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Consolidated statement of comprehensive income

In CHF million, except for per share amounts	Note	2018	2017
Income statement			
Net revenue	1.1	**11,714**	**11,662**
Direct costs	1.2	(2,954)	(2,721)
Personnel expense	1.2, 4.1	(2,815)	(3,002)
Other operating expense	1.2	(2,193)	(2,152)
Capitalised self-constructed assets and other income	1.2	461	508
Operating income before depreciation, amortisation and impairment losses		**4,213**	**4,295**
Depreciation, amortisation and impairment losses	3.2–3.4	(2,144)	(2,164)
Operating income		**2,069**	**2,131**
Financial income	2.4	28	44
Financial expense	2.4	(186)	(204)
Result of equity-accounted investees	5.3	5	(11)
Income before income taxes		**1,916**	**1,960**
Income tax expense	6.1	(395)	(392)
Net income		**1,521**	**1,568**
Other comprehensive income			
Actuarial gains and losses from defined benefit pension plans	2.1	(62)	679
Change in fair value of equity instruments	2.1	9	–
Items that will not be reclassified to income statement		**(53)**	**679**
Foreign currency translation adjustments of foreign subsidiaries	2.1	(40)	143
Change in available-for-sale financial assets	2.1	–	(5)
Change in cash flow hedges	2.1	6	(5)
Other comprehensive income from equity-accounted investees	2.1	1	2
Items that are or may be reclassified subsequently to income statement		**(33)**	**135**
Other comprehensive income		**(86)**	**814**
Comprehensive income			
Net income		1,521	1,568
Other comprehensive income		(86)	814
Comprehensive income		**1,435**	**2,382**
Share of net income and comprehensive income			
Equity holders of Swisscom Ltd		1,527	1,570
Non-controlling interests		(6)	(2)
Net income		**1,521**	**1,568**
Equity holders of Swisscom Ltd		1,441	2,384
Non-controlling interests		(6)	(2)
Comprehensive income		**1,435**	**2,382**
Earnings per share			
Basic and diluted earnings per share (in CHF)	2.1	**29.48**	**30.31**

Consolidated balance sheet

In CHF million	Note	31.12.2018	31.12.2017
Assets			
Cash and cash equivalents		474	525
Trade receivables	3.1	2,189	2,389
Other operating assets	3.1	1,243	729
Other financial assets		82	78
Current income tax assets	6.1	2	10
Total current assets		**3,990**	**3,731**
Property, plant and equipment	3.2	10,894	10,697
Goodwill	3.3	5,164	5,186
Intangible assets	3.4	1,858	1,758
Equity-accounted investees	5.3	174	152
Other financial assets		339	337
Deferred tax assets	6.1	167	197
Total non-current assets		**18,596**	**18,327**
Total assets		**22,586**	**22,058**
Liabilities and equity			
Financial liabilities	2.2	1,361	1,834
Trade payables	3.1	1,658	1,753
Provisions	3.5	131	177
Other operating liabilities	3.1	1,127	1,165
Current income tax liabilities	6.1	250	213
Total current liabilities		**4,527**	**5,142**
Financial liabilities	2.2	6,806	6,452
Defined benefit obligations	4.3	1,196	1,048
Provisions	3.5	901	900
Deferred gain on sale and leaseback of real estate	2.2	134	146
Deferred tax liabilities	6.1	814	725
Total non-current liabilities		**9,851**	**9,271**
Total liabilities		**14,378**	**14,413**
Share capital		52	52
Capital reserves		136	136
Retained earnings	2.1	9,759	9,155
Foreign currency translation adjustments	2.1	(1,728)	(1,689)
Other reserves	2.1	4	2
Equity attributable to equity-holders of Swisscom Ltd		**8,223**	**7,656**
Non-controlling interests		(15)	(11)
Total equity		**8,208**	**7,645**
Total liabilities and equity		**22,586**	**22,058**

Consolidated statement of cash flows

In CHF million	Note	**2018**	2017
Net income		1,521	1,568
Income tax expense	6.1	395	392
Result of equity-accounted investees	5.3	(5)	11
Financial income	2.4	(28)	(44)
Financial expense	2.4	186	204
Depreciation, amortisation and impairment losses	3.2–3.4	2,144	2,164
Gain on sale of property, plant and equipment	1.2	(17)	(24)
Loss on disposal of property, plant and equipment		7	2
Expense for share-based payments		1	2
Change in provisions	3.5	(57)	51
Change in defined benefit obligations	4.3	64	36
Change in operating assets and liabilities	3.1	(70)	165
Change in deferred gain from the sale and leaseback of real estate	2.2	(12)	(12)
Interest received		24	26
Dividends received	5.3	18	20
Interest paid	2.2	(157)	(181)
Income taxes paid	6.1	(294)	(289)
Cash flow from operating activities		**3,720**	**4,091**
Purchase of property, plant and equipment and intangible assets	3.2, 3.4	(2,404)	(2,378)
Sale of property, plant and equipment and intangible assets		21	30
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5.2	(78)	(63)
Purchase of equity-accounted investees	5.2	(35)	(20)
Proceeds from sale of equity-accounted investees	5.2	–	76
Purchase of other financial assets		(31)	(58)
Proceeds from other financial assets		32	158
Cash flow used in investing activities		**(2,495)**	**(2,255)**
Issuance of financial liabilities	2.2	1,451	757
Repayment of financial liabilities	2.2	(1,571)	(1,158)
Dividends paid to equity holders of Swisscom Ltd	2.1	(1,140)	(1,140)
Dividends paid to non-controlling interests		(1)	(8)
Acquisition of non-controlling interests	5.2	–	(99)
Other cash flows from financing activities		(9)	(9)
Cash flow used in financing activities		**(1,270)**	**(1,657)**
(Net decrease) net increase in cash and cash equivalents		**(45)**	**179**
Cash and cash equivalents at 1 January		525	329
Foreign currency translation adjustments in respect of cash and cash equivalents		(6)	17
Cash and cash equivalents at 31 December		**474**	**525**

Consolidated statement of changes in equity

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	–	–	1,570	–	–	1,570	(2)	1,568
Other comprehensive income	–	–	679	145	(10)	814	–	814
Comprehensive income	**–**	**–**	**2,249**	**145**	**(10)**	**2,384**	**(2)**	**2,382**
Dividends paid	–	–	(1,140)	–	–	(1,140)	(8)	(1,148)
Other changes	–	–	(102)	–	–	(102)	(9)	(111)
Balance at 31 December 2017	**52**	**136**	**9,155**	**(1,689)**	**2**	**7,656**	**(11)**	**7,645**
Change in accounting policies [1]	–	–	300	–	(4)	296	–	296
Balance at 1 January 2018	**52**	**136**	**9,455**	**(1,689)**	**(2)**	**7,952**	**(11)**	**7,941**
Net income	–	–	1,527	–	–	1,527	(6)	1,521
Other comprehensive income	–	–	(53)	(39)	6	(86)	–	(86)
Comprehensive income	**–**	**–**	**1,474**	**(39)**	**6**	**1,441**	**(6)**	**1,435**
Dividends paid	–	–	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	–	–	(30)	–	–	(30)	3	(27)
Balance at 31 December 2018	**52**	**136**	**9,759**	**(1,728)**	**4**	**8,223**	**(15)**	**8,208**

1 See «General informations and amendements of financial statement reporting policies» in the Notes to the consolidated financial statements.

Notes to the consolidated financial statements

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

General information and changes in accounting policies

General information

The Swisscom Group (hereinafter referred to as "Swisscom") provides telecommunication services and is active primarily in Switzerland and Italy. The consolidated financial statements as of and for the year ended 31 December 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 Tiefenaustrasse 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 remains, as in the prior year, 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 has approved the issuance of these consolidated financial statements on 6 February 2019. As of this date, no material events after the reporting date have occurred. The consolidated financial statements will be submitted for approval to the Annual General Meeting of Shareholders of Swisscom Ltd to be held on 2 April 2019.

Basis of preparation

The consolidated financial statements of Swisscom have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the provisions of Swiss law. The reporting period covers twelve months. The consolidated financial statements are presented in Swiss francs (CHF) which corresponds to the functional currency of Swisscom Ltd. Unless otherwise noted, all amounts are stated in millions of Swiss francs. The consolidated financial statements are drawn up on the historical cost basis, unless a standard or interpretation prescribes another measurement basis for a particular caption in which case this is explicitly stated in the accounting policies. Material accounting policies of relevance for an understanding of the consolidated financial statements are set out in the specific notes to the financial statements.

Significant judgements, estimates and assumptions in applying the accounting policies

The preparation of consolidated financial statements is dependent upon assumptions and estimates being made in applying the accounting policies for which management can exercise a certain degree of judgment. This concerns the following positions:

Description	Further information
Useful lives of property, plant and equipment and intangible assets	Note 3.2 and 3.4
Recoverability of Goodwill	Note 3.3
Provisions for dismantlement and restoration costs	Note 3.5
Provision for regulatory and competition law procedures	Note 3.5
Defined benefit obligations	Note 4.3

Amendments to International Financial Reporting Standards and Interpretations which are to be applied for the first time in the financial year

As from 1 January 2018 onwards, Swisscom adopted various amendments to existing International Financial Reporting Standards (IFRS) and Interpretations, which, with the exception of the amendments below, have no material impact on the results or financial position of the Group.

Standard	Name
IFRIC 22	Foreign currency transactions and advance consideration
Amendements to IFRS 2	Classification and measurement of share-based payment transactions
IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers and related clarifications to IFRS 15
Various	Amendments to IFRS 2014–2016

Further information as to the changes in IFRS which must be applied in 2019 or later are set out in Note 6.3. The new IFRS Standards adopted have the following impact on shareholders' equity as of 1 January 2018:

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)	435	1,162
Deferred tax assets	197	7	(3)	201
Other financial assets	415	11	–	426
Other assets	18,328	–	–	18,328
Total assets	**22,058**	**(14)**	**432**	**22,476**
Other operating liabilities	1,165	–	45	1,210
Deferred tax liabilities	725	1	76	802
Other liabilities	12,523	–	–	12,523
Total liabilities	**14,413**	**1**	**121**	**14,535**
Total equity	**7,645**	**(15)**	**311**	**7,941**
Total liabilities and equity	**22,058**	**(14)**	**432**	**22,476**

IFRS 9 "Financial Instruments"

The Standard encompasses new rules to classify and measure financial assets and liabilities, the recognition of impairments and the recording of hedging relationships. The new provisions have resulted in changes to the classification of other financial assets. In addition, equity instruments which until now were measured at cost must now be measured at fair value. The classification and carrying amounts of other financial assets in the accordance with the previous and new provisions are as follows:

In CHF million	Classification according to IAS 39	Classification according to IFRS 9	Carrying amount according to IAS 39	**Carrying amount according to IFRS 9**
Term deposits	Loans and receivables	At amortised cost	7	7
Certificates of deposit	Loans and receivables	At amortised cost	145	145
Loans	Loans and receivables	At amortised cost	49	49
Equity instruments	Available-for-sale	At fair value through other comprehensive income	53	64
Quoted debt instruments	Fair value through profit or loss	At amortised cost	61	61
Derivative financial instruments	Fair value through profit or loss	Fair value through profit or loss	100	100
Total other financial assets			**415**	**426**

Under the new provisions relating to impairments, impairment losses on financial assets are to be recognised earlier. Impairment losses on financial assets as of 1 January 2018 increased by CHF 32 million before income taxes as a result of the initial adoption of IFRS 9. No changes for Swisscom will ensue from the recording of hedging relationships. Equity as of 1 January 2018 declined by CHF 15 million as a result of the initial adoption of IFRS 9. The prior year's comparative figures were not restated.

IFRS 15 "Revenue from Contracts with Customers"

In contrast to the provisions in force until now, 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 point of time or over-time criteria, it is no longer a question of the transfer of risks and rewards but of the transfer of control over the goods and services to the customer. With regards to multi-element contracts, IFRS 15 explicitly rules that the transaction price is to be allocated to each identified performance obligation in proportion to the relative stand-alone selling prices. Furthermore, the new standard contains new rules regarding the costs to fulfill and to obtain 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 presentation and disclosure information. IFRS 15 will have the following material impact on the consolidated financial statements of Swisscom:

Revenues

- If a mobile handset is sold as part of a bundled offering with a mobile-phone contract, it is considered as a multi-element contract. Previously in such multi-element contracts, the subsidy granted on the mobile handset was allocated in full to the mobile handset and recognised accordingly in full upon conclusion of the contract. Under the new rules, the revenue is to 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 whole duration of the contract.
- Swisscom makes bundled offerings which include broadband and TV as well as an optional fixed-line connection with telephony services. Service fees are fixed. Routers and set-top boxes are sold in conjunction with such bundled offerings which previously were recognised as revenue in full at the time of sale. Because of their technical requirements, the routers and set-top boxes can be used exclusively for Swisscom services. Conversely, Swisscom services can only be used with Swisscom routers and set-top boxes. For this reason, the routers and set-top boxes do not constitute separate performance obligations. Revenues from the sale of routers and set-top boxes are thus distributed over the term of the underlying service contract.
- Previously, connection fees were deferred and recognised as revenue over the minimum contract period. Should no minimum contract period exist, the revenue was recognised at the time of activation. Non-refundable connection fees which do not constitute a separate performance obligation in future are considered as part of the total transaction price and allocated to the separate performance obligations arising under the customer contract on a pro-rata basis.

Contract costs

- Handset subsidies and commissions paid to dealers (costs to obtain a contract) were previously expensed immediately. In future, directly attributable costs to obtain a contract are capitalised and expensed over the life of the contract.
- The costs of routers and set-top boxes were previously expensed at the time of sale in accordance the revenue recognition policy. In future, they will also be capitalised as directly attributable costs to fulfill a contract and expensed over the term of the underlying service contract.

Swisscom has elected to apply the modified retrospective approach for the initial adoption of IFRS 15. In accordance with this transitional method, Swisscom must apply IFRS 15 retrospectively only for those contracts which had not been fulfilled as of 1 January 2018. The cumulative effect in applying the standard was recognised in equity as of 1 January 2018, with no effect on the income statement. The prior year's comparative figures were not restated. Equity as of 1 January 2018 increased by CHF 311 million as a result of the adoption of the new standard. The impact is the result of the initial recognition of contract assets and liabilities as well as deferred costs to obtain a contract and costs to fulfill a contract. How IFRS 15 will impact future results will depend on future business models and products, the mix of distribution channels as well as future movements in volumes, prices and costs.

Presented below are the relevant financial-statement positions measured in accordance with the previous and new accounting policies:

In CHF million	IFRS 15 2018	IAS 18/IAS 11 2018	Adjustment
Income statement			
Net revenue	**11,714**	**11,709**	**5**
Direct costs	(2,954)	(2,859)	(95)
Personnel expense	(2,815)	(2,815)	–
Other operating expense	(2,193)	(2,193)	–
Capitalised self-constructed assets and other income	461	414	47
Operating income before depreciation, amortisation and impairment losses	**4,213**	**4,256**	**(43)**
Depreciation, amortisation and impairment losses	(2,144)	(2,144)	–
Operating income	**2,069**	**2,112**	**(43)**
Financial income	28	28	–
Financial expense	(186)	(186)	–
Result of equity-accounted investees	5	5	–
Income before income taxes	**1,916**	**1,959**	**(43)**
Income tax expense	(395)	(404)	9
Net income	**1,521**	**1,555**	**(34)**

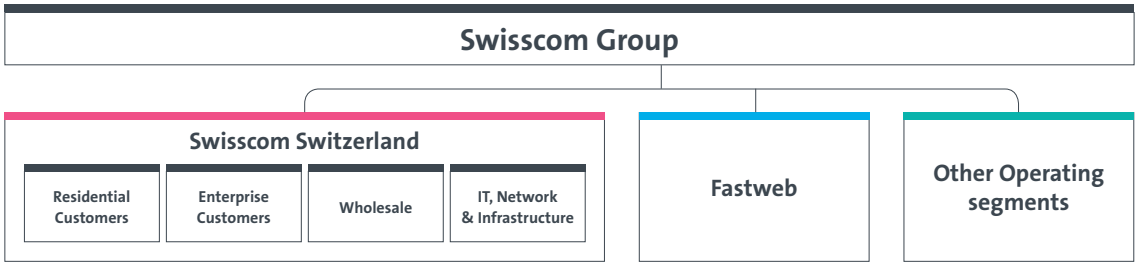
In CHF million	IFRS 15 31.12.2018	IAS 18/IAS 11 31.12.2018	Adjustment
Balance sheet			
Other operating assets	1,243	823	420
Other assets	21,343	21,343	–
Total assets	**22,586**	**22,166**	**420**
Other operating liabilities	1,127	1,054	73
Deferred tax liabilities	814	744	70
Miscellaneous liabilities	12,437	12,437	–
Total liabilities	**14,378**	**14,235**	**143**
Total equity	**8,208**	**7,931**	**277**
Total liabilities and equity	**22,586**	**22,166**	**420**

1 Operating performance

This chapter sets outs information on the operating performance of Swisscom in the current financial year. The classification according to operating segments corresponds to the reporting system used internally to evaluate performance and allocate resources, as well as to Swisscom's management structure.

1.1 Segment information

General disclosures



Segment	Activity
Residential Customers	The segment Residential Customers comprises connection fees for broadband and TV services, fixed-network and mobilephone subscriptions as well as national and international telephone and data traffic for residential customers and customers from small- and medium size enterprises. Furthermore, the segment includes the sale of merchandise.
Enterprise Customers	Enterprise Customers focuses on complete communication solutions for large business customers. Its product offering in the field of business ICT infrastructure covers the whole range of services from individual products to complete business solutions.
Wholesale	This segment comprises the use of Swisscom fixed and mobile networks by other telecommunication service providers and the use of third-party networks by Swisscom. It also includes roaming with foreign operators whose customers use Swisscom's mobile networks, as well as broadband services and regulated products as a result of the unbundling of the "last mile" for other telecommunication service providers.
IT, Network & Infrastructure	The segment IT, Network & Infrastructure is responsible for the planning, operation and maintenance of Swisscom's network infrastructure and all IT systems. It is responsible for the development and production of standardised IT and network services in Switzerland. In addition, IT, Network & Infrastructure also includes the support functions Finances, Human Resources and Strategy for Swisscom Switzerland as well as the management of real estate and the vehicle fleet in Switzerland.
Fastweb	Fastweb is one of the largest providers of broadband services in Italy. Its product portfolio covers voice, data, broadband and TV services as well as video-on-demand for residential and corporate customers. In addition, Fastweb offers mobile phone services on the basis of an MVNO contract (as a virtual network operator). It also provides comprehensive network services and customised solutions.
Other Operating Segments	Other Operating Segments mainly comprises Digital Business and Participations. Digital Business mainly comprises Swisscom Directories Ltd (localsearch), which operates in the field of online directories and telephone directories. Participations mainly comprises the subsidiaries Billag Ltd, cablex Ltd and Swisscom Broadcast Ltd. Billag Ltd collected radio and television license fees on behalf of the Swiss Confederation until the end of 2018. The operations of cablex Ltd are in the building and maintenance of wired and wireless networks in Switzerland, primarily in the field of telecommunications. Swisscom Broadcast Ltd is the leading provider in Switzerland of broadcast services, of cross-platform retail media services and of security communications.

