123	116	446	109	114			223
IT, Network & Infrastructure	(298)	(294)	(288)	(370)	(1,250)	(290)	(273)			(563)
Intersegment elimination	–	–	(1)	1	–	(1)	1			–
Segment result (EBITDA)	928	924	909	739	3,500	892	894			1,786
Margin as % of net revenue	41.3	41.2	40.4	31.8	38.6	40.4	40.7			40.6
Fastweb, in EUR million										
Residential Customers	232	238	253	263	986	257	264			521
Corporate Business	168	173	177	192	710	180	188			368
Wholesale	51	57	58	74	240	53	66			119
Revenue from external customers	451	468	488	529	1,936	490	518			1,008
Segment result (EBITDA)	145	258	170	186	759	144	166			310
Margin as % of net revenue	32.0	54.9	34.6	35.1	39.0	29.3	32.0			30.7
Capital expenditure in property, plant and equipment and intangible assets	155	147	139	181	622	159	138			297
Broadband access lines in thousand	2,400	2,411	2,421	2,451	2,451	2,483	2,500			2,500
Mobile access lines in thousand	763	880	989	1,065	1,065	1,185	1,280			1,280

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2017	1. quarter	2. quarter	3. quarter	4. quarter	2018
Swisscom Switzerland										
Operational data in thousand										
Access lines										
Retail Customers	2,063	1,982	1,911	1,840	1,840	1,779	1,730			1,730
Enterprise Customers	234	226	217	207	207	198	176			176
Fixed telephony access lines	2,297	2,208	2,128	2,047	2,047	1,977	1,906			1,906
Retail Customers	1,950	1,951	1,962	1,976	1,976	1,988	1,991			1,991
Enterprise Customers	38	38	38	38	38	37	37			37
Broadband access lines retail	1,988	1,989	2,000	2,014	2,014	2,025	2,028			2,028
Retail Customers	1,438	1,447	1,453	1,467	1,467	1,492	1,501			1,501
Swisscom TV access lines	1,438	1,447	1,453	1,467	1,467	1,492	1,501			1,501
Postpaid Retail Customers	3,306	3,315	3,334	3,375	3,375	3,381	3,379			3,379
Postpaid Enterprise Customers	1,256	1,260	1,268	1,267	1,267	1,265	1,270			1,270
Postpaid mobile access lines	4,562	4,575	4,602	4,642	4,642	4,646	4,649			4,649
Prepaid Retail Customers	2,039	2,018	1,980	1,995	1,995	1,986	1,966			1,966
Mobile access lines	6,601	6,593	6,582	6,637	6,637	6,632	6,615			6,615
RGU Retail Customers	10,796	10,713	10,640	10,653	10,653	10,626	10,567			10,567
RGU Enterprise Customers	1,528	1,524	1,523	1,512	1,512	1,500	1,483			1,483
Revenue generating units (RGU)	12,324	12,237	12,163	12,165	12,165	12,126	12,050			12,050
Broadband access lines wholesale	385	402	419	435	435	449	462			462
Unbundled fixed access lines	120	116	114	107	107	100	95			95
Swisscom Group Information by geographical regions										
Net revenue in Switzerland	2,343	2,343	2,352	2,438	9,476	2,308	2,310			4,618
Net revenue in other countries	488	516	562	620	2,186	577	610			1,187
Total net revenue	2,831	2,859	2,914	3,058	11,662	2,885	2,920			5,805
EBITDA in Switzerland	917	905	898	731	3,451	889	891			1,780
EBITDA in other countries	156	282	196	210	844	169	194			363
Total EBITDA	1,073	1,187	1,094	941	4,295	1,058	1,085			2,143
Capital expenditure in Switzerland	362	366	369	581	1,678	315	406			721
Capital expenditure in other countries	167	162	161	210	700	186	162			348
Total capital expenditure	529	528	530	791	2,378	501	568			1,069
Full-time equivalent employees in Switzerland	18,280	17,974	17,877	17,688	17,688	17,611	17,203			17,203
Full-time equivalent employees in other countries	2,799	2,801	2,827	2,818	2,818	2,715	2,692			2,692
Total full-time equivalent employees (count)	21,079	20,775	20,704	20,506	20,506	20,326	19,895			19,895

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.