Reporting is made on the basis of the segments "Residential Customers", "Enterprise Customers", "Wholesale", and "IT, Network & Infrastructure", which are regrouped under Swisscom Switzerland, as well as "Fastweb" and "Other Operating Segments". In addition, "Group Headquarters", which includes non-allocated costs, is disclosed separately in segment reporting.
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 2018, an expense of CHF 60 million is disclosed under "Eliminations" as a pension cost reconciliation item in accordance with IAS 19 (prior year: CHF 92 million). The results of the segments "Residential Customers", "Enterprise Customers" and "Wholesale" correspond to a

contribution margin prior to 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 the capitalised costs of property, plant and equipment and other income. The segment results of Swisscom Switzerland and of the other operating segments do not include the retirement-benefit reconciliation item in accordance with IAS 19. The segment results of Fastweb correspond to the operating results. Several business areas were transferred between the various segments of Swisscom Switzerland. The prior year's comparatives were restated accordingly.

Segment information 2018

2018, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	**Total**
Residential customers	5,843	1,210	–	–	–	7,053
Corporate customers	2,328	900	558	1	–	3,787
Wholesale customers	566	308	–	–	–	874
Net revenue from external customers	**8,737**	**2,418**	**558**	**1**	**–**	**11,714**
Net revenue from other segments	80	8	349	1	(438)	–
Net revenue	**8,817**	**2,426**	**907**	**2**	**(438)**	**11,714**
Direct costs	(1,972)	(950)	(59)	–	27	(2,954)
Indirect costs [1]	(3,437)	(699)	(662)	(80)	331	(4,547)
Segment result before depreciation and amortisation	**3,408**	**777**	**186**	**(78)**	**(80)**	**4,213**
Depreciation, amortisation and impairment losses	(1,502)	(587)	(59)	–	4	(2,144)
Segment result	**1,906**	**190**	**127**	**(78)**	**(76)**	**2,069**
Financial income and financial expense, net						(158)
Result of equity-accounted investees						5
Income before income taxes						**1,916**
Income tax expense						(395)
Net income						**1,521**
Segment result before depreciation and amortisation	3,408	777	186	(78)	(80)	4,213
Capital expenditure in property, plant and equipment and intangible assets	(1,620)	(757)	(46)	–	19	(2,404)
Change in provisions	(61)	3	(1)	2	–	(57)
Change in defined benefit obligations	6	–	–	(1)	59	64
Change in operating net working capital	(97)	27	(1)	10	(9)	(70)
Other [2]	(3)	–	–	–	2	(1)
Operating free cash flow	**1,633**	**50**	**138**	**(67)**	**(9)**	**1,745**

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

2018, in CHF million	Residential Customers	Enterprise Customers	Whole-sale	IT, Network & Infrastructure	Elimi-nation	**Total Swisscom Switzerland**
Fixed access	2,573	580	–	–	–	3,153
Mobile subscribers	2,618	451	–	–	–	3,069
Telecom services	**5,191**	**1,031**	**–**	**–**	**–**	**6,222**
Solution business	–	1,042	–	–	–	1,042
Merchandise	494	211	–	–	–	705
Wholesale	–	–	566	–	–	566
Revenue other	158	24	–	20	–	202
Net revenue from external customers	**5,843**	**2,308**	**566**	**20**	**–**	**8,737**
Net revenue from other segments	81	102	328	139	(570)	80
Net revenue	**5,924**	**2,410**	**894**	**159**	**(570)**	**8,817**
Direct costs	(1,411)	(755)	(430)	(10)	634	(1,972)
Indirect costs [1]	(1,140)	(900)	(18)	(1,315)	(64)	(3,437)
Segment result before depreciation and amortisation	**3,373**	**755**	**446**	**(1,166)**	**–**	**3,408**
Depreciation, amortisation and impairment losses	(138)	(69)	–	(1,296)	1	(1,502)
Segment result	**3,235**	**686**	**446**	**(2,462)**	**1**	**1,906**
Capital expenditure in property, plant and equipment and intangible assets	(170)	(54)	–	(1,396)	–	(1,620)

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

Segment information 2017

2017, in CHF million, restated	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	Total
Residential customers	5,971	1,097	–	–	–	7,068
Corporate customers	2,428	791	529	1	–	3,749
Wholesale customers	578	267	–	–	–	845
Net revenue from external customers	**8,977**	**2,155**	**529**	**1**	**–**	**11,662**
Net revenue from other segments	81	9	321	–	(411)	–
Net revenue	**9,058**	**2,164**	**850**	**1**	**(411)**	**11,662**
Direct costs	(1,943)	(771)	(31)	–	24	(2,721)
Indirect costs [1]	(3,615)	(548)	(639)	(112)	268	(4,646)
Segment result before depreciation and amortisation	**3,500**	**845**	**180**	**(111)**	**(119)**	**4,295**
Depreciation, amortisation and impairment losses	(1,485)	(589)	(96)	–	6	(2,164)
Segment result	**2,015**	**256**	**84**	**(111)**	**(113)**	**2,131**
Financial income and financial expense, net						(160)
Result of equity-accounted investees						(11)
Income before income taxes						**1,960**
Income tax expense						(392)
Net income						**1,568**
Segment result before depreciation and amortisation	3,500	845	180	(111)	(119)	4,295
Capital expenditure in property, plant and equipment and intangible assets	(1,654)	(692)	(58)	–	26	(2,378)
Change in provisions	39	(4)	9	7	–	51
Change in defined benefit obligations	(56)	(1)	–	1	92	36
Change in operating net working capital	184	38	(50)	7	(14)	165
Other [2]	(11)	–	–	–	1	(10)
Operating free cash flow	**2,002**	**186**	**81**	**(96)**	**(14)**	**2,159**

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

2017, in CHF million, restated	Residential Customers	Enterprise Customers	Whole-sale	IT, Network & Infrastructure	Elimi-nation	Total Swisscom Switzerland
Fixed access	2,662	615	–	–	–	3,277
Mobile subscribers	2,702	485	–	–	–	3,187
Telecom services	**5,364**	**1,100**	**–**	**–**	**–**	**6,464**
Solution business	–	1,084	–	–	–	1,084
Merchandise	451	197	–	–	–	648
Wholesale	–	–	578	–	–	578
Revenue other	156	21	–	26	–	203
Net revenue from external customers	**5,971**	**2,402**	**578**	**26**	**–**	**8,977**
Net revenue from other segments	82	108	366	141	(616)	81
Net revenue	**6,053**	**2,510**	**944**	**167**	**(616)**	**9,058**
Direct costs	(1,398)	(741)	(478)	(12)	686	(1,943)
Indirect costs [1]	(1,173)	(947)	(20)	(1,405)	(70)	(3,615)
Segment result before depreciation and amortisation	**3,482**	**822**	**446**	**(1,250)**	**–**	**3,500**
Depreciation, amortisation and impairment losses	(126)	(80)	–	(1,279)	–	(1,485)
Segment result	**3,356**	**742**	**446**	**(2,529)**	**–**	**2,015**
Capital expenditure in property, plant and equipment and intangible assets	(192)	(69)	–	(1,393)	–	(1,654)

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

Disclosure by geographical regions

	2018		2017	
In CHF million	**Net revenue**	**Non-current assets**	Net revenue	Non-current assets
Switzerland	9,274	14,440	9,476	14,400
Italy	2,418	3,581	2,155	3,359
Other countries	22	69	31	34
Not allocated	–	506	–	534
Total	**11,714**	**18,596**	**11,662**	**18,327**

Disclosure by products and services

In CHF million	**2018**	2017
Telecom services	8,227	8,269
Solution business	1,042	1,084
Merchandise	775	699
Wholesale	873	845
Revenue other	797	765
Total net revenue	**11,714**	**11,662**

Accounting policies

In the following paragraphs are described the accounting policies which are valid as from 1 January 2018. The amendments to the previous accounting policies are described in the note "Amendments to International Financial Reporting Standards and Interpretations which are to be applied for the first time in the financial year".

Telecommunication services

Telecommunication services encompass mobile and fixed-network services in domestic and foreign locations. Mobile-phone services comprise the basic charges; in addition, they include the domestic and international cellular traffic relating to calls made by Swisscom customers within Switzerland and abroad. Swisscom offers subscriptions with a monthly flat-rate fee, the revenue for which is recognised on a straight-line basis over the minimum term of the contract. Depending on the type of subscription, revenue is recognised on the basis of the minutes used. The minimum contract term, as a rule, is 12 or 24 months. If a mobile handset is sold as part of a bundled offering with a mobile-phone contract, it is considered as a multi-element contract. Multi-element transactions are grouped into portfolios for revenue accounting. The transaction price for multi-element contracts is allocated to each identified performance obligation on the basis of relative stand-alone selling prices. In this process, the stand-alone selling prices of each component is considered in relation to the sum of the stand-alone selling price of each performance obligation under the contract. The stand-alone selling prices of mobile handsets and subscriptions correspond to Swisscom's list price and the minimum contract term. Non-refundable connection fees not representing separate performance obligations are taken into account in the transaction price and allocated on a relative stand-alone selling prices basis to the individual performance obligations under the customer contract. In the event that there is no minimum contract term, the revenue is recognised at the time of connection.
Fixed-network services comprise principally the basic charges for fixed telephony, broadband and TV connections as well as the domestic and international telephony traffic of individuals and corporate customers. In addition, Swisscom makes bundled offerings comprising broadband and TV connections with an optional fixed-line telephony connection. These subscription fees are flat-rate. The minimum contract term is twelve months. Revenues are recognised on a straight-line basis over the term of the contract. Revenue for telephone calls is recognised at the time when the calls are made.

Solutions

The service area of communications and IT solutions comprise principally advisory services and the implementation, maintenance and operation of communication infrastructures. Furthermore, the area includes applications and services, as well as the integration, operation and maintenance of data networks and outsourcing services. Revenue from customer-specific orders is recognised using a measure of progress method which is measured on the basis of the relationship of the costs incurred to total anticipated costs. Revenue arising on long-term outsourcing contracts is recognised as a function of performance to date provided to the customer. The duration of these contracts, as a rule, is between 3 and 7 years. Transition projects in connection with an outsourcing contract are not recorded as separate performance obligations. Maintenance revenues are recognised on a straight-line basis over the term of the maintenance contracts.

Sales of merchandise

Mobile handsets, fixed-line devices and miscellaneous supplies are recognised as revenue at the time of delivery or provision of the service. Swisscom sells routers und TV-boxes to be used for services provided by Swisscom. As these are only compatible with the Swisscom network and cannot be used for networks of other telecommunication service providers, they are not recorded as separate performance obligations. Revenue is deferred and recognised over the minimum contract term of the related broadband or TV subscription.

Wholesale

The services comprise principally leased lines and the use of the Swisscom fixed network by other telecommunication service providers (roaming). Leased-line charges are recognised as revenue on a straight-line basis over the terms of the contract. Roaming services are recognised as revenue on the basis of the call minutes or at contractually agreed charges as of the time of providing the service. Roaming fees charged to other telecommunication service providers are reported on a gross basis.

1.2 Operating expenses

Direct costs

In CHF million	2018	2017
Customer premises equipment and merchandise	1,175	1,128
Services purchased	607	486
Costs of obtaining a contract	345	296
Costs to fulfill a contract	31	–
Traffic fees of foreign subsidiaries	428	400
International traffic fees	269	302
National traffic fees	99	109
Total direct costs	**2,954**	**2,721**

Indirect costs

In CHF million	2018	2017
Salary and social security expenses	2,751	2,856
Other personnel expense	64	146
Total personnel expense [1]	**2,815**	**3,002**
Information technology cost	284	306
Maintenance expense	334	284
Rental expense	207	206
Energy costs	118	105
Advertising and selling expenses	230	249
Consultancy expenses and freelance workforce	176	176
Administration expense	100	108
Allowances for receivables and contract assets	74	91
Miscellaneous operating expenses	670	627
Total other operating expense	**2,193**	**2,152**
Capitalised self-constructed assets	(331)	(327)
Income from litigations	–	(102)
Gain on sale of property, plant and equipment	(17)	(24)
Miscellaneous income	(113)	(55)
Total capitalised self-constructed assets and other income	**(461)**	**(508)**
Total indirect costs	**4,547**	**4,646**

1 See Note 4.1.

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

Accounting policies

In the following paragraphs are described the accounting policies which are valid as from 1 January 2018. The amendments to the previous accounting policies are described in the note "Amendments to International Financial Reporting Standards and Interpretations which are to be applied for the first time in the financial year".

Costs to obtain a contract

Swisscom pays commissions to dealers for the acquisition and retention of mobile-phone customers. The commission payable is dependent on the type of subscription. Costs to obtain a contract are deferred and amortised over the related revenue-recognition period. In addition, the handset subsidies granted to the customer at the same time a Swisscom mobile-phone subscription is entered into, are reimbursed to the dealer. These costs are deferred and amortised on a straight-line basis over the contract term as costs to obtain a contract. The amortisation period corresponds to the related revenue-recognition period. See note 1.1.

Costs to fulfill a contract

In connection with a broadband or TV subscription, the customer must purchase a router or TV box in order that the customer can use the services of Swisscom. Routers and TV boxes may be used exclusively for services provided by Swisscom. The cost of routers and TV boxes are reported as costs to fulfill a contract and amortised over the minimum term of the contract. The start-up costs incurred to transfer and integrate outsourcing transactions with corporate customers are deferred and amortised against income on a straight-line basis over the duration of the operating contract. The amortisation period corresponds to the related revenue-recognition period. See note 1.1.

2 Capital and financial risk management

Set out below are the procedures and guidelines governing the active management of equity resources and of the financial risks to which Swisscom is exposed. Swisscom strives to achieve a robust capital equity basis thus enabling it to guarantee its ability to continue as a going concern and to offer investors an appropriate return based on the risks assumed.

2.1 Capital management and equity

Net debt to EBITDA ratio

Swisscom aims to maintain a single-A credit rating. In addition, Swisscom targets a net debt of approximately 1.9 x EBITDA (operating income before depreciation, amortisation and impairment losses), excluding consideration of IFRS 16. Net debt consists of total 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. The net debt to EBITDA ratio is as follows:

In CHF million	31.12.2018	31.12.2017
Net debt	7,393	7,447
Operating income before depreciation, amortisation and impairment losses (EBITDA)	4,213	4,295
Ratio net debt/EBITDA	**1.8**	**1.7**

Equity ratio

Swisscom strives to achieve an equity ratio of 30%, at a minimum. The equity ratio is computed as follows:

In CHF million	31.12.2018	31.12.2017
Equity	8,208	7,645
Total assets	22,586	22,058
Equity ratio in %	**36.3**	**34.7**

Dividend policy

Swisscom pursues a return policy with a stable dividend. Distributable reserves are not determined on the basis of the equity as reported in the consolidated financial statements but rather on the basis of equity as reported in the statutory financial statements of the parent company, Swisscom Ltd. At 31 December 2018, Swisscom Ltd's distributable reserves amounted to CHF 6,435 million. The dividend is proposed by the Board of Directors and must be approved by the Annual General Meeting of Shareholders. Treasury shares are not entitled to a dividend. Swisscom Ltd paid the following dividends in 2017 and 2018:

In CHF million, except where indicated	2018	2017
Number of registered shares eligible for dividend (in millions of shares)	51.801	51.801
Ordinary dividend per share (in CHF)	22.00	22.00
Dividends paid	**1,140**	**1,140**

The Board of Directors proposes to the Annual Shareholders' Meeting of Swisscom Ltd to be held on 2 April 2019 the payment of an ordinary dividend of CHF 22 per share in respect of the 2018 financial year. This equates to an aggregate dividend distribution of CHF 1,140 million. The dividend distribution is scheduled to be made on 8 April 2019.

Earnings per share

In CHF million, except where indicated	2018	2017
Share of net income attributable to equity holders of Swisscom Ltd	1,527	1,570
Weighted average number of shares outstanding (number)	51,801,182	51,800,771
Basic and diluted earnings per share (in CHF)	**29.48**	**30.31**

Supplementary information on equity

Development of retained earnings and other reserves as well as comprehensive income 2018

In CHF million	Retained earnings	Foreign currency translation adjustments	Fair value reserve	Hedging reserve	Equity holders of Swisscom	Non-controlling interests	Total
Balance at 31 December 2017	**9,155**	**(1,689)**	**4**	**(2)**	**7,468**	**(11)**	**7,457**
Change in accounting policies	300	–	(4)	–	296	–	296
Balance at 1 January 2018	**9,455**	**(1,689)**	**–**	**(2)**	**7,764**	**(11)**	**7,753**
Net income	**1,527**	**–**	**–**	**–**	**1,527**	**(6)**	**1,521**
Actuarial gains and losses from defined benefit pension plans	(78)	–	–	–	(78)	–	(78)
Change in fair value of equity instruments	10	–	–	–	10	–	10
Income tax expense	15	–	–	–	15	–	15
Items that will not be reclassified to income statement	**(53)**	**–**	**–**	**–**	**(53)**	**–**	**(53)**
Foreign currency translation adjustments of foreign subsidiaries	–	(41)	–	–	(41)	–	(41)
Fair value losses of cash flow hedges transferred to income statement	–	–	–	6	6	–	6
Equity-accounted investees	–	1	–	–	1	–	1
Income tax expense	–	1	–	–	1	–	1
Items that are or may be reclassified subsequently to income statement	**–**	**(39)**	**–**	**6**	**(33)**	**–**	**(33)**
Other comprehensive income	**(53)**	**(39)**	**–**	**6**	**(86)**	**–**	**(86)**
Comprehensive income	**1,474**	**(39)**	**–**	**6**	**1,441**	**(6)**	**1,435**
Dividends paid	(1,140)	–	–	–	(1,140)	(1)	(1,141)
Other changes	(30)	–	–	–	(30)	3	(27)
Balance at 31 December 2018	**9,759**	**(1,728)**	**–**	**4**	**8,035**	**(15)**	**8,020**

Development of retained earnings and other reserves as well as comprehensive income 2017

In CHF million	Retained earnings	Foreign currency translation adjustments	Fair value reserve	Hedging reserve	Equity holders of Swisscom	Non-controlling interests	Total
Balance at 31 December 2016	**8,148**	**(1,834)**	**9**	**3**	**6,326**	**8**	**6,334**
Net income	**1,570**	**–**	**–**	**–**	**1,570**	**(2)**	**1,568**
Actuarial gains and losses from defined benefit pension plans	850	–	–	–	850	–	850
Equity-accounted investees	–	–	–	–	–	–	–
Income tax expense	(171)	–	–	–	(171)	–	(171)
Items that will not be reclassified to income statement	**679**	**–**	**–**	**–**	**679**	**–**	**679**
Foreign currency translation adjustments of foreign subsidiaries	–	166	–	–	166	–	166
Change in fair value of cash flow hedges	–	–	(11)	–	(11)	–	(11)
Gains and losses transferred to income statement	–	(4)	5	(6)	(5)	–	(5)
Equity-accounted investees	–	2	–	–	2	–	2
Income tax expense	–	(19)	1	1	(17)	–	(17)
Items that are or may be reclassified subsequently to income statement	**–**	**145**	**(5)**	**(5)**	**135**	**–**	**135**
Other comprehensive income	**679**	**145**	**(5)**	**(5)**	**814**	**–**	**814**
Comprehensive income	**2,249**	**145**	**(5)**	**(5)**	**2,384**	**(2)**	**2,382**
Dividends paid	(1,140)	–	–	–	(1,140)	(8)	(1,148)
Other changes	(102)	–	–	–	(102)	(9)	(111)
Balance at 31 December 2017	**9,155**	**(1,689)**	**4**	**(2)**	**7,468**	**(11)**	**7,457**

2.2 Financial liabilities

In CHF million	2018	2017
Balance at 1 January	**8,286**	**8,496**
Issuance of bank loans	564	177
Issuance of debenture bonds	885	500
Issuance of other financial liabilities	2	80
Issuance of financial liabilities	**1,451**	**757**
Repayment of bank loans	(69)	(247)
Repayment of debenture bonds	(1,385)	(640)
Repayment of private placements	(72)	(250)
Repayment of finance lease liabilities	(27)	(19)
Repayment of other financial liabilities	(18)	(2)
Repayment of financial liabilities	**(1,571)**	**(1,158)**
Interest expense	138	160
Interest payments	(157)	(181)
Foreign currency translation adjustments	(117)	224
Change in finance lease liabilities	(51)	(26)
Change in fair value	(7)	(3)
Accrual of purchase price margins from business combinations	158	19
Other changes	37	(2)
Balance at 31 December	**8,167**	**8,286**
Bank loans	1,233	760
Debenture bonds	5,554	6,137
Private placements	426	493
Finance lease liabilities	384	461
Derivative financial instruments [1]	54	60
Other financial liabilities [2]	516	375
Total financial liabilities	**8,167**	**8,286**
Thereof current financial liabilities	1,361	1,834
Thereof non-current financial liabilities	6,806	6,452

1 See Note 2.5.

2 See Note 5.2.

Credit lines

Swisscom has two confirmed lines of credit from banks each amounting to CHF 1,000 million maturing in 2020 and 2022, respectively. As of 31 December 2018, none of these lines of credit had been drawn down, as in the prior year.

Bank loans

					Carrying amount	
In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	31.12.2018	31.12.2017
Bank loans in EUR [1, 3]	2018–2019	500	0.01%	–0.66%	563	–
Bank loans in EUR [1, 3]	2013–2020	120	Euribor +0.386%	0.12%	135	211
Bank loans in EUR [2]	2015–2020	200	0.76%	–0.52%	229	238
Bank loans in EUR [2, 3]	2017–2024	150	0.67%	0.67%	169	175
Bank loans in USD [2]	2009–2028	54	8.30%	4.62%	74	74
Bank loans in USD [2]	2009–2028	48	7.65%	4.63%	63	62
Total bank loans					**1,233**	**760**

1 Variable interest-bearing.

2 Fixed interest-bearing.

3 Designated for hedge accounting of net investments in foreign operations.

As of 31 December 2018, Swisscom had short-term bank loans on a weekly and monthly basis in the amount of EUR 500 million (CHF 563 million). In 2017, Swisscom took up a bank loan of a nominal amount of EUR 150 million maturing in 2024. The funds so received were applied to repay existing debts. The bank loans may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below one third or if another shareholder can exercise control over Swisscom.

Debenture bonds

					Carrying amount	
In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	**31.12.2018**	31.12.2017
Debenture bond in CHF (ISIN: CH0104691628)	2009–2018	1,385	3.25%	3.44%	–	1,396
Debenture bond in EUR (ISIN: XS0972165848)	2013–2020	500	2.00%	2.22%	564	585
Debenture bond in EUR (ISIN: XS1051076922)[1]	2014–2021	500	1.88%	2.06%	564	585
Debenture bond in CHF (ISIN: CH0114695379)	2010–2022	500	2.63%	2.81%	501	500
Debenture bond in CHF (ISIN: CH0268988174)	2015–2023	250	0.25%	–0.37%	255	253
Debenture bond in CHF (ISIN: CH0188335365)	2012–2024	500	1.75%	1.77%	504	504
Debenture bond in EUR (ISIN: XS1288894691)[1]	2015–2025	500	1.75%	–0.06%	584	599
Debenture bond in CHF (ISIN: CH0247776138)	2014–2026	200	1.50%	1.47%	202	202
Debenture bond in EUR (ISIN: XS1803247557)	2018–2026	500	1.13%	1.25%	560	–
Debenture bond in CHF (ISIN: CH0344583783)	2016–2027	200	0.38%	–0.39%	199	197
Debenture bond in CHF (ISIN: CH0362748359)	2017–2027	350	0.38%	0.38%	351	351
Debenture bond in CHF (ISIN: CH0317921663)	2016–2028	200	0.38%	0.30%	202	202
Debenture bond in CHF (ISIN: CH0437180935)	2018–2028	150	0.75%	0.72%	151	–
Debenture bond in CHF (ISIN: CH0254147504)	2014–2029	160	1.50%	1.47%	161	161
Debenture bond in CHF (ISIN: CH0336352775)	2016–2032	300	0.13%	0.14%	299	299
Debenture bond in CHF (ISIN: CH0373476164)	2017–2033	150	0.75%	0.71%	151	151
Debenture bond in CHF (ISIN: CH0268988182)	2015/ 2018–2035	300	1.00%	0.25%	306	152
Total debenture bonds					**5,554**	**6,137**

1 Designated for hedge accounting of net investments in foreign operations.

In the first quarter of 2018, Swisscom took up a debenture bond of a nominal amount of CHF 150 million with a coupon rate of 1.0% and maturing in 2035. Furthermore, a debenture bond of a nominal amount of EUR 500 million (CHF 585 million) with a coupon rate of 1.125% and maturing in 2026 was issued in April 2018. On 12 October 2018, Swisscom took up a debenture bond of a nominal amount of CHF 150 million with a coupon rate of 0.75% and maturing in 2028. The funds so received were applied to repay existing debts. In the third quarter of 2018, Swisscom repaid a debenture bond of a nominal amount of CHF 1.4 billion upon maturity. In 2017, Swisscom issued two debenture bonds of an aggregate nominal amount of CHF 500 million. The financing so received was applied to repay existing loans. In the third quarter of 2017, Swisscom repaid a debenture bond of a nominal amount of CHF 600 million upon maturity.

Private placements

In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	Carrying amount 31.12.2018	Carrying amount 31.12.2017
Private placements in CHF	2007–2018	72	Variable	1.31%	–	71
Private placements in CHF	2007–2019	278	Variable	1.25%	276	272
Private placements in CHF	2016–2031	150	0.56%	0.56%	150	150
Total private placements					**426**	**493**

In the fourth quarter of 2018, Swisscom repaid a private placement of CHF 72 million upon maturity. The Swiss-franc-denominated private placements with a nominal value of CHF 278 million maturing in 2019 may become due for immediate repayment if the shareholding of the Swiss Confederation in the capital of Swisscom falls below 35% or if another shareholder can exercise control over Swisscom. The investors in the remaining private placements are entitled to resell their investments to Swisscom should the Swiss Confederation permanently give up its majority shareholding in Swisscom.

Finance lease liabilities

Swisscom concluded two agreements in 2001 for the sale of real estate. At the same time, it entered into long-term agreements to lease back part of the real estate sold which, in part, qualify as finance leases. The gain realised on real estate classified as finance leases was deferred. As of 31 December 2018, the carrying amount of the deferred gains was CHF 134 million (prior year: CHF 146 million). The deferred gains are released to other income over the term of the individual leases. The effective interest rate of the finance lease liabilities was 6.05%. The minimum lease payments, financial liabilities and the future payment thereof, expressed in terms of their net present value, relating to these leaseback agreements are set out in the following table:

	Minimum lease payments		Carrying amount	
In CHF million	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Within 1 year	45	48	21	23
Between 1 and 5 years	137	144	46	48
After 5 years	593	793	317	390
Total minimum lease payments/carrying amount	**775**	**985**	**384**	**461**
Thereof current finance lease liabilities			21	23
Thereof non-current finance lease liabilities			363	438
Net carrying amount of buildings acquired under finance lease			252	328

Accounting policies

Financial liabilities

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

Finance leases

A lease is recorded as a finance lease whenever substantially all of the risks and rewards incidental to ownership of an asset are passed on. The asset is initially recognised at the lower of its fair value and the present value of the minimum lease payments and is amortised over the asset's estimated useful life or the lower contract term. The interest component of the lease payments is recognised as interest expense over the lease term computed on the basis of the effective interest method. Lease contracts for land and buildings are recorded separately if the lease payments can be reliably allocated. Gains on sale-and-leaseback transactions are deferred and released over the lease term to other income on a straight-line basis. Losses on sale-and-leaseback transactions are expensed immediately.

2.3 Operating leases

Operating leases relate primarily to the rental of real estate held for business purposes. In 2018, payments for operating leases amounted to CHF 207 million (prior year: CHF 201 million). Future minimum lease payments in respect of non-cancellable operating lease contracts are as follows:

In CHF million	31.12.2018	31.12.2017
Within 1 year	182	178
Between 1 and 2 years	170	157
Between 2 and 3 years	149	138
Between 3 and 4 years	122	112
Between 4 and 5 years	102	85
After 5 years	573	317
Total minimum lease payments from operating lease	**1,298**	**987**

Accounting policies

Lease arrangements which do not transfer all the significant risks and rewards of ownership are classified as operating leases. Payments are recorded as other operating expense using the straight-line method over the lease term. Gains and losses on sale-and-leaseback transactions are recorded directly in the income statement.

2.4 Financial result

In CHF million	2018	2017
Interest income on financial assets	10	11
Foreign exchange gains	–	10
Change in fair value of interest rate swaps [1]	6	8
Capitalised borrowing costs	4	5
Other financial income	8	10
Total financial income	**28**	**44**
Interest expense on financial liabilities	(138)	(160)
Interest expense on defined benefit obligations [2]	(6)	(11)
Foreign exchange losses	(6)	–
Present-value adjustments on provisions [3]	(8)	(6)
Other financial expense	(28)	(27)
Total financial expense	**(186)**	**(204)**
Financial income and financial expense, net	**(158)**	**(160)**
Net interest expense	(128)	(149)

1 See Note 2.5.
2 See Note 4.3.
3 See Note 3.5.

2.5 Financial risk management

Swisscom is exposed to various financial risks arising from its operating and financing activities. Financial risk management is conducted in accordance with established guidelines with the objective of containing the potential adverse effects thereof on the financial situation of Swisscom. The identified risks and measures to minimise them are presented below:

Risk	Source	Risk mitigation
Currency risks	Swisscom is exposed to foreign exchange changes which can impact the Group's cash flows, financial result and equity.	• Reduction in cash flow volatility by use of forward currency contracts/swaps and currency swaps and designation for hedge accounting (transaction risk) • Ruduction in translation risk by foreign currency financing and designation for hedge accounting • Hedging of curreny risk of foreign currency financing by use of currency swaps
Interest rate risk	Interest-rate risks result from changes in interest rates which can negatively impact cash flows and the financial situation of Swisscom. Interest rate fluctuations can impact the market value of certain financial assets, liabilities and hedging instruments.	• Deployment of interest rate swaps to reduce the volatility of planned cash flows
Credit risks from operating business activities and financial transactions	Through its operating business activities and derivative financial instruments and financial investments, Swisscom is exposed to the risk of default of a counterparty.	• Guideline establishing minimum requirements for counterparties • Designated counterparty limits • Employment of netting agreements foreseen under ISDA (International Swaps and Derivatives Association) • Use of collateral agreements
Liquidity risk	Prudent liquidity management involves the holding of adequate reserves of cash and cash equivalents, negotiable securities as well as the possibility of obtaining confirmed lines of credit.	• Procedures and principles to ensure adequate liquidity • Two guaranteed bank credit lines each of CHF 1,000 million

Foreign exchange risks

As regards financial instruments, the following currency risks and hedging contracts for foreign currencies as of 31 December 2017 and 2018 existed:

	31.12.2018		31.12.2017	
In CHF million	**EUR**	**USD**	EUR	USD
Cash and cash equivalents	44	9	89	3
Trade receivables	4	7	7	3
Other financial assets	69	227	103	230
Financial liabilities	(3,443)	(144)	(2,377)	(144)
Trade payables	(34)	(47)	(71)	(80)
Net exposure at carrying amounts	**(3,360)**	**52**	**(2,249)**	**12**
Net exposure to forecasted cash flows in the next 12 months	(64)	(423)	1	(405)
Net exposure before hedges	**(3,424)**	**(371)**	**(2,248)**	**(393)**
Forward currency contracts	–	430	–	–
Foreign currency swaps	635	(62)	83	189
Currency swaps	789	–	819	–
Hedges	**1,424**	**368**	**902**	**189**
Net exposure	**(2,000)**	**(3)**	**(1,346)**	**(204)**

In addition, Swisscom has financial liabilities outstanding as of 31 December 2018 with an aggregate nominal value of EUR 1,770 million (CHF 1,995 million) (prior year: EUR 1,330 million; CHF 1,555 million) which were designated as net investments in foreign shareholdings for hedge accounting purposes. In 2018, an income of CHF 85 million (prior year: expense of CHF 114 million) arising from the revaluation of financial liabilities was recognised in other comprehensive income in the position foreign currency translation of foreign Group companies. As of 31 December 2018, the cumulative positive amount of foreign currency translation differences in equity totals CHF 162 million.

Foreign currency sensitivity analysis

The following sensitivity analysis shows the impact on the income statement should the EUR/CHF and USD/CHF exchange rates change in line with their implicit volatility over the next twelve months. This analysis assumes that all other variables, in particular the interest rate level, remain constant.

In CHF million	Income impact on balance sheet items	Hedges for balance sheet items	Planned cash flows	Hedges for planned cash flows
31.12.2018				
EUR volatility 6.28%	211	(89)	4	–
USD volatility of 7.68%	(4)	5	32	(33)
31.12.2017				
EUR volatility 6.25%	140	(56)	–	–
USD volatility of 7.78%	(1)	5	32	(20)

The volatility of the balance-sheet positions and scheduled cash flows is partially offset by the volatility of the related hedging contracts.

Interest rate risks

The structure of interest-bearing financial instruments at nominal values is as follows:

In CHF million	**31.12.2018**	31.12.2017
Fixed interest-bearing financial liabilities	6,562	7,220
Variable interest-bearing financial liabilities	1,053	655
Total interest-bearing financial liabilities	**7,615**	**7,875**
Fixed interest-bearing financial assets	(139)	(127)
Variable interest-bearing financial assets	(556)	(603)
Total interest-bearing financial assets	**(695)**	**(730)**
Total interest-bearing financial assets and liabilities, net	**6,920**	**7,145**
Variable interest-bearing	497	52
Variable through interest rate swaps	1,364	1,244
Variable interest-bearing, net	**1,861**	**1,296**
Fixed interest-bearing	6,423	7,093
Variable through interest rate swaps	(1,364)	(1,244)
Fixed interest-bearing, net	**5,059**	**5,849**
Total interest-bearing financial assets and liabilities, net	**6,920**	**7,145**

Interest rate sensitivity analysis

A shift in interest rates by 100 basis points has no material impact on the income statement and equity as of 31 December 2017 and 2018.

Credit risks

Credit risks from financial transactions

The carrying amounts of cash and cash equivalents and other financial assets exposed to credit risk (excluding trade debtors) may be analysed as follows:

In CHF million	**31.12.2018**	31.12.2017
Cash and cash equivalents	474	525
Financial assets at amortised cost	259	–
Loans and receivables	–	201
Derivative financial instruments	82	100
Other assets valued at fair value	2	61
Total carrying amount of financial assets	**817**	**887**

The carrying amounts analysed by the Standard & Poor's rating of the counterparties may be summarised as follows:

In CHF million	31.12.2018	31.12.2017
AAA	35	34
AA– to AA+	453	433
A– to A+	212	342
BBB– to BBB+	56	22
Without rating	61	56
Total	**817**	**887**

Financial risks from operating activities

Credit risks on trade receivables, contract assets and other receivables arise from the Group's operating activities. Credit risks from other receivables are insignificant. As an initial step, Swisscom splits up the credit risks from operating activities over Swisscom Switzerland and Fastweb. Default risks are principally impacted the individual attributes of the customers. The default risk is further influenced by the default risk of customer groups and industry sectors. Swisscom possesses a receivables-management system as an aid to minimise default losses. New customers are reviewed for their credit-worthiness and maximum payment targets are set for customer groups. As regards their credit-worthiness, customers are divided into groups for the purposes of monitoring default risk. In this process, a differentiation between individual and corporate customers, inter alia, is made. In addition, the ageing structure of the receivables as well as the industry segment in which a customer is active are taken into account. The split of trade receivables and contract assets by operating segment may be analysed as follows:

In CHF million	31.12.2018	31.12.2017
Notional amount		
Residential Customers	1,140	956
Enterprise Customers	481	531
Wholesale	149	102
IT, Network & Infrastructure	25	43
Swisscom Switzerland	**1,795**	**1,632**
Fastweb	696	814
Other Operating Segments	176	136
Total notional amount	**2,667**	**2,582**
Allowances for doubtful debts		
Residential Customers	(51)	(47)
Enterprise Customers	(3)	(3)
Wholesale	(1)	–
IT, Network & Infrastructure	(2)	(2)
Swisscom Switzerland	**(57)**	**(52)**
Fastweb	(87)	(131)
Other Operating Segments	(13)	(10)
Total allowances for doubtful debts	**(157)**	**(193)**
Notional amount less allowances for doubtful debts		
Total notional amount less allowances for doubtful debts	**2,510**	**2,389**

As of 31 December 2018, the due dates of trade receivables and contract assets as well as any applicable related valuation allowances are to be analysed as follows:

			31.12.2018
In CHF million	Rate	Par value	Allowance
Not due	0.51%	1,972	(10)
Past due up to 3 months	6.15%	439	(27)
Past due 4 to 6 months	24.36%	78	(19)
Past due 7 to 12 months	35.48%	93	(33)
Past due over 1 year	81.93%	83	(68)
Total	5.89%	**2,665**	**(157)**

As of 31 December 2017, the due dates of trade receivables as well as any applicable related valuation allowances are to be analysed as follows :

		31.12.2017
In CHF million	Par value	Allowance
Not overdue	1,824	(4)
Past due up to 3 months	377	(18)
Past due 4 to 6 months	124	(17)
Past due 7 to 12 months	90	(24)
Past due over 1 year	167	(130)
Total	**2,582**	**(193)**

Movements in valuation allowances for trade receivables and contract assets may be analysed as follows:

In CHF million	2018	2017
Balance at 1 January	**193**	**183**
Change in accounting policies	32	–
Additions to allowances	81	93
Write-off of irrecoverable receivables subject to allowance	(138)	(90)
Release of unused allowances	(7)	(3)
Foreign currency translation adjustments	(4)	10
Balance at 31 December	**157**	**193**

Liquidity risk

Contractual maturities including estimated interest payable

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
31.12.2018						
Bank loans	1,233	1,295	641	302	22	330
Debenture bonds	5,554	5,960	75	638	1,470	3,777
Private placements	426	438	278	1	2	157
Finance lease liabilities	384	775	45	39	98	593
Other financial liabilities	516	516	394	90	32	–
Trade payables	1,658	1,658	1,610	21	27	–
Derivative financial instruments	54	58	9	3	12	34
Total	**9,825**	**10,700**	**3,052**	**1,094**	**1,663**	**4,891**

In CHF million	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
31.12.2017						
Bank loans	760	830	80	80	328	342
Debenture bonds	6,137	6,575	1,497	67	1,836	3,175
Private placements	493	514	74	280	2	158
Finance lease liabilities	461	985	48	42	102	793
Other financial liabilities	375	375	235	109	28	3
Trade payables	1,753	1,753	1,718	23	12	–
Derivative financial instruments	60	108	7	4	11	86
Total	**10,039**	**11,140**	**3,659**	**605**	**2,319**	**4,557**

Derivative financial instruments

	Contract value		Positive fair value		Negative fair value	
In CHF million	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
Interest rate swaps in CHF	575	425	11	2	(1)	(3)
Currency swaps in EUR	789	819	70	97	–	–
Total fair value hedges	**1,364**	**1,244**	**81**	**99**	**(1)**	**(3)**
Forward currency contracts in USD	202	149	–	–	(2)	(2)
Total cash flow hedges	**202**	**149**	**–**	**–**	**(2)**	**(2)**
Interest rate swaps in CHF	200	200	–	–	(48)	(54)
Currency swaps in USD	62	210	1	1	–	(1)
Currency swaps in EUR	635	101	–	–	(1)	–
Forward currency contracts in USD	221	–	–	–	(2)	–
Total other derivative financial instruments	**1,118**	**511**	**1**	**1**	**(51)**	**(55)**
Total derivative financial instruments	**2,684**	**1,904**	**82**	**100**	**(54)**	**(60)**
Thereof current derivative financial instruments			1	1	(5)	(4)
Thereof non-current derivative financial instruments			81	99	(49)	(56)

Swisscom has entered into interest rate and foreign currency swaps, designated as fair value hedges, in order to hedge interest rate and foreign currency risks of fixed interest-bearing finance denominated in CHF and EUR. Derivative financial instruments contain currency swaps, designated as cash-flow hedges, in order to hedge future purchases of merchandise and services in USD. Furthermore, derivative financial instruments include interest rate swaps which are not designated for hedge accounting purposes. In addition, derivative financial instruments comprise exclusively forward foreign currency transactions and foreign currency swaps in EUR and USD which serve to hedge future transactions in connection with financing or the operating business activities of Swisscom and which were not designated for hedge accounting purposes. Swisscom does not enter into derivative financial instruments for speculative purposes.

Cross-border lease agreements

Between 1996 until 2002, Swisscom entered into various cross-border lease agreements, under the terms of which parts of its fixed-line and mobile-phone networks were sold or leased on a long-term basis and leased back. Swisscom defeased a significant part of the lease obligations through the acquisition of investment-grade financial investments. The financial assets were irrevocably deposited with a trust. In accordance with Interpretation SIC 27 “Evaluating the Substance of Transactions involving the Legal Form of a Lease”, these financial assets and liabilities in the same amount are netted and not recorded in the balance sheet. As of 31 December 2018, the financial liabilities and assets, including accrued interest, arising from cross-border lease agreements amounted to USD 79 million or CHF 78 million, respectively, which, in compliance with SIC 27, were not recognised in the balance sheet (prior year: USD 75 million or CHF 73 million).

Accounting policies

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value and subsequently re-measured at fair value. The method of recording the fluctuations in fair value depends on the underlying transaction and the objective pursued by purchasing or entering into this underlying transaction. On the date a derivative contract is concluded, management designates the purpose of the hedging relationship: hedge of the fair value of an asset or liability ("fair value hedge") or a hedge of future cash flows in the case of future transactions ("cash flow hedge"). Changes in the fair value of derivative financial instruments that were designated as hedging instruments for "fair value hedges" are recognised in the income statement. Changes in the fair value of derivative financial instruments that were designated as "cash flow hedges" are dealt with in other comprehensive income and recognised in the hedging reserve as part of equity. If a hedge of an anticipated transaction subsequently results in the recording of a financial asset or financial liability, the amount included in equity is recognised in the income statement in the same period in which the financial asset or financial liability impacts the results. Otherwise, the amounts recorded in equity are recognised in the income statement as income or expense in the same period the cash flows of the intended or agreed future transaction occur. Changes in the fair value of derivative financial instruments that are not designated as hedging instruments are taken immediately to income.

Valuation category and fair value of financial instruments

Estimation of fair values

Fair values are allocated to one of the following three hierarchical levels:

- Level 1**:** exchange quoted prices in active markets for identical assets or liabilities;
- Level 2**:** other factors which are observable on markets for assets and liabilities, either directly or indirectly;
- Level 3**:** factors that are not based on observable market data.

The fair value of publicly traded equity and debt instruments of Level 1 is based upon their stock-exchange quotations as of the balance-sheet date. The fair value of Level 2 financial assets and liabilities which are not quoted on exchanges are computed on the basis of future maturing payments discounted at market interest rates. Level 3 assets consist of investments in various investment funds and individual companies. The fair value is determined on the basis of a computational model. Interest rate and currency swaps are discounted at market rates. Foreign currency forward transactions and foreign currency swaps are valued by reference to forward foreign exchange rates as of the balance-sheet date.

Valuation categories and fair value of financial instruments

The fair values of financial assets and financial liabilities are summarised in the following table. Not included therein are cash and cash equivalents, trade receivables and trade payables as well as miscellaneous receivables and liabilities whose carrying amount corresponds to a reasonable estimation of their fair value.

In CHF million	Carrying amount	Fair Value	Level
			31.12.2018
Other financial assets			
Term deposits	7	7	2
Certificates of deposit	145	157	2
Listed debt instruments	63	63	1
Loans	44	44	2
At amortised cost	**259**	**271**	
Equity instruments valued at fair value	6	6	1
Equity instruments valued at fair value	72	72	3
Fair value through other comprehensive income	**78**	**78**	
Loans	2	2	2
Derivative financial instruments	82	82	2
Fair value through profit or loss	**84**	**84**	
Total other financial assets	**421**	**433**	
Financial liabilities			
Bank loans	1,233	1,250	2
Debenture bonds	5,554	5,719	1
Private placements	426	426	2
Finance lease liabilities	384	665	2
Derivative financial instruments	54	54	2
Other financial liabilities	516	516	2
Total financial liabilities	**8,167**	**8,630**	

In CHF million	Carrying amount	Fair Value	Level
			31.12.2017
Other financial assets			
Term deposits	7	7	2
Certificates of deposit	145	162	2
Loans	49	49	2
Loans and receivables	**201**	**218**	
Equity instruments valued at fair value	10	10	1
Equity instruments valued at fair value	2	2	3
Equity instruments valued at cost	41	41	–
Available-for-sale	**53**	**53**	
Debt instruments held for trading	61	61	1
Derivative financial instruments	100	100	2
Fair value through profit or loss	**161**	**161**	
Total other financial assets	**415**	**432**	
Financial liabilities			
Bank loans	760	788	2
Debenture bonds	6,137	6,439	1
Private placements	493	504	2
Finance lease liabilities	461	879	2
Derivative financial instruments	60	60	2
Other financial liabilities	375	375	2
Total financial liabilities	**8,286**	**9,045**	

Financial assets amounting to CHF 208 million (prior year: CHF 145 million) are not freely available, as they serve as security for liabilities.

3 Operating assets and liabilities

The following section discloses information on the movement in net current assets as well as in significant non-current tangible and intangible assets. In addition, it provides information as to the allocation of goodwill to the individual cash-generating units and on the results of any applicable impairment tests. Furthermore, movements in provisions, contingent liabilities and contingent assets are presented in this section.

3.1 Operating net current assets

Movements in operating assets and liabilities

In CHF million	31.12.2017	Application IFRS 9 & 15	Operational changes	Other changes [1]	**31.12.2018**
Financial year 2018					
Trade receivables	2,389	(30)	(139)	(31)	2,189
Other operating assets	729	433	84	(3)	1,243
Trade payables	(1,753)	–	50	45	(1,658)
Other operating liabilities	(1,165)	(45)	75	8	(1,127)
Total operating assets and liabilities, net	**200**	**358**	**70**	**19**	**647**

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

In CHF million	31.12.2016	Operational changes	Other changes [1]	31.12.2017
Financial year 2017				
Trade receivables	2,425	(98)	62	2,389
Other operating assets	680	29	20	729
Trade payables	(1,597)	(85)	(71)	(1,753)
Other operating liabilities	(1,123)	(11)	(31)	(1,165)
Total operating assets and liabilities, net	**385**	**(165)**	**(20)**	**200**

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

As of 31 December 2018, the share of other operating assets which will be consumed twelve months after the balance-sheet date amounts to CHF 281 million (prior year: CHF 85 million) and that of other operating liabilities CHF 121 million (prior year: CHF 145 million).

Trade receivables

In CHF million	**31.12.2018**	31.12.2017
Billed revenue	2,231	2,389
Accrued revenue	113	193
Allowances	(155)	(193)
Total trade receivables [1]	**2,189**	**2,389**

1 Credit risks. See Note 2.5.

Other operating assets and liabilities

In CHF million	31.12.2018	01.01.2018 [1]
Other operating assets		
Contract assets	321	282
Contract costs	274	279
Other receivables	52	37
Inventories	154	168
Prepaid expenses	316	282
Advance payments made	35	74
Value-added taxes receivable	46	20
Other non-financial assets	45	20
Total other operating assets	**1,243**	**1,162**
Other operating liabilities		
Contract liabilities	620	694
Accruals for variable performance-related bonus	163	157
Value-added taxes payable	85	91
Accruals for annual holiday, overtime	61	66
Liabilities from collection activities	14	16
Advance payments received	11	12
Miscellaneous liabilities	173	174
Total other operating liabilities	**1,127**	**1,210**

1 Including cumulative effect of initially applying IFRS 15.

Contract assets and liabilities

In CHF million	31.12.2018	01.01.2018
Contract assets		
Swisscom Switzerland	258	234
Fastweb	9	19
Other	54	29
Total contract assets	**321**	**282**
Contract liabilities		
Swisscom Switzerland	427	437
Fastweb	113	179
Other	80	78
Total contract liabilities	**620**	**694**

Contract assets of Swisscom Switzerland include primarily deferrals arising in connection with the sale of bundled offerings in the mobile-phone area. In part, mobile handsets are sold, together with a mobile-phone contract, on a subsidised basis in the bundled offering. As a result of the allocation of revenue over the pre-delivered components (mobile handset), revenues are recognised earlier than the invoicing thereof. This results in contract assets deriving from this business being recognised. Contract liabilities comprise primarily deferrals arising on the payment of prepaid cards and prepaid subscription fees of Swisscom Switzerland. In 2018, an amount of CHF 307 million was recorded as revenue which had been recognised as a contract liability as of 1 January 2018. Swisscom avails itself of the rules of IFRS 15.121 regarding the disclosure of the transaction price allocated to the performance obligation that are unsatisfied. The exemption is not applied in the case of mobile-phone contracts with the sale of a subsidised mobile handset and a minimum contract term. Revenues of CHF 961 million will be recognised from such contracts (2019: CHF 715 million.; 2020: CHF 246 million).

Contract costs

Contract costs include deferred costs to obtain a contract as well as costs to fulfill a contract which may be analysed as follows:

In CHF million	31.12.2018	01.01.2018
Costs to obtain a contract		
Commissions to dealers for customer acquisition and retention	38	40
Commissions to dealers for handset subsidies	63	67
Swisscom Switzerland	**101**	**107**
Fastweb	24	9
Other	48	48
Total costs to obtain a contract	**173**	**164**
Costs to fulfill a contract		
Router and TV boxes	33	47
Initial costs from outsourcing contracts	68	68
Total costs to fulfill a contract	**101**	**115**
Total contract costs	**274**	**279**

Accounting policies

Operating assets and liabilities

Total operating assets and liabilities used in the normal course of business are disclosed as current items in the balance sheet.

Trade receivables

Trade and other receivables are measured at amortised cost less impairment losses. Impairment losses on trade receivables are recognised, depending on the nature of the underlying transaction, in the form of individual valuation allowances or portfolio-based general valuation allowances which cover the anticipated default risk. As regards portfolio-based general valuation allowances, financial assets are grouped together based on heterogeneous credit-risk attributes, reviewed collectively for impairment and whenever required, impairment losses are recognised. In addition to contractually foreseen payment conditions, historical default rates and current information and expectations are taken into consideration in determining the expected future cash flows from the portfolio. Impairment losses for trade receivables are recognised as other operating expense.

3.2 Property, plant and equipment

In CHF million	Technical installations	Land, buildings and leasehold improvements [1]	Other assets	Advances made and assets under construction	Total
At cost					
Balance at 31 December 2016	**27,023**	**2,743**	**4,019**	**354**	**34,139**
Additions	1,298	4	270	234	1,806
Disposals	(663)	(63)	(137)	–	(863)
Adjustment to dismantlement and restoration costs	36	–	13	–	49
Reclassifications	95	4	107	(226)	(20)
Foreign currency translation adjustments	386	8	1	2	397
Balance at 31 December 2017	**28,175**	**2,696**	**4,273**	**364**	**35,508**
Additions	1,366	2	242	196	1,806
Disposals	(1,586)	(99)	(167)	–	(1,852)
Adjustment to dismantlement and restoration costs	(1)	–	4	–	3
Reclassifications	99	(3)	160	(202)	54
Business combinations	17	–	–	–	17
Foreign currency translation adjustments	(192)	(4)	–	(1)	(197)
Balance at 31 December 2018	**27,878**	**2,592**	**4,512**	**357**	**35,339**
Accumulated depreciation and impairment losses					
Balance at 31 December 2016	**(19,247)**	**(2,019)**	**(2,696)**	**–**	**(23,962)**
Depreciation	(1,114)	(35)	(315)	–	(1,464)
Disposals	668	17	132	–	817
Reclassifications	21	–	(12)	–	9
Foreign currency translation adjustments	(208)	(3)	–	–	(211)
Balance at 31 December 2017	**(19,880)**	**(2,040)**	**(2,891)**	**–**	**(24,811)**
Depreciation	(1,165)	(35)	(319)	–	(1,519)
Disposals	1,584	31	163	–	1,778
Reclassifications	56	9	(66)	–	(1)
Foreign currency translation adjustments	107	1	–	–	108
Balance at 31 December 2018	**(19,298)**	**(2,034)**	**(3,113)**	**–**	**(24,445)**
Net carrying amount					
Net carrying amount at 31 December 2018	**8,580**	**558**	**1,399**	**357**	**10,894**
Net carrying amount at 31 December 2017	**8,295**	**656**	**1,382**	**364**	**10,697**
Net carrying amount at 31 December 2016	**7,776**	**724**	**1,323**	**354**	**10,177**

1 Buildings acquired under finance lease. See Note 2.2.

Commitments for future capital expenditures

Firm contractual commitments for future capital investments in property, plant and equipment as of 31 December 2018 aggregated CHF 914 million (prior year: CHF 857 million).

Non-cash investing and financing transactions

Additions to property, plant and equipment include additions from finance leases amounting to CHF 14 million (prior year: CHF 20 million). As a result of changes in the assumptions made in estimating the provisions for dismantlement and restoration costs, an increase therein of CHF 3 million (prior year: increase of CHF 49 million) was recognised in property, plant and equipment with no impact on the income statement. See Note 3.5.

Significant judgements or estimates

Management estimates the useful economic lives and residual values of technical facilities, real estate and other installations and equipment on the basis of the anticipated period over which economic benefits will accrue to the company from the use of the assets. Useful economic lives are reviewed annually on the basis of historical and forecast expectations concerning future technological developments, economic and legal changes as well as further external factors.

Accounting policies

Property, plant and equipment is recognised at historical cost less depreciation and impairment losses. In addition to historical cost and the costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, purchase or manufacturing cost also includes the estimated costs for dismantling and restoration of the site. Borrowing costs are capitalised insofar as they are directly attributable to the acquisition or production of a qualifying asset. Costs of replacement, renewal or renovation of property, plant and equipment are capitalised as replacement investments if a future inflow of economic benefits is probable and costs can be measured reliably. The carrying amount of the parts replaced is de-recognised. Depreciation is calculated using the straight-line method except for land, which is not depreciated. The estimated useful lives for the main categories of property, plant and equipment are:

Category	Years
Ducts [1]	40
Cables [1]	30
Transmission and switching equipment [1]	4 to 15
Other technical installations [1]	3 to 15
Buildings and leasehold improvements	10 to 40
Other installations	3 to 15

1 Technical installations.

Whenever significant parts of an item of property, plant and equipment comprise individual components with differing useful lives, each component is depreciated separately. The process for estimating useful estimated lives takes into account the expected use by the company, the expected wear and tear, technological developments as well as empirical values with comparable assets. Leasehold improvements and installations in leased premises are depreciated on a straight-line basis over the shorter of their estimated useful lives and the remaining minimum lease term. The effect of changing useful economic lives and residual values is recognised on a prospective basis. Whenever indications exist that the value of an asset may be impaired, the recoverable amount of the asset is determined. If the recoverable amount of the asset, which is the greater of the fair value less costs of disposal and the value in use, is less than its carrying amount, the carrying amount is written down to the recoverable amount. The carrying amount of an item of property, plant and equipment is de-recognised upon disposal or whenever no future economic benefits are expected from its use. Gains and losses arising on the disposal of property, plant and equipment are recognised as other income or other operating expenses.

3.3 Goodwill

Goodwill is allocated to the cash generating units of Swisscom based upon their business activities. Goodwill arising in a business combination is allocated to each cash generating unit which can derive synergies from the business combination. The goodwill allocated to the cash generating units may be analysed as follows:

In CHF million	Residential Customers Swisscom Switzerland	Small and medium-sized enterprises Swisscom Switzerland	Enterprise Customers Swisscom Switzerland	Fastweb	Other cash-generating units [1]	Total
At cost						
Balance at 31 December 2016	**2,620**	**656**	**907**	**1,899**	**444**	**6,526**
Additions	–	–	–	2	–	2
Reclassifications	656	(656)	25	–	(25)	–
Foreign currency translation adjustments	1	–	–	169	3	173
Balance at 31 December 2017	**3,277**	**–**	**932**	**2,070**	**422**	**6,701**
Sales of subsidiaries	–	–	–	–	(23)	(23)
Foreign currency translation adjustments	–	–	–	(76)	–	(76)
Balance at 31 December 2018	**3,277**	**–**	**932**	**1,994**	**399**	**6,602**
Accumulated impairment losses						
Balance at 31 December 2016	**–**	**–**	**–**	**(1,370)**	**–**	**(1,370)**
Impairment losses	–	–	–	–	(23)	(23)
Foreign currency translation adjustments	–	–	–	(122)	–	(122)
Balance at 31 December 2017	**–**	**–**	**–**	**(1,492)**	**(23)**	**(1,515)**
Sales of subsidiaries	–	–	–	–	23	23
Foreign currency translation adjustments	–	–	–	54	–	54
Balance at 31 December 2018	**–**	**–**	**–**	**(1,438)**	**–**	**(1,438)**
Net carrying amount						
Net carrying amount at 31 December 2018	**3,277**	**–**	**932**	**556**	**399**	**5,164**
Net carrying amount at 31 December 2017	**3,277**	**–**	**932**	**578**	**399**	**5,186**
Net carrying amount at 31 December 2016	**2,620**	**656**	**907**	**529**	**444**	**5,156**

1 Comprises the cash-generating units Wholesale Swisscom Switzerland, Swisscom Directories, and Improve Digital. Improve Digital was sold in early 2018.

Impairment testing

In the fourth quarter of 2018 and after completion of business planning, individual goodwill amounts were subjected to an impairment test. The recoverable amount of a cash-generating unit is determined based on its value in use, applying the discounted cash flow (DCF) method. The projected free cash flows are estimated on the basis of the business plans approved by management. As a rule, the business plans cover a three-year period. A planning horizon of five years is used for the impairment test of Fastweb. For the free cash flows extending beyond the detailed planning period, a terminal value was computed by capitalising the normalised cash flows using a steady long-term growth rate. The growth rate applied is that customarily assumed for the country or market. The discount rate is derived from the Capital Asset Pricing Model (CAPM). This latter comprises the weighted value of own equity and external borrowing costs. For the risk-free interest rate which forms the basis of the discount rate, the yield from Swiss government bonds (abroad: Germany) with a duration of ten years and a zero-interest rate is taken, subject to a minimum interest rate of 1.5% (Switzerland) and 2.0% (abroad). For cash-generating units abroad, a risk premium for the country risk is then added.

Discount rates and long-term growth rates

	2018			2017		
Cash-generating unit	**WACC pre-tax**	**WACC post-tax**	**Long-term growth rate**	WACC pre-tax	WACC post-tax	Long-term growth rate
Residential Customers Swisscom Switzerland	5.54%	4.42%	0%	5.92%	4.64%	0%
Enterprise Customers Swisscom Switzerland	5.52%	4.42%	0%	5.88%	4.64%	0%
Fastweb	8.34%	6.42%	1.0%	9.10%	7.02%	1.0%
Other cash-generating units	5.55–11.67%	4.42–9.16%	0%	5.88–14.38%	4.64–9.72%	0–1.5%

The discount rates used take into consideration the specific risks relating to the cash-generating unit in question. The projected cash flows and management assumptions are corroborated by external sources of information.

Results and sensitivity of impairment tests

Residential Customers and Enterprise Customers Swisscom Switzerland

As of the measurement date, the recoverable amount at all cash-generating units, based on their value in use, is higher than the carrying amount relevant for the impairment test. Swisscom believes none of the anticipated changes in key assumptions which can rationally be expected would cause the carrying amount of the cash-generating units to exceed the recoverable amount.

Fastweb

As of the date of the impairment test, no impairment of goodwill resulted. The recoverable amount exceeded the carrying amount by EUR 1,178 million (CHF 1,343 million). In the prior year, the difference amounted to EUR 332 million (CHF 386 million). The following changes in material assumptions lead to a situation where the value in use equates to the carrying amount:

	2018		2017	
	Assumptions	**Sensitivity**	Assumptions	Sensitivity
Average annual growth rate till 2023 with the same EBITDA margin as in the business plan	6.2%	4.0%	5.2%	2.8%
Normalised EBITDA margin	33%	29%	33%	31%
Normalised capital expenditure rate	21%	25%	21%	23%
Post-tax discount rate	6.42%	8.43%	7.02%	7.71%
Long-term growth rate	1.0%	–1.6%	1.0%	0.1%

Significant judgements or estimates

The allocation of goodwill to the cash-generating units as well as the computation of the recoverable amount is subject to Management's judgement. This encompasses the estimation of future cash flows, the determination of the discounting rate and the growth rate on the basis of historic data and current forecasts.

Accounting policies

For the purposes of the impairment test, goodwill is allocated to the cash-generating units. The impairment test is performed annually on a mandatory basis. Whenever there is any indication during the year that goodwill may be impaired, the cash-generating unit is tested for impairment at that time. An impairment loss is recognised if the recoverable amount of a cash-generating unit is lower than its carrying amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use.

3.4 Intangible assets

In CHF million	Purchased software	Internally generated software	Licenses	Brands and customer relations	Other intangible assets	Total
At cost						
Balance at 31 December 2016	**2,166**	**1,477**	**451**	**1,332**	**714**	**6,140**
Additions	215	152	5	–	225	597
Disposals	(105)	(443)	(52)	(852)	(61)	(1,513)
Reclassifications	39	228	9	–	(256)	20
Business combinations	2	1	–	53	–	56
Sales of subsidiaries	(4)	–	–	–	–	(4)
Foreign currency translation adjustments	115	12	–	27	14	168
Balance at 31 December 2017	**2,428**	**1,427**	**413**	**560**	**636**	**5,464**
Additions	220	174	97	–	125	616
Disposals	(577)	(351)	(6)	(70)	(142)	(1,146)
Reclassifications	46	98	–	–	(208)	(64)
Business combinations	–	–	206	–	3	209
Sales of subsidiaries	(22)	(5)	–	–	–	(27)
Foreign currency translation adjustments	(56)	(6)	(2)	(11)	(3)	(78)
Balance at 31 December 2018	**2,039**	**1,337**	**708**	**479**	**411**	**4,974**
Accumulated amortisation and impairment losses						
Balance at 31 December 2016	**(1,738)**	**(1,013)**	**(169)**	**(1,192)**	**(272)**	**(4,384)**
Amortisation	(234)	(277)	(26)	(55)	(78)	(670)
Impairment losses	(2)	(5)	–	–	–	(7)
Disposals	105	442	52	852	46	1,497
Sales of subsidiaries	4	–	–	–	–	4
Reclassifications	9	(33)	(7)	–	22	(9)
Foreign currency translation adjustments	(93)	(9)	–	(26)	(9)	(137)
Balance at 31 December 2017	**(1,949)**	**(895)**	**(150)**	**(421)**	**(291)**	**(3,706)**
Amortisation	(244)	(289)	(31)	(35)	(22)	(621)
Impairment losses	(3)	(1)	–	–	–	(4)
Disposals	576	349	6	70	125	1,126
Sales of subsidiaries	13	3	–	–	–	16
Reclassifications	–	3	–	–	7	10
Foreign currency translation adjustments	46	5	–	10	2	63
Balance at 31 December 2018	**(1,561)**	**(825)**	**(175)**	**(376)**	**(179)**	**(3,116)**
Net carrying amount						
Net carrying amount at 31 December 2018	**478**	**512**	**533**	**103**	**232**	**1,858**
Net carrying amount at 31 December 2017	**479**	**532**	**263**	**139**	**345**	**1,758**
Net carrying amount at 31 December 2016	**428**	**464**	**282**	**140**	**442**	**1,756**

As of 31 December 2018, other intangible assets include advance payments made and uncompleted development projects of CHF 125 million (prior year: CHF 171 million).

Commitments for future capital expenditures

As of 31 December 2018, firm contractual commitments for future capital investments in intangible assets aggregated CHF 91 million (prior year: CHF 84 million).

Significant judgements or estimates

Management estimates the useful economic lives and residual values of intangible assets on the basis of the anticipated period over which economic benefits will accrue to the company from the use of the assets. Useful economic lives are reviewed annually on the basis of historical and forecast expectations concerning future technological developments, economic and legal changes as well as further external factors.

Accounting policies

Mobile-phone licenses, self-developed software as well as other intangible assets are recorded at historical cost less accumulated amortisation. Intangible assets resulting from business combinations, such as brands and customer relationships, are recognised at cost which equates to fair market value as of the date of acquisition, less accumulated amortisation. Amortisation of mobile-phone licenses is based on the term of the license. It begins as soon as the related network is ready for operation, unless other information is at hand which would suggest the need to modify the useful lives. The impact from adjusting useful economic lives and residual values is recognised on a prospective basis. Amortisation is computed on a straight-line basis over the following estimated useful economic lives:

Category	Years
Software internally generated and purchased	3 to 7
Brands and customer relationships	5 to 10
Licenses	2 to 16
Other intangible assets	3 to 10

Whenever indications exist that the value of an asset may be impaired, the recoverable amount of the asset is determined. If the recoverable amount of the asset, which is the greater of the fair value less costs to sell and the value in use, is less than its carrying amount, the carrying amount is written down to the recoverable amount.

3.5 Provisions, contingent liabilities and contingent assets

Provisions

In CHF million	Dismantlement and restoration costs	Regulatory and competition law proceedings	Termination benefits [1]	Other	Total
Balance at 31 December 2017	**600**	**156**	**112**	**209**	**1,077**
Additions to provisions	4	10	22	55	91
Present-value adjustments	10	–	–	1	11
Release of unused provisions	(6)	–	(24)	(31)	(61)
Use of provisions	(3)	–	(41)	(41)	(85)
Foreign currency translation adjustments	–	–	–	(1)	(1)
Balance at 31 December 2018	**605**	**166**	**69**	**192**	**1,032**
Thereof current provisions	–	–	59	72	131
Thereof non-current provisions	605	166	10	120	901

1 See Note 4.1.

Provisions for dismantling and restoration costs

The provisions are computed by reference to estimates of future anticipated dismantling costs and are discounted using an average interest rate of 1.16% (prior year: 1.19%). The effect of using different interest rates amounted to CHF 3 million (prior year: CHF 1 million). The cost index used for computing the dismantling costs was amended in the prior year resulting in an impact of CHF 55 million. In 2018, as a result of reassessments, adjustments totalling CHF 3 million (prior year: CHF 53 million) were recorded under property, plant and equipment, with no impact on the income statement, and an expense of CHF 1 million (prior year: income of CHF 1 million) which was recognised in the income statement. The non-current portion of the provisions is expected to be settled after 2020. An increase of estimated costs by 10% would result in an increase of CHF 58 million in the amount of the provision. A delay in the timing of dismantling by a further ten years would lead to a reduction in the provision by CHF 39 million.

Provisions for regulatory and competition law proceedings

In accordance with the revised Telecommunications Act, Swisscom provides access services (incl. interconnection) to other telecommunication service providers in Switzerland. In previous years, several telecommunication service providers demanded from the Federal Communications Commission (ComCom) a reduction in the prices charged to them by Swisscom. The determination of the prices for access services during 2013 to 2017 is still pending. In 2009, the Competition Commission (Weko) levied a penalty of CHF 220 million on Swisscom for

abuse of a market-dominant position in the case of ADSL services during the period through to the end of 2007. Swisscom appealed against the ruling to the Federal Administrative Court. In September 2015, the Federal Administrative Court in principle upheld the Weko decision and reduced the penalty imposed on Swisscom by Weko from CHF 220 million to CHF 186 million. As a result of the decision, Swisscom recognised a provision of CHF 186 million in the third quarter of 2015. Swisscom holds the penalty to be unjustified and has lodged an appeal to the Federal Court. At the beginning of 2016, it paid the penalty of CHF 186 million as no suspensive effect was granted. In the event that a legally enforceable finding as to market abuse is reached, civil-law claims might be asserted against Swisscom. On the basis of legal opinions, Swisscom has established provisions for regulatory and competition law proceedings. 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.

Other provisions

Other provisions include primarily provisions for environmental, contractual and non-income-related tax risks. Any applicable payments of the non-current portion of the provisions could likely occur within three years.

Contingent liabilities arising from competition law proceedings

The Competition Commission (Weko) is conducting several proceedings against Swisscom. In the event that a legally enforceable finding of market abuse is reached, Weko can sanction Swisscom. In addition, claims under civil law might be asserted against Swisscom. In April 2013, Weko initiated an investigation against Swisscom pursuant to the Anti-Trust Law in the area of broadcasting live-sport events on pay TV. In May 2016, Weko decreed a penalty of CHF 72 million on Swisscom in these proceedings. In November 2015, in its investigation as to the invitation to tender for the corporate network of the Swiss Post in 2008, Weko reached the conclusion that Swisscom has a market-dominant position on the market for broadband access for business clients. Because of this conduct judged to be unlawful under Competition Law, Weko ruled a penalty of CHF 8 million. Swisscom has challenged the rulings of Weko concerning live sports broadcasts on pay TV as well as of the invitation to tender for the corporate network of the Swiss Post in the Federal Administrative Court as it considers that it has conducted itself in a lawful manner. From a current perspective, Swisscom considers the levying of sanctions in the court of last appeal as improbable for which reason no provisions have been recognised in the consolidated financial statements as of and for the year ended 31 December 2018, as in prior years. In view of the previous proceedings conducted by Weko, further proceedings against Swisscom might be initiated.

Significant judgements or estimates

The provisions for dismantling and restoration costs relate to the dismantling of telecommunication installations and transmitter stations as well as the restoration to its original state of land held by third party owners. The level of the provisions is determined to a significant degree by the estimation of future dismantling and restoration costs as well as the timing of dismantlement. Provisions for pending litigation are measured on the basis of information available and an estimate of probable expected cash outflows. Depending on the outcome of these proceedings, claims may be made against the Group which are possibly not or not fully covered by provisions or existing insurance. The provisions so established constitute the best possible estimate of the liability. Possible liabilities whose occurrence as of the balance-sheet date cannot be assessed, or liabilities, the level of which cannot be reliably estimated, are disclosed as contingent liabilities.

Accounting policies

Provisions are recognised whenever a legal or constructive obligation arising from past events, the outflow of resources to settle the liability is probable and the amount of the liability can be estimated reliably. Provisions are discounted if the effect is material.

Provisions for dismantling and restoration costs

Swisscom is legally obligated to dismantle transmitter stations and telecommunication installations located on land belonging to third parties following decommissioning and to restore to its original state the property owned by third parties in the locations where these installations are erected. The costs of dismantling are capitalised as part of the acquisition costs of the installations and are amortised over their useful lives. The provisions are measured at the present value of the aggregate future costs and are reported under non-current provisions. Whenever the provision is re-measured, the present value of the changes in the liability is either added to or deducted from the cost of the related capitalised item of property, plant and equipment. The amount deducted from the cost of the related asset may not exceed its carrying amount. Any excess is taken directly to income.

Provisions for termination benefits

Costs in connection with the implementation of restructuring programmes are first expensed when management commits itself to a restructuring plan, it is probable that a liability has been incurred, the amount thereof can be reliably estimated, and the implementation of the programme has commenced, or the individuals involved have been advised in sufficient detail as to the main terms of the restructuring programme. A public announcement and/or communication to personnel associations are deemed to be equivalent to commencing the implementation of the programme.

4 Employees

Swisscom has some 19,800 employees, of which approx. 17,100 are in Switzerland. In this section is to be found information on the employee headcount and personnel expense, the compensation paid to individuals in key positions, as well as retirement-benefit obligations.

4.1 Employee headcount and personnel expense

Employee headcount

In full-time equivalent	31.12.2018	31.12.2017	Change
Residential Customers	5,334	5,657	–5.7%
Enterprise Customers	4,466	4,603	–3.0%
Wholesale	83	88	–5.7%
IT, Network & Infrastructure	4,595	4,809	–4.4%
Swisscom Switzerland	**14,478**	**15,157**	**–4.5%**
Fastweb	2,484	2,504	–0.8%
Other Operating Segments	2,649	2,580	2.7%
Group Headquarters	234	265	–11.7%
Total headcount	**19,845**	**20,506**	**–3.2%**
Thereof Switzerland	17,147	17,688	–3.1%
Thereof foreign countries	2,698	2,818	–4.3%
Average number of employees	20,083	20,836	–3.6%

Personnel expense

In CHF million	2018	2017
Salary and wage costs	2,145	2,214
Social security expenses	250	257
Expense of defined benefit plans [1]	346	375
Expense of defined contribution plans	10	10
Expense for share-based payments	1	2
Termination benefits	(2)	61
Other personnel expense	65	83
Total personnel expense	**2,815**	**3,002**
Thereof Switzerland	2,591	2,759
Thereof foreign countries	224	243

1 See Note 4.3.

Termination benefits

Swisscom supports employees affected by restructuring through a social plan. Depending on the relevant social plan as well as age and length of service, certain employees affected by restructuring may transfer to the employment company Worklink AG. The employment company Worklink AG hires out participating employees to third parties on temporary assignments.

Net termination benefits amount to CHF –2 million. The charge comprises new provisions constituted amounting to CHF 22 million, less the release of provisions no longer required of CHF 24 million. Swisscom has set itself the goal of reducing its annual cost basis in Switzerland in 2019 and 2020, as in 2018, by an annual amount of some CHF 100 million. The savings will continue to be achieved principally through a simplification of work processes, the deployment of more cost-effective systems and a reduction of positions offered in declining business sectors. The consequence of the planned measures will be the cutback in Switzerland of positions and employees taking advantage of the social plan.

4.2 Key management compensation

In CHF million	2018	2017
Current compensation	1.4	1.4
Share-based payments	0.7	0.7
Social security contributions	0.1	0.1
Total compensation to members of the Board of Directors	**2.2**	**2.2**
Current compensation	5.8	5.8
Share-based payments	0.9	0.9
Benefits paid following retirement from Group Executive Board	0.6	0.6
Pension contributions	0.9	0.9
Social security contributions	0.6	0.6
Total compensation to members of the Group Executive Board	**8.8**	**8.8**
Total compensation to members of the Board of Directors and of the Group Executive Board	**11.0**	**11.0**

Individuals in key positions of Swisscom are the members of the Group Executive Board and the Board of Directors of Swisscom Ltd. Compensation paid to members of the Board of Directors consists of basic emoluments plus functional allowances and meeting attendance fees. One third of the entire compensation of the Board of Directors (excluding meeting allowances) is settled in the form of equity shares. Compensation paid to the members of the Group Executive Board consists of a fixed basic salary paid in cash, a variable performance-related component settled in cash and shares, payments in kind and non-cash benefits as well as pension and social insurance contributions. 25% of the variable performance-related share of the members of the Group Executive Board is settled in shares. The Group Executive Board members may elect to increase this share to 50%. The disclosures required by the Swiss Ordinance against Excessive Compensation in Listed Companies (OaEC) are set out in the chapter Remuneration Report. Shares in Swisscom Ltd held by the members of the Board of Directors and Group Executive Board are set out in the notes to the consolidated financial statements of Swisscom Ltd.

4.3 Post-employment benefits

Defined benefit plans

comPlan

The majority of employees in Switzerland is insured for the risks of old age, death and disability by the Swisscom retirement-benefit scheme. The retirement-benefit scheme is implemented through the medium of the comPlan pension plan which has the legal form of a foundation. The supreme governing body of the pension plan is the Foundation Council which is made up of an equal number of representatives of the employees and the employer. The pension-fund rules, together with the legal provisions concerning occupational pension plans, constitute the formal regulatory framework of the pension plan. Individual retirement-savings accounts are maintained for each beneficiary, to which are credited savings contributions varying with age as well as interest accruing. The rate of interest to be applied to the retirement-savings accounts is set each year by the Foundation Council, having regard to the financial situation of the pension fund. The amounts credited to the individual savings accounts are funded by savings contributions of the employer and employees. In addition, the employer pays risk contributions to fund death and disability benefits. The standard retirement age is 65. Employees are entitled to early retirement with a reduced old-age pension. The amount of the old-age pension is the result of multiplying the individual retirement-savings account by a conversion rate set out in the pension-fund rules. The retirement benefits can also be paid out, in full or in part, in the form of a capital payment. In case of early retirement, the employer finances additionally an OASI bridging pension until the standard retirement age. The amount of disability pensions is determined as a percentage of the insured salary and is independent of the number of service years.

The formal regulatory framework contains various provisions concerning risk sharing between the beneficiaries and the employer. In the event of a funding shortfall, computed in accordance with Swiss financial statement accounting principles (Swiss GAAP ARR), the Foundation Council lays down measures which shall lead to an elimination of the funding deficit and a restoration of a financial equilibrium within a timeframe of five to seven years. The measures may consist of the levying of restructuring contributions, a lower level of interest or zero interest accruing on the accumulated employee savings, the lowering of benefits or in a combination of such measures. Should a structural funding shortfall exist as a result of insufficient current interest-induced funding, the top priority is to remedy this situation by adapting future benefits. The employer's restructuring

contributions must, at a minimum, be equal to the sum of employee restructuring contributions. Under the formal regulatory framework, the employer has no legal obligation to pay additional contributions to eliminate more than 50% of a funding shortfall. In the case of Swisscom, a de-facto obligation over and above the legal minimum obligation to pay additional or restructuring contributions in the case of funding shortfalls and structural funding deficits exists which derives from customary company-specific practice in the past. The upper limit of the employer's share of future benefit costs within the meaning of IAS 19.87(c) is assumed to be at the level of the de-facto obligation.
In accordance with the Swiss accounting standards (Swiss GAAP ARR) relevant for the pension fund, the funding surplus at 31 December 2018 amounts to CHF 0.3 billion with a coverage ratio of around 103% (prior year: 108%). The main reasons for the difference compared with IFRS are the use of a higher discount rate as well as a differing actuarial measurement method with the deferred recognition of the costs of future retirement-benefit benefits.

Other pension plans

Other pension plans exist for individual Swiss subsidiary companies which are not affiliated to comPlan and for Fastweb. Employees of the Italian subsidiary Fastweb have acquired entitlements to future pension benefits up to the end of 2006 which are recorded in the balance sheet as defined benefit obligations.

Pension cost

In CHF million	comPlan	Other plans	**2018**	comPlan	Other plans	2017
Current service cost	339	2	341	368	2	370
Administration expense	4	1	5	4	1	5
Total recognised in personnel expense	**343**	**3**	**346**	**372**	**3**	**375**
Interest expense on net defined benefit obligations	6	–	6	11	–	11
Total recognised in financial expense	**6**	**–**	**6**	**11**	**–**	**11**
Total expense of defined benefit plans recognised in income statement	**349**	**3**	**352**	**383**	**3**	**386**

In CHF million	comPlan	Other plans	**2018**	comPlan	Other plans	2017
Actuarial gains and losses from						
Change of the demographical assumptions	(82)	–	(82)	(131)	–	(131)
Change of the financial assumptions	(233)	–	(233)	(72)	–	(72)
Experience adjustments to defined benefit obligations	29	(1)	28	(17)	–	(17)
Change in share of employee contribution (risk sharing)	(13)	–	(13)	246 [1]	–	246
Return on plan assets excluding the part recognised in financial result	379	(1)	378	(879)	3	(876)
Expense (income) of defined benefit plans recognised in other comprehensive income	**80**	**(2)**	**78**	**(853)**	**3**	**(850)**

1 The reason behind the decrease in the share of employee contribution of CHF 246 million is the reduction in the structural funding shortfall, which is mainly attributable to the positive result on plan assets.

Status of pension plans

In CHF million	comPlan	Other plans	2018	comPlan	Other plans	2017
Defined benefit obligations						
Balance at 1 January	**11,894**	**35**	**11,929**	**11,635**	**105**	**11,740**
Current service cost	339	2	341	368	2	370
Interest cost on defined benefit obligations	84	–	84	78	–	78
Employee contributions	189	–	189	186	–	186
Benefits paid	(575)	–	(575)	(471)	(1)	(472)
Actuarial losses (gains)	(299)	(1)	(300)	26	–	26
Business combinations	–	1	1	–	1	1
Foreign currency translation adjustments	–	(1)	(1)	–	–	–
Transfer of pension plans to comPlan	1	(1)	–	72	(72)	–
Balance at 31 December	**11,633**	**35**	**11,668**	**11,894**	**35**	**11,929**
Plan assets						
Balance at 1 January	**10,864**	**17**	**10,881**	**9,826**	**64**	**9,890**
Interest income on plan assets	78	–	78	67	–	67
Employer contributions	278	4	282	335	3	338
Employee contributions	189	–	189	186	–	186
Benefits paid	(575)	–	(575)	(471)	–	(471)
Return (expense) on plan assets excluding the part recognised in financial result	(379)	1	(378)	879	(3)	876
Administration expense	(4)	(1)	(5)	(4)	(1)	(5)
Transfer of pension plans to comPlan	6	(6)	–	46	(46)	–
Balance at 31 December	**10,457**	**15**	**10,472**	**10,864**	**17**	**10,881**
Net defined benefit obligations						
Net defined benefit obligations recognised at 31 December	**1,176**	**20**	**1,196**	**1,030**	**18**	**1,048**

Movements in recognised defined benefit obligations are to be analysed as follows:

In CHF million	comPlan	Other plans	2018	comPlan	Other plans	2017
Balance at 1 January	**1,030**	**18**	**1,048**	**1,809**	**41**	**1,850**
Pension cost, net	349	3	352	383	3	386
Employer contributions and benefits paid	(278)	(4)	(282)	(335)	(4)	(339)
Business combinations	–	1	1	–	1	1
Expense (income) of defined benefit plans recognised in other comprehensive income	80	(2)	78	(853)	3	(850)
Foreign currency translation adjustments	–	(1)	(1)	–	–	–
Transfer of pension plans to comPlan	(5)	5	–	26	(26)	–
Balance at 31 December	**1,176**	**20**	**1,196**	**1,030**	**18**	**1,048**

The weighted average duration of the net present value of the recorded defined benefit obligations is 16 years (prior year: 17 years).

Breakdown of pension plan assets
comPlan

		31.12.2018			31.12.2017		
Category	Investment strategy	**Quoted**	**Not quoted**	**Total**	Quoted	Not quoted	Total
Government bonds Switzerland	5.0%	1.7%	3.6%	5.3%	1.8%	3.5%	5.3%
Corporate bonds Switzerland	6.0%	6.1%	0.0%	6.1%	5.7%	0.0%	5.7%
Government bonds developed markets, World	7.0%	7.2%	0.0%	7.2%	7.4%	0.0%	7.4%
Corporate bonds developed markets, World	10.0%	10.3%	0.0%	10.3%	10.0%	0.0%	10.0%
Government bonds emerging markets, World	8.0%	8.1%	0.0%	8.1%	7.4%	0.0%	7.4%
Private debt	6.0%	0.0%	6.3%	6.3%	0.0%	6.2%	6.2%
Third-party debt instruments	**42.0%**	**33.4%**	**9.9%**	**43.3%**	**32.3%**	**9.7%**	**42.0%**
Equity shares Switzerland	6.0%	5.4%	0.0%	5.4%	5.5%	0.0%	5.5%
Equity shares developed markets, World	12.0%	11.2%	0.0%	11.2%	13.2%	0.0%	13.2%
Equity shares emerging markets, World	7.0%	7.0%	0.0%	7.0%	8.4%	0.0%	8.4%
Equity instruments	**25.0%**	**23.6%**	**0.0%**	**23.6%**	**27.1%**	**0.0%**	**27.1%**
Real estate Switzerland	13.0%	7.0%	6.0%	13.0%	7.1%	4.7%	11.8%
Real estate World	7.0%	1.4%	4.8%	6.2%	3.6%	2.5%	6.1%
Real estate	**20.0%**	**8.4%**	**10.8%**	**19.2%**	**10.7%**	**7.2%**	**17.9%**
Commodities	4.0%	1.9%	2.0%	3.9%	2.1%	2.0%	4.1%
Private markets	8.0%	0.0%	9.6%	9.6%	0.0%	8.3%	8.3%
Cash and cash equivalents and other investments	1.0%	0.0%	0.4%	0.4%	0.0%	0.6%	0.6%
Cash and cash equivalents and alternative investments	**13.0%**	**1.9%**	**12.0%**	**13.9%**	**2.1%**	**10.9%**	**13.0%**
Total plan assets	**100.0%**	**67.3%**	**32.7%**	**100.0%**	**72.2%**	**27.8%**	**100.0%**

The Foundation Council determines the investment strategy and tactical bandwidths within the framework of the legal provisions. Within its terms of reference, the Investment Commission undertakes the asset allocation and is the central steering, coordination and monitoring body for the management of the pension-plan assets. The investment strategy pursues the goal of achieving the highest possible return on assets within the framework of its risk tolerance and thus of generating income on a long-term basis to meet all financial obligations. This is achieved through a broad diversification of risks over various investment categories, markets, currencies and industry segments in both developed and emerging markets. The interest rate duration of interest-bearing assets is 5.98 years (prior year: 6.56 years) and the average rating of these assets is A–. Within the overall portfolio, all foreign currency positions are hedged against the Swiss franc following a currency strategy to the extent necessary to meet a pre-determined ratio of 85% (CHF or CHF-hedged). The unquoted and therefore lesser liquid investments make up 32.7% of total plan assets. Following this investment strategy, comPlan anticipates a target value for the value fluctuation reserve of 17.5% (basis: 2019 financial year).

Additional information on plan assets
As of 31 December 2018, plan assets include Swisscom Ltd shares and bonds with a fair value of CHF 6 million (prior year: CHF 6 million). The effective return on plan assets in 2018 amounted to CHF –299 million (prior year: CHF +943 million). In 2019, Swisscom expects to make payments to the pension funds for statutory employee contributions totalling CHF 283 million.

Assumptions underlying actuarial computations

	2018		2017	
Assumptions	**comPlan**	**Other plans**	comPlan	Other plans
Discount rate at 31 December	0.86%	1.57%	0.69%	1.30%
Expected rate of salary increases	1.08%	–	1.08%	–
Expected rate of pension increases	–	–	–	–
Interest on old age savings accounts	0.86%	–	0.69%	–
Share of employee contribution to funding shortfall	40%	–	40%	–
Life expectancy at age of 65 – men (number of years)	22.20	22.20	22.10	22.10
Life expectancy at age of 65 – women (number of years)	24.00	24.00	23.90	23.90

The discount rate is based upon CHF-denominated corporate bonds with an AA rating of domestic and foreign issuers and listed on the Swiss Exchange SIX. The development of salaries corresponds to the historical average of recent years. No future growth in pensions is anticipated as comPlan has insufficient fluctuation reserves available. The interest rate used to compute interest accruing on the individual retirement savings is assumed to be the discount rate. Life-expectancy assumptions are arrived at through a projection of future mortality improvements in accordance with the Continuous Mortality Investigation Model (CMI), based on the mortality improvements actually observed in Switzerland in the past. The computations are made with a future long-term mortality improvement rate of 1.75%. A reduction of net defined benefit pension obligations by CHF 100 million resulted from the initial application of the CMI model which was recognised as a change in accounting estimate in 2017 in other comprehensive income.
The risk-sharing attributes contained in the formal regulatory framework relating to the handling of funding shortfalls were taken into account in the financial assumptions in two steps. As a first step, it is assumed that the Foundation Council will decide on a gradual lowering of future pensions by 4.31% (prior year: 5.4%) over a period of ten years in order to close the interest-induced structural funding gap. This is based upon a projection of the future conversion rate using a mixed rate for the mandatory and extra-mandatory portions. The conversion rate in the mandatory portion applies the current legal conversion rate. In the extra-mandatory portion, the conversion rate is computed with a discount rate of 0.86%. As a second step, the present value of the remaining funding gap between the regulatory contributions and the benefits adjusted in the first step is shared between the employer and the employees. The legal and de-facto obligation of the employer to pay additional contributions is unchanged and assumed to be limited to 60% of the funding gap. This is based on the legal and regulatory provisions concerning the elimination of funding shortfalls as well as the measures actually decided upon by the Foundation Council and the employer in the past. Assuming the limitation of the employer's share of the funding shortfall, this results in a reduction in defined benefit obligations of CHF 482 million (prior year: CHF 465 million), which corresponds to the assumed employee contribution. The change of the employee share is recognised in other comprehensive income.

Sensitivity analysis comPlan

Sensitivity analysis 2018

	Defined benefit obligations		Current service cost [1]	
In CHF million	**Increase assumption**	**Decrease assumption**	**Increase assumption**	**Decrease assumption**
Discount rate (change +/–0.5%)	(516)	601	(33)	40
Expected rate of salary increases (change +/–0.5%)	38	(36)	6	(5)
Expected rate of pension increases (change +0.5%; –0.0%)	501	–	25	–
Interest on old age savings accounts (change +/–0.5%)	20	(17)	7	(6)
Share of employee contribution to funding shortfall (change +/–10%)	(120)	120	–	–
Life expectancy at age of 65 (change +/–0.5 year)	119	(120)	4	(4)

1 The sensitivity refers to the current service cost recorded in personnel expense.

Sensitivity analysis 2017

	Defined benefit obligations		Current service cost [1]	
In CHF million	Increase assumption	Decrase assumption	Increase assumption	Decrase assumption
Discount rate (change +/–0.5%)	(556)	650	(39)	47
Expected rate of salary increases (change +/–0.5%)	44	(41)	7	(7)
Expected rate of pension increases (change +0.5%; –0.0%)	536	–	29	–
Interest on old age savings accounts (change +/–0.5%)	21	(19)	8	(7)
Share of employee contribution to funding shortfall (change +/–10%)	(116)	116	–	–
Life expectancy at age of 65 (change +/–0.5 year)	126	(127)	5	(5)

1 The sensitivity refers to the current service cost recorded in personnel expense.

The sensitivity analysis takes into consideration the movement in defined benefit obligations as well as current-service costs in adjusting the actuarial assumptions by half a percentage point and half a year, respectively. In the process, only one of the assumptions is adjusted each time, the other parameters remaining unchanged. In the sensitivity analysis, in view of a negative movement in pension increases, no change was made as the reduction in pension benefits is not possible.

Significant judgements or estimates

The determination of post-employment retirement benefit obligations requires an estimation of the future service periods, the development of future salaries and pensions as well as interest accruing on the employee savings accounts, the timing of contractual pension benefit payments and the employees' share of the funding shortfall. This evaluation is made on the basis of prior experience and anticipated future trends. Anticipated future payments are discounted with the yields of Swiss-franc-denominated corporate bonds of domestic and foreign issuers quoted on the Swiss Exchange with a AA rating. The discount rates match the anticipated payment maturities of the liabilities.

Accounting policies

Actuarial computations of pension expense and the related defined benefit obligations are undertaken using the projected unit credit method. Current service costs, past service costs arising from pension-plan amendments and plan settlements as well as administrative costs are reported in the income statement under personnel expense and interest accruing on net obligations as finance expense. Actuarial gains and losses and the return on plan assets, except for amounts reflected in net interest income, are reported under other comprehensive income. The assumptions regarding net future benefits are made in compliance with the formal set of regulations governing the pension plan. As regards the Swiss pension plans, the relevant formal regulations comprise the rules of the pension fund as well as the relevant laws, ordinances and directives concerning occupational benefit plans, in particular the provisions contained therein concerning funding and measures to be taken to eliminate funding shortfalls. Risk-sharing features in the formal regulatory framework are taken into account in arriving at financial assumptions; these limit the employer's share of the costs of future benefits as well as involving employees in the payment of additional contributions, where applicable, to order to eliminate funding deficits. Should the level of committed long-term disability benefits (disability pensions), irrespective of the number of service years, be the same for all insured employees, the costs for these benefits are recognised on the date on which the event causing the disability occurs.

5 Scope of consolidation

The following section sets out details of the Group structure of Swisscom as well as disclosures concerning subsidiaries, joint ventures and associates. In addition, material changes in Group structure are discussed, together with their impact on the consolidated financial statements.

5.1 Group structure

Swisscom Ltd is the parent company of the Group and holds principally direct majority shareholdings in Swisscom (Switzerland) Ltd, Swisscom Broadcast Ltd and Swisscom Directories Ltd. Fastweb S.p.A. (Fastweb) is held indirectly via Swisscom (Switzerland) Ltd as well as an intermediate company in Italy. Swisscom Re Ltd in Liechtenstein is the Group's in-house reinsurance company.

5.2 Significant changes in scope of consolidation

Net cash flows from the acquisition and disposal of participations may be analysed as follows:

In CHF million	2018	2017
Expenses for business combinations net of cash and cash equivalents acquired	(60)	(44)
Expenses for deferred consideration arising on business combinations	(18)	(19)
Expenses for shareholdings accounted for using the equity method	(35)	(20)
Proceeds from sale of equity-accounted investees	–	76
Acquisition of non-controlling interests	–	(99)
Total cash flow from the purchase and sale of shareholdings, net	**(113)**	**(106)**

Exercise of call option to acquire remaining shares in Swisscom Directories AG

Until now, Swisscom has held a 69% share in the share capital of Swisscom Directories AG, the remaining shares being held by Tamedia. Swisscom had granted Tamedia a put option, and Tamedia had granted Swisscom a call option for Tamedia's 31% shareholding. The put and call options could be exercised as from mid-2018, respectively. In December 2018, Swisscom exercised its call option to acquire the outstanding 31% share in Swisscom Directories AG for a purchase price of CHF 240 million. Settlement thereof was made in January 2019. As a result of exercising the call option, the other financial liabilities previously recorded by Swisscom in the consolidated financial statements as of 31 December 2018 were increased by CHF 14 million with no income effect. See Note 2.2.

Acquisition of fixed-wireless division as well as mobile frequencies from Tiscali

At the end of July 2018, the Italian subsidiary Fastweb signed an agreement to purchase the fixed-wireless division and a 3.5 GHz frequency spectrum from Tiscali in order to enhance its mobile communication and convergence business on a long-term and sustainable basis. The value of the transaction amounts to EUR 185 million (CHF 208 million). The transaction was consummated on 16 November 2018. The transaction qualifies as a business combination in accordance with IFRS 3. The business combination was recognised on a provisional basis in the consolidated financial statements as of and for the year ended 31 December 2018, as at the date of preparation of the consolidated financial statements, not all necessary information for the purchase price allocation was available. The provisional allocation of the acquisition cost over the net assets can be summarised as follows:

In CHF million	2018
Property, plant and equipment	17
Intangible assets	206
Other current liabilities	(15)
Identified assets and liabilities/acquisition costs	**208**
Deferred payment of purchase price	(152)
Total cash outflow	**56**

It is anticipated that no goodwill will be recognised from the business combination. No transaction costs arose in connection with the acquisition. The deferred residual acquisition price will be settled through a cash payment in 2019 of EUR 80 million (CHF 90 million) and the rendering of services for an amount of EUR 55 mil-

lion (CHF 62 million). The impact of the business combination on net revenue and net income 2018 of Swisscom is not material.

Accounting policies

Consolidation

Subsidiaries are all companies over which Swisscom Ltd has the effective ability to control their financial and business policies. Control is generally assumed where Swisscom Ltd directly or indirectly holds the majority of the voting rights or potential voting rights of the company. Companies acquired and sold are included in consolidation from the date on which they are acquired and deconsolidated from the date they are disposed of, respectively. Intergroup balances and transactions, income and expenses, shareholdings and dividends as well as unrealised gains and losses are fully eliminated. Non-controlling interests in subsidiary companies are reported in the consolidated balance sheet within equity separately, however, from that attributable to the shareholders of Swisscom Ltd. The non-controlling interests in net income or loss are shown in the consolidated income statement as a component of the consolidated net income or loss. Changes in shareholdings of subsidiary companies are reported as transactions within equity insofar as control existed previously and continues to exist. Put options granted to owners of non-controlling interests are disclosed as financial liabilities. The balance-sheet date for all consolidated subsidiaries is 31 December. There are no material restrictions on the transfer of funds from the subsidiaries to the parent company.
Shareholdings over which Swisscom exercises significant influence but does not have control, are accounted for using the equity method. A significant influence is generally assumed to exist whenever between 20% and 50% of the voting rights are held.

Business combinations

Business combinations are accounted for using the acquisition method. As of the date of the business combination, acquisition costs are recognised at fair value. The purchase consideration includes the amount of cash paid as well as the fair value of the assets ceded, liabilities incurred or assumed as well as own equity instruments ceded. Liabilities depending on future events based upon contractual agreements are recognised at fair value. At the time of acquisition, all identifiable assets and liabilities that satisfy the recognition criteria are recognised at their fair values. The difference between the cost of acquisition and the fair value of the identifiable assets and liabilities acquired or assumed is accounted for as goodwill after taking into account any non-controlling interests.

5.3 Equity-accounted investees

In CHF million	2018	2017
Balance at 1 January	**152**	**193**
Additions	35	26
Disposals	(4)	(76)
Dividends	(18)	(20)
Share of net results	11	17
Share of other comprehensive income	1	2
Foreign currency translation adjustments	(3)	10
Balance at 31 December	**174**	**152**

In 2018, an aggregate amount of CHF 5 million (prior year: CHF –11 million) was recognised as the attributable share of net results in equity-accounted investees. Included therein are impairment losses of CHF 6 million (prior year: CHF 28 million) on loans which are considered as net investments in equity-accounted investees.

Selected key performance indicators for equity-accounted investees

In CHF million	2018	2017
Income statement		
Net revenue	1,814	2,120
Operating expense	(1,756)	(2,065)
Operating income	57	55
Net income	**30**	**17**
Balance sheet at 31 December		
Current assets	1,089	942
Non-current assets	1,084	860
Current liabilities	(1,021)	(926)
Non-current liabilities	(549)	(485)
Equity	**603**	**391**

5.4 Group companies

Group companies in Switzerland

Registered name	Registered office	Share of capital and voting right in %	Currency	Share capital in million	Segment [4]
Switzerland					
Admeira Ltd [1,3]	Berne	50	CHF	0.3	OTH
Ad Unit Ltd. [2]	Zurich	100	CHF	0.1	OTH
autoSense Ltd [2,3]	Zurich	50	CHF	0.2	OTH
Billag Ltd [1]	Fribourg	100	CHF	0.1	OTH
cablex Ltd [2]	Berne	100	CHF	5.0	OTH
Credit Exchange Ltd [2,3]	Zurich	25	CHF	0.1	OTH
CT Cinetrade AG [1]	Zurich	100	CHF	0.5	SCS
Custodigit Ltd [2]	Zurich	75	CHF	1.0	OTH
Datasport Ltd [2]	Gerlafingen	100	CHF	0.2	SCS
daura Ltd [2,3]	Zurich	50	CHF	0.1	OTH
finnova ltd bankware [2,3]	Lenzburg	9	CHF	0.5	SCS
Global IP Action Ltd [2]	Pfäffikon	79	CHF	0.2	OTH
itnetX (Switzerland) AG [2]	Rümlang	100	CHF	0.1	SCS
kitag kino-theater Ltd [2]	Zurich	100	CHF	1.0	SCS
Medgate Ltd [2,3]	Basel	40	CHF	0.7	SCS
Medgate Technologies Ltd [2,3]	Basel	40	CHF	0.1	SCS
Mila AG [2]	Zurich	100	CHF	0.4	SCS
Mona Lisa Capital AG [2]	Ittigen	100	CHF	5.0	OTH
MyStrom Ltd [2]	Ittigen	52	CHF	0.1	OTH
PlazaVista Entertainment AG [2]	Zurich	100	CHF	0.1	SCS
SEC consult (Switzerland) Ltd [2,3]	Zurich	47	CHF	0.1	OTH
SmartLife Care Ltd [2]	Wangen	48	CHF	0.2	OTH
Swisscom Blockchain Ltd [2]	Zurich	70	CHF	0.1	SCS
Swisscom Broadcast Ltd [1]	Berne	100	CHF	25.0	OTH
Swisscom Digital Technology SA [1]	Geneva	75	CHF	0.1	SCS
Swisscom Directories Ltd [1]	Zurich	100	CHF	2.2	OTH
Swisscom eHealth Invest GmbH [2]	Ittigen	100	CHF	1.4	GHQ
Swisscom Event & Media Solutions Ltd [2]	Ittigen	100	CHF	0.1	OTH
Swisscom Health AG [2]	Ittigen	100	CHF	0.1	SCS
Swisscom Real Estate Ltd [1]	Ittigen	100	CHF	100.0	SCS
Swisscom IT Services Finance Custom Solutions Ltd [2]	Olten	100	CHF	0.1	SCS
Swisscom (Switzerland) Ltd [1]	Ittigen	100	CHF	1,000.0	SCS
Swisscom Services Ltd [2]	Ittigen	100	CHF	0.1	SCS
Swisscom Ventures Ltd [2]	Ittigen	100	CHF	2.0	GHQ
SwissSign Group Ltd [2,3]	Opfikon	10	CHF	12.5	OTH
Teleclub AG [2]	Zurich	100	CHF	1.2	SCS
Teleclub Programm AG [2,3]	Zurich	33	CHF	0.6	SCS
tiko Energy Solutions SA [2]	Ittigen	52	CHF	13.3	OTH
Worklink AG [1]	Berne	100	CHF	0.5	GHQ

1 Participation directly held by Swisscom Ltd.
2 Participation indirectly held by Swisscom Ltd.
3 Investment is accounted for using the equity method. Through its representation on the Board of Directors of the company, Swisscom can exercise a significant influence.
4 SCS = Swisscom Switzerland, FWB = Fastweb, OTH = Other, GHQ = Group Headquarters (unallocated costs).

Group companies in other countries

Registered name	Registered office	Share of capital and voting right in %	Currency	Share capital in million	Segment [4]
Belgium					
Belgacom International Carrier Services Ltd [2,3]	Brussels	22	EUR	1.5	SCS
Germany					
Abavent GmbH [2]	Kempten	100	EUR	0.3	SCS
Mila Europe GmbH [2]	Berlin	100	EUR	–	SCS
Swisscom Telco GmbH [2]	Leipzig	100	EUR	–	GHQ
France					
local.fr SA [2]	Bourg-en-Bresse	83	EUR	1.0	OTH
SoftAtHome SA [2,3]	Colombes	10	EUR	6.5	SCS
Italy					
Fastweb S.p.A. [2]	Milan	100	EUR	41.3	FWB
Fastweb Air S.r.l. [2]	Milan	100	EUR	10.0	FWB
Flash Fiber S.r.l. [2,3]	Milan	20	EUR	–	FWB
Swisscom Italia S.r.l. [2]	Milan	100	EUR	505.8	GHQ
Liechtenstein					
Swisscom Re Ltd [1]	Vaduz	100	CHF	5.0	GHQ
Luxembourg					
DTF GP S.A.R.L [2]	Luxembourg	100	EUR	–	OTH
Digital Transformation Fund Initial Limited Partner SCSp [2]	Luxembourg	100	EUR	–	OTH
Netherlands					
NGT International B.V. [2]	Capelle a/d IJssel	100	EUR	–	OTH
Austria					
Swisscom IT Servics Finance SE [2]	Vienna	100	EUR	3.3	SCS
Singapore					
Swisscom IT Services Finance Pte Ltd [2]	Singapore	100	SGD	0.1	SCS
USA					
Swisscom Cloud Lab Ltd [2]	Delaware	100	USD	–	SCS

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6 Other disclosures

This section details information which is not already disclosed in the other parts of the report. It includes, for instance, disclosures regarding income taxes and related corporate entities and individuals.

6.1 Income taxes

Income tax expense

In CHF million	2018	2017
Current income tax expense	337	349
Adjustments recognised for current tax of prior periods	1	20
Deferred tax expense	57	23
Total income tax expense recognised in income statement	**395**	**392**
Thereof Switzerland	335	338
Thereof foreign countries	60	54

In addition, other comprehensive income includes current and deferred income taxes which may be analysed as follows:

In CHF million	2018	2017
Foreign currency translation adjustments of foreign subsidiaries	(1)	19
Actuarial gains and losses from defined benefit pension plans	(16)	171
Change to the fair value of equity instruments	1	(1)
Gains and losses from cash flow hedges transferred to income statement	–	(1)
Total income tax expense recognised in other comprehensive income	**(16)**	**188**

Analysis of income taxes

The applicable income tax rate which serves to prepare the following analysis of income tax expense is the weighted average income tax rate calculated on the basis of the Group's operating subsidiaries in Switzerland. The applicable income-tax rate remained unchanged from the prior year at 20.4%.

In CHF million	2018	2017
Income before income taxes in Switzerland	1,732	1,724
Income before income taxes foreign countries	184	236
Income before income taxes	**1,916**	**1,960**
Applicable income tax rate	20.4%	20.4%
Income tax expense at the applicable income tax rate	**391**	**400**
Reconciliation to reported income tax expense		
Effect from result of shareholdings accounted for using the equity method	(1)	2
Effect of tax rate changes on deferred taxes	3	(12)
Effect of use of different income tax rates in Switzerland	(11)	2
Effect of use of different income tax rates in foreign countries	22	20
Effect of non-recognition of tax loss carry-forwards	9	11
Effect of recognition and offset of tax loss carry-forwards not recognised in prior years	(3)	(14)
Effect of exclusively tax-deductible expenses and income	(16)	(37)
Effect of income tax of prior periods	1	20
Total income tax expense	**395**	**392**
Effective income tax rate	20.6%	20.0%

Current income tax assets and liabilities

In CHF million	2018	2017
Current income tax liabilities at 1 January, net	**203**	**107**
Recognised in income statement	338	369
Recognised in other comprehensive income	1	16
Income taxes paid in Switzerland	(277)	(279)
Income taxes paid in foreign countries	(17)	(10)
Current income tax liabilities at 31 December, net	**248**	**203**
Thereof current income tax assets	(2)	(10)
Thereof current income tax liabilities	250	213
Thereof Switzerland	240	198
Thereof foreign countries	8	5

Deferred income tax assets and liabilities

	31.12.2018			31.12.2017		
In CHF million	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Property, plant and equipment	37	(669)	(632)	34	(623)	(589)
Intangible assets	–	(303)	(303)	–	(309)	(309)
Provisions	103	(69)	34	102	(51)	51
Defined benefit obligations	216	–	216	186	–	186
Tax loss carry-forwards	51	–	51	90	–	90
Other	135	(148)	(13)	153	(110)	43
Total tax assets (tax liabilities)	**542**	**(1,189)**	**(647)**	**565**	**(1,093)**	**(528)**
Thereof deferred tax assets			167			197
Thereof deferred tax liabilities			(814)			(725)
Thereof Switzerland			(673)			(588)
Thereof foreign countries			26			60

Tax loss carry-forwards for which no deferred tax assets were recognised, expire as follows:

In CHF million	31.12.2018	31.12.2017
Expiring within 1 year	1	–
Expiring within 2 to 7 years	136	125
No expiration	16	39
Total unrecognised tax loss carry-forwards	**153**	**164**
Thereof Switzerland	137	114
Thereof foreign countries	16	50

No deferred tax liabilities were recognised on the undistributed earnings of subsidiaries as of 31 December 2018 (prior year: CHF 6 million). Temporary differences of subsidiaries and equity-accounted investees, on which no deferred income taxes are recognised as of 31 December 2018, amounted to CHF 1,829 million (prior year: CHF 1,117 million).

Accounting policies

Income taxes encompass all current and deferred taxes which are based on income. Taxes which are not based on income, such as taxes on real estate and on capital are recorded as other operating expenses. Deferred taxes are computed using the balance-sheet liability method whereby deferred taxes are recognised in principle on all temporary differences. Temporary differences arise from differences between the carrying amount of a balance-sheet position in the consolidated financial statements and its value as reported for tax purposes and which will reverse in future periods. Deferred tax assets are only recognised as assets to the extent that it is probable that they can be offset against future taxable income. Income tax liabilities on undistributed profits of Group companies are only recognised if the distribution of profits is to be made in the foreseeable future. Current and deferred tax assets and liabilities are netted whenever they relate to the same taxing authority and taxable entity.

6.2 Related parties

Majority shareholder and equity-accounted investees

Majority shareholder

Pursuant to the Swiss Federal Telecommunication Enterprises Act (TEA), the Swiss Confederation ("the Confederation") is obligated to hold a majority of the share capital and voting rights of Swisscom. On 31 December 2018, the Confederation, as majority shareholder, continued to hold 51.0% of the issued shares of Swisscom Ltd. Any reduction of the Confederation's holding below a majority shareholding would require a change in law which would need to be voted upon by the Swiss Parliament and would also be subject to a facultative referendum by Swiss voters. As the majority shareholder, the Confederation has the power to control the decisions of the annual general meetings of shareholders which are taken by the absolute majority of validly cast votes. This relates primarily to resolutions concerning dividend distributions and the election of the members of the Board of Directors. Swisscom supplies telecommunication services to and in addition, procures services from the Confederation. The Confederation comprises the various ministries and administrative bodies of the Confederation and the other companies controlled by the Confederation (primarily the Swiss Post, Swiss Federal Railways, RUAG as well as Skyguide). All transactions are conducted on the basis of normal customer/supplier relationships and on conditions applicable to unrelated third parties. In addition, financing transactions are entered into with the Swiss Post on market conditions.

Equity-accounted investees

Services provided to/by equity-accounted investees are based upon market prices. Such participations are listed in Note 5.3.

Transactions and balances

In CHF million	Income	Expense	Receivables	Liabilities
Financial year 2018				
Confederation	241	114	281	166
Equity-accounted investees	133	90	43	7
Total 2018/Balance at 31 December 2018	**374**	**204**	**324**	**173**

In CHF million	Income	Expense	Receivables	Liabilities
Financial year 2017				
Confederation	247	127	269	163
Equity-accounted investees	77	88	20	3
Total 2017/Balance at 31 December 2017	**324**	**215**	**289**	**166**

Occupational pension schemes and compensation payable to individuals in key positions

Transactions between Swisscom and the various pension funds are detailed in Note 4.3. Compensation paid to individuals in key positions are disclosed in Note 4.2.

6.3 Other accounting policies

Foreign currency translation

Foreign currency transactions which are not denominated in the functional currency are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Monetary items as of the balance-sheet date are translated into the functional currency at the exchange rate prevailing at the balance-sheet date and non-monetary items are translated using the exchange rate on the date of the transaction. Translation differences are recognised in the income statement. Assets and liabilities of subsidiaries and equity-accounted investees reporting in a different functional currency are translated at the exchange rates prevailing on the balance-sheet date whereas the income statement and the cash flow statement are translated at average exchange rates. Translation differences arising from the translation of net assets and income statements are recorded in other comprehensive income.

Significant foreign currency translation rates

	Closing rate			Average rate	
Currency	**31.12.2018**	31.12.2017	31.12.2016	**2018**	2017
1 EUR	1.127	1.170	1.074	1.153	1.113
1 USD	0.984	0.976	1.019	0.977	0.985

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

The following Standards and Interpretations published up to the end of 2018 are mandatory for annual periods beginning on or after 1 January 2019:

Standard	Name	Effective from
IFRIC 23	Uncertainty over income tax treatments	1 January 2019
Amendements to IAS 1 and IAS 8	Definition of material	1 January 2020
Amendements to IAS 19	Plan amendments, curtailments and settlements	1 January 2019
Amendements to IAS 28	Long-term shareholdings in associated companies and joint ventures	1 January 2019
Amendements to IFRS 3	Definition of a business	1 January 2020
Amendements to IFRS 9	Early repayment arrangements with negative compensation payment	1 January 2019
IFRS 16	Leases	1 January 2019
Various	Amendements to IFRS 2015–2017	1 January 2019
–	Amendments to references to the Framework Concept in the IFRS Standards	1 January 2020
Amendements to IFRS 10 and IAS 28	Sale or deposit of assets between an investor and an associated company or joint venture	still open

Swisscom will review its financial reporting for the impact of those new and amended standards which take effect on or after 1 January 2019 and for which Swisscom did not make voluntary early adoption. At present, Swisscom anticipates no material impact on consolidated financial reporting except for the amendment described below.

IFRS 16 Leases

IFRS 16 (in force as from 1 January 2019) replaces IAS 17, IFRIC 4 and SIC 27 and lays down the principles governing the recognition, measurement and disclosure of lease arrangements. For the lessee, IFRS 16 provides for a single model for accounting for lease arrangements in financial statements. The differentiation between finance and operating lease arrangements required until now under IAS 17 is thus dropped in future for the lessee. The lessee shall recognise leasing liabilities in its balance sheet for all future lease payments to be made as well as recognising a right-of-use for the underlying asset. In future, depreciation and amortisation and interest will be recognised in the income statement instead of rental expense. This will lead to a material increase in operating income before depreciation, amortisation and impairment losses. In the statement of cash flows, the share of the lease payments representing amortisation under the lease arrangements to be accounted for under the new rules will reduce cash flows from financing activities and no longer cash flows from operating activities, as previously. Interest payments will continue to be reported as cash flows from operating activities. As regards lessors, they will continue to differentiate between finance and operating lease

arrangements for financial reporting purposes. In this regard, the accounting model foreseen under IFRS 16 does not materially differ from the previous provisions under IAS 17.
Swisscom has elected to apply the modified retrospective approach for the initial adoption of IFRS 16. For reasons of simplicity, a reassessment as to whether a contract as of 1 January 2019 constitutes or includes a leasing arrangement will be dispensed with. The payment obligations arising under the operating-lease arrangements disclosed in note 2.3 for the most part comprise leasing payments from the rental of operation and office buildings as well as of antenna sites. The net present value of the payment obligations arising from previous operating-lease arrangements will be accounted for as leasing liabilities. The corresponding right-of-use assets will be recognised in the amount of the leasing liabilities. As of 1 January 2019, right-of-use assets and leasing liabilities aggregating some CHF 1.3 billion will be recognised from the initial adoption of IFRS 16. The comparative prior-year's figures will not be restated. The adoption of IFRS 16 has no impact on equity as of 1 January 2019. With regard to the 2018 financial year, the application of IFRS 16 would have led to an increase in operating income before depreciation, amortisation and impairment losses (EBITDA) of some CHF 0.2 billion and to higher depreciation and amortisation as well as interest expense of a combined aggregate amount of some CHF 0.2 billion. In addition, as a result of the discontinuation of SIC 27, other financial assets and financial liabilities totalling USD 79 million (CHF 78 million) which were previously not recorded will be recognised. The Italian subsidiary, Fastweb, procures various access services from other fixed-network operators for the use of connection cables to the end customer. A part of these access services is now classified as leases in accordance with IFRS 16. The value of the individual connection cable fulfils the criteria as an asset of low value. Swisscom will apply the low value exemption of IFRS 16 for these lease arrangements. Accordingly, no right-of-use assets and lease liabilities will be recognised for these access services, the costs of which will continue to be reported as operating expense.

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Statutory Auditor's Report

To the General Meeting of Swisscom Ltd., Ittigen (Berne)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Swisscom Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 104 to 159) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

- **Revenue recognition**
- **Capitalization of technical facilities and software**
- **Fastweb goodwill**
- **Provisions and contingent liabilities for regulatory and competition-law proceedings**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Key Audit Matter

Swisscom's telecommunication business is characterized by a high volume of IT-based transactions. The contracts underlying these transactions often contain various elements that are recorded separately. The correct recognition of the identified contractual elements in the appropriate period and the accuracy of invoicing are highly dependent on IT systems.

Additionally, Swisscom implemented the newly applicable revenue recognition standard IFRS 15 and recognized the impact in equity as at 1 January 2018 for contracts which had not yet been executed as at this date. The effect of the first time application of IFRS 15 is driven mainly by bundle contracts in the Swiss wireless business.

Our response

We analyzed the process from the conclusion of a contract to the receipt of payment and assessed whether transactions are completely and accurately recorded in the general ledger. We identified key controls relating to revenue recognition and tested, on a sample basis, their operating effectiveness. We tested the operating effectiveness of IT controls of accounting-relevant systems, with the assistance of our IT specialists, to reflect the high degree of integration of service performance and recording by various IT systems.

In addition, we performed analytical procedures. Based on internal reports, we analyzed trends related to the most important key performance indicators per revenue segment and product category, and we critically assessed deviations from our expectations.

With respect to significant newly introduced products, we assessed whether the Group appropriately determined the point in time and amount of revenue to be recognized for the individual components.

We evaluated Swisscom's process of analysing the impact of IFRS 15 and assessed whether the resulting changes of accounting policies and the financial impact – in particular on the equity as at 1 January 2018 - are complete and accurate.

We took a sample of significant revenue-driving transactions from inception to the recognition in the accounting system and assessed whether they were accurately recorded in accordance with IFRS 15. Furthermore we assessed the changes in the relevant revenue processes whether they are suitable to analyze and classify new contracts adequately to ensure the correct revenue recognition.

In addition, we tested the appropriateness and functionality of Swisscom's newly implemented IT systems for the correct revenue recognition.

For further information on revenue recognition refer to the following:

— Notes to the consolidated financial statements, No. 1.1 – Segment information

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Capitalization of technical facilities and software

Key Audit Matter

Given the technological change in the telecommunication sector, investment in new technical facilities and software plays a strategic role in the development of Swisscom's business. In this regard, it is important that the costs capitalized in relation to acquired and self-developed technical facilities and software fulfil the IFRS criteria.

Our response

We tested whether Swisscom's capitalization guidelines comply with IFRS and whether the key controls over the compliance with these guidelines operated effectively.

Among others, using a statistical sampling procedure we assessed whether the capitalization of costs relating to a sample of technical facilities and software met the criteria and took place at the appropriate point in time.

Furthermore, in relation to the development of material new projects, we analyzed the amount and proper identification of hours of work rendered by Swisscom employees. We recalculated, on a sample basis, the hourly rates used by Swisscom based on actual personnel expenses and analyzed any variances. On the basis of monthly budgets we also compared for significant projects the expected costs to be capitalized and those to be expensed with the actual amounts and critically assessed any deviations.

For further information on capitalization of technical facilities and software refer to the following:

— Notes to the consolidated financial statements, No. 3.2 – Property, plant and equipment

— Notes to the consolidated financial statements, No. 3.4 – Intangible assets

Fastweb goodwill

Key Audit Matter

At 31 December 2018 the goodwill related to the operating segment Fastweb amounted to CHF 556 million (2017: CHF 578 million).

The annual impairment test on the Fastweb goodwill is significantly affected by management's judgements regarding the expected future cash flows, the discount rate (WACC) used and the expected growth.

Our response

In the course of our audit, we assessed whether an appropriate valuation method was used for the Fastweb goodwill impairment test, the calculation was coherent and management's assumptions were appropriate.

In particular, we challenged the input data and assumptions related to the underlying cash flows and the expected growth rates, as based on written statements from local as well as Group management. In addition, we retrospectively assessed the accuracy of past business plans by a multi-year comparison of forecasted and actual amounts.

We analyzed the individual parameters underlying the discount rate, with assistance from our valuation specialists, and compared them with the peer group.

We evaluated the model used for the impairment test with respect to mathematical accuracy and methodological adequacy.

We also considered the appropriateness of disclosures in relation to the impairment test and assessed whether the disclosed sensitivity analyses adequately reflect the risks embedded in the impairment test.

For further information on the Fastweb goodwill refer to the following:

— Notes to the consolidated financial statements, No. 3.3 –Goodwill

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Provisions and contingent liabilities for regulatory and competition-law proceedings

Key Audit Matter	Our response
Swisscom provides regulated access services to other telecommunication service providers. The pricing of such services is the outcome of regulatory proceedings. In addition, the Federal Competition Commission (WEKO) is conducting various proceedings against Swisscom. In case of a final verdict establishing market abuse, civil law claims may also be brought against Swisscom. The recognition of provisions or disclosure of contingent liabilities related to such proceedings requires management to apply significant judgment.	We tested the operating effectiveness of the controls implemented to identify, assess and recognize legal proceedings related to the regulatory and competition-law environment. Specifically, we participated in the quarterly meetings where legal proceedings were addressed with the relevant departments, and we discussed and challenged the summaries of the legal proceedings prepared by Swisscom Group. With the assistance of our legal specialists, we assessed the probability of cash outflows resulting from legal proceedings, the point in time for recognizing related provisions and the corresponding amount of such provisions or the disclosure of contingent liabilities. We additionally obtained and critically assessed written statements of Swisscom's external legal counsel for significant proceedings. We furthermore tested the amount of the provisions and contingent liabilities by assessing whether the internal and external data was correctly fed into the calculations and whether the underlying assumptions were adequate. We assessed whether the disclosures on contingent liabilities in the notes to the consolidated financial statements appropriately reflect the risks involved.

For further information on provisions and contingent liabilities for regulatory and competition-law proceedings refer to the following:

— Notes to the consolidated financial statements, No. 3.5 – Provisions, contingent liabilities and contingent assets

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our

conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

KPMG AG

Hanspeter Stocker
Licensed Audit Expert
Auditor in Charge

Toni Wattenhofer
Licensed Audit Expert

Gümligen-Berne, 6 February 2019

KPMG AG, Hofgut, PO Box 112, CH-3073 Gümligen-Berne

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Financial statements of Swisscom Ltd

Income statement

In CHF million	2018	2017
Net revenue from the sale of goods and services	218	231
Other income	33	29
Total operating income	**251**	**260**
Personnel expense	(71)	(79)
Other operating expense	(82)	(92)
Total operating expenses	**(153)**	**(171)**
Operating income	**98**	**89**
Financial expense	(112)	(129)
Financial income	121	140
Income from participations	2,230	105
Income before taxes	**2,337**	**205**
Income tax expense	(13)	(8)
Net income	**2,324**	**197**

Balance sheet

In CHF million	Note	**31.12.2018**	31.12.2017
Assets			
Cash and cash equivalents		306	290
Derivative financial instruments		3	4
Trade receivables	3.1	132	7
Other current receivables	3.1	2	2
Accrued dividends receivable from subsidiaries		2,100	–
Accrued income and deferred expense		89	110
Total current assets		**2,632**	**413**
Financial assets	3.1	5,026	6,045
Derivative financial instruments		40	73
Participations	2.2	8,214	7,973
Total non-current assets		**13,280**	**14,091**
Total assets		**15,912**	**14,504**
Liabilities and equity			
Current interest-bearing liabilities	3.2	1,763	2,211
Derivative financial instruments		6	5
Trade payables	3.2	11	8
Other current liabilities	3.2	301	39
Accrued expense and deferred income		52	70
Provisions		9	11
Total current liabilities		**2,142**	**2,344**
Non-current interest-bearing liabilities	3.2	7,215	6,782
Derivative financial instruments		46	52
Other non-current liabilities	3.2	2	2
Provisions		10	11
Total non-current liabilities		**7,273**	**6,847**
Total liabilities		**9,415**	**9,191**
Share capital		52	52
Legal capital reserves/capital surplus reserves		21	21
Voluntary retained earnings		6,424	5,240
Total equity		**6,497**	**5,313**
Total liabilities and equity		**15,912**	**14,504**

Notes to the financial statements

1 General information

1.1 Name, legal form and registered office

- Swisscom Ltd, Ittigen (canton of Berne)
- Parent company of the Swisscom Group
- Swisscom Ltd is a limited-liability company established under a special statute pursuant to the Telecommunication Enterprises Act (TEA) of 30 April 1997.
- Company identification number (UID) CHF-102.753.938

1.2 Share capital

As of 31 December 2018, the share capital comprised 51,801,943 registered shares of a par value of CHF 1 per share, unchanged from the previous year.

1.3 Significant shareholders

As at 31 December 2018, the Swiss Confederation (Confederation), as majority shareholder, continued to hold 51% of the issued shares of Swisscom Ltd as in the prior year. The Telecommunications Enterprises Act (TEA) provides that the Confederation shall hold the majority of the share capital and voting rights of Swisscom Ltd.

1.4 Number of full-time employees

The average number of employees of Swisscom Ltd during the financial year, expressed as full-time equivalents, exceeded 250, as in the prior year.

1.5 Approval and release of Annual Financial Statements

The Board of Directors of Swisscom Ltd approved the present Annual Financial Statements on 6 February 2019 for release. No material post-balance-sheet events occurred up to this date. The Annual Financial Statements are subject to approval by the shareholders of Swisscom Ltd in its Annual General Meeting to be held on 2 April 2019.

2 Summary of significant accounting policies

2.1 General

Significant financial statement reporting policies which are not prescribed by law are described below. The possibility to create and release hidden reserves for the purpose of ensuring the sustainable development of the company should be taken into account in this respect.

2.2 Participations and recording of dividend distributions by subsidiary companies

Participations are accounted for at acquisition cost less valuation allowances, as required. Dividend distributions from subsidiary companies are accrued in the financial statements of Swisscom Ltd provided that the annual general meetings of the subsidiary companies approve the payment of the dividend prior to the approval of the Annual Financial Statements of Swisscom Ltd by its Board of Directors.

A list of participations held directly or indirectly by Swisscom Ltd is included in Note 5.4 to the Consolidated Financial Statements.

2.3 Derivative financial instruments and hedging transactions (hedge accounting)

Derivative financial instruments which are deployed to hedge foreign currencies and interest rates, are measured at market price. Movements in market values are recorded in the income statement. Derivatives which meet the conditions for recognition as a hedging transaction, are measured using the same valuation principles as those which apply to the underlying transaction. Gains and losses arising from the underlying and hedging transactions are dealt with on a joint basis (collective valuation approach with regard to valuation units).

2.4 Treasury shares

At the time of acquisition, treasury shares are recorded at purchase cost as a deduction from shareholders' equity.

3 Disclosures on balance sheet and income statement positions

3.1 Receivables and financial assets

In CHF million	31.12.2018	Thereof from participations	31.12.2017	Thereof from participations
Trade receivables	132	131	7	7
Other current receivables	2	1	2	1
Financial assets	5,026	4,911	6,045	5,934

3.2 Liabilities

Trade payables and other liabilities

In CHF million	31.12.2018	Thereof to participations	31.12.2017	Thereof to participations
Trade payables	11	5	8	4
Other current liabilities	301	26	39	11
Other non-current liabilities	2	–	2	–

Other current liabilities as at 31 December 2018 include liabilities to pension funds of CHF 1 million (prior year: none).

Interest-bearing liabilities

In CHF million	31.12.2018	31.12.2017
Bank loans	1,212	736
Debenture bonds	5,520	6,106
Private placements	428	500
Interest-bearing liabilities to participations	1,741	1,556
Other interest-bearing liabilities to third parties	77	95
Total interest-bearing liabilities	**8,978**	**8,993**
Thereof current interest-bearing liabilities	1,763	2,211
Thereof non-current interest-bearing liabilities	7,215	6,782

Debenture bonds

In CHF million or EUR million	31.12.2018 Par value in currency	31.12.2018 Nominal interest rate	31.12.2017 Par value in currency	31.12.2017 Nominal interest rate
Debenture bond in CHF 2009–2018	–	–	1,385	3.25
Debenture bond in EUR 2013–2020	500	2.00	500	2.00
Debenture bond in EUR 2014–2021	500	1.88	500	1.88
Debenture bond in CHF 2010–2022	500	2.63	500	2.63
Debenture bond in CHF 2015–2023	250	0.25	250	0.25
Debenture bond in CHF 2012–2024	500	1.75	500	1.75
Debenture bond in EUR 2015–2025	500	1.75	500	1.75
Debenture bond in CHF 2014–2026	200	1.50	200	1.50
Debenture bond in EUR 2018–2026	500	1.13	–	–
Debenture bond in CHF 2016–2027	200	0.38	200	0.38
Debenture bond in CHF 2017–2027	350	0.38	350	0.38
Debenture bond in CHF 2016–2028	200	0.38	200	0.38
Debenture bond in CHF 2018–2028	150	0.75	–	–
Debenture bond in CHF 2014–2029	160	1.50	160	1.50
Debenture bond in CHF 2016–2032	300	0.13	300	0.13
Debenture bond in CHF 2017–2033	150	0.75	150	0.75
Debenture bond in CHF 2015–2035	150	1.00	150	1.00
Debenture bond in CHF 2018–2035	150	1.00	–	–

4 Further information

4.1 Treasury shares

	Number	Average price in CHF	In CHF million
Balance at 31 December 2016	**1,514**	**520**	**1**
Purchases on the market	7,200	468	3
Allocated for share-based compensation	(8,090)	468	(4)
Balance at 31 December 2017	**624**	**468**	**–**
Purchases on the market	8,300	468	4
Allocated for share-based compensation	(8,581)	468	(4)
Balance at 31 December 2018	**343**	**468**	**–**

4.2 Collateral given to secure third-party liabilities

As of 31 December 2018, guarantee obligations exist for Group companies in favour of third parties totalling CHF 253 million (prior year: CHF 290 million).

4.3 Assets used to secure own commitments as well as assets subject to retention of title

As of 31 December 2018, financial assets totalling CHF 108 million (prior year: CHF 105 million) were not freely available. These assets serve to secure commitments arising from bank loans.

4.4 Participation rights of the members of the Board of Directors and Group Executive Board

The following table discloses the number of unrestricted and restricted shares held by the members of the Board of Directors and Group Executive Board as well as parties related to them, as of 31 December 2017 and 2018:

Number	31.12.2018	31.12.2017
Hansueli Loosli	3,113	2,733
Roland Abt	379	205
Valérie Berset Bircher	329	213
Alain Carrupt	329	213
Frank Esser	642	478
Barbara Frei	919	784
Anna Mossberg[1]	112	–
Catherine Mühlemann	1,559	1,443
Theophil Schlatter[2]	–	1,419
Renzo Simoni	324	160
Total shares held by the members of the Board of Directors	**7,706**	**7,648**

1 Elected to the Board of Directors as of 4 April 2018.

2 Resigned from the Board of Directors as of 4 April 2018.

Number	31.12.2018	31.12.2017
Urs Schaeppi (CEO)	4,380	3,964
Mario Rossi	1,483	1,236
Hans C. Werner	1,259	1,068
Marc Werner	1,158	750
Urs Lehner	290	115
Heinz Herren	1,856	1,586
Dirk Wierzbitzki	604	234
Total shares held by the members of the Group Executive Board	**11,030**	**8,953**

In 2018, 1,486 shares (CHF 0.7 million) were issued to the members of the Board of Directors and 1,974 shares (CHF 0.9 million) to the members of the Group Executive Board. None of the individuals required to make notification holds voting shares exceeding 0.1% of the share capital.

Proposed appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors proposes to the Annual General Meeting of Shareholders to be held on 2 April 2019 that the available retained earnings of CHF 6,424 million for the financial year ending on 31 December 2018, be appropriated as follows:

In CHF million	31.12.2018
Appropriation of retained earnings	
Retained earnings from previous year	**5,240**
Ordinary dividend [1]	(1,140)
Balance carried forward from prior year	**4,100**
Net income for the year	2,324
Retained earnings available to the Annual General Meeting	**6,424**
Ordinary dividend of CHF 22.00 per share on 51,801,600 shares [1]	(1,140)
Balance to be carried forward	**5,284**

1 Excluding treasury shares.

In the event that the proposal is approved, a dividend per share will be paid to shareholders on 8 April 2019 as follows:

Per registered share	CHF
Ordinary dividend, gross	22.00
Less 35% withholding tax	(7.70)
Net dividend payable	**14.30**

KPMG

Statutory Auditor's Report

To the General Meeting of Swisscom Ltd, Ittigen (Berne)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Swisscom Ltd, which comprise the balance sheet as at 31 December 2018, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 167 to 172) for the year ended 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for Opinions

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Hanspeter Stocker
Licensed Audit Expert
Auditor in Charge

Toni Wattenhofer
Licensed Audit Expert

Gümligen-Berne, 6 February 2019

KPMG AG, Hofgut, PO Box 112, CH-3073 Gümligen-Berne

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