Consolidated Financial Statements

Consolidated Financial Statements

Notes to the consolidated financial statements

Consolidated statement of comprehensive income

In CHF million, except for per share amounts	Note	2019	2018
Income statement			
Net revenue	1.1	**11,453**	**11,714**
Direct costs	1.2	(2,815)	(2,954)
Personnel expense	1.2, 4.1	(2,800)	(2,815)
Other operating expense	1.2	(1,989)	(2,193)
Capitalised self-constructed assets and other income	1.2	509	461
Operating income before depreciation and amortisation		**4,358**	**4,213**
Depreciation and amortisation of property, plant and equipment and intangible assets	3.2, 3.3	(2,166)	(2,144)
Depreciation of right-of-use assets	2.3	(282)	–
Operating income		**1,910**	**2,069**
Financial income	2.4	33	28
Financial expense	2.4	(191)	(186)
Result of equity-accounted investees	5.3	(28)	5
Income before income taxes		**1,724**	**1,916**
Income tax expense	6.1	(55)	(395)
Net income		**1,669**	**1,521**
Other comprehensive income			
Actuarial gains and losses from defined benefit pension plans	2.1	146	(62)
Change in fair value of equity instruments	2.1	2	9
Items that will not be reclassified to income statement		**148**	**(53)**
Foreign currency translation adjustments of foreign subsidiaries	2.1	(55)	(40)
Change in cash flow hedges	2.1	7	6
Other comprehensive income from equity-accounted investees	2.1	2	1
Items that may be reclassified to income statement		**(46)**	**(33)**
Other comprehensive income		**102**	**(86)**
Comprehensive income			
Net income		1,669	1,521
Other comprehensive income		102	(86)
Comprehensive income		**1,771**	**1,435**
Share of net income and comprehensive income			
Equity holders of Swisscom Ltd		1,672	1,527
Non-controlling interests		(3)	(6)
Net income		**1,669**	**1,521**
Equity holders of Swisscom Ltd		1,774	1,441
Non-controlling interests		(3)	(6)
Comprehensive income		**1,771**	**1,435**
Earnings per share			
Basic and diluted earnings per share (in CHF)	2.1	**32.28**	**29.48**

Consolidated balance sheet

In CHF million	Note	31.12.2019	31.12.2018
Assets			
Cash and cash equivalents		328	474
Trade receivables	3.1	2,183	2,189
Other operating assets	3.1	1,156	1,243
Other financial assets		73	82
Current income tax assets	6.1	4	2
Total current assets		**3,744**	**3,990**
Property, plant and equipment	3.2	10,529	10,889
Intangible assets	3.3	1,842	1,860
Goodwill	3.4	5,163	5,167
Right-of-use assets	2.3	2,177	–
Equity-accounted investees	5.3	156	174
Other financial assets		484	339
Deferred tax assets	6.1	152	167
Total non-current assets		**20,503**	**18,596**
Total assets		**24,247**	**22,586**
Liabilities and equity			
Financial liabilities	2.2	1,411	1,340
Lease liabilities	2.3	232	21
Trade payables	3.1	1,614	1,658
Provisions	3.5	163	131
Other operating liabilities	3.1	1,182	1,127
Current income tax liabilities	6.1	174	250
Total current liabilities		**4,776**	**4,527**
Financial liabilities	2.2	6,049	6,443
Lease liabilities	2.3	1,795	363
Defined benefit obligations	4.3	1,058	1,196
Provisions	3.5	983	901
Deferred gain on sale and leaseback of real estate	2.3	122	134
Deferred tax liabilities	6.1	589	814
Total non-current liabilities		**10,596**	**9,851**
Total liabilities		**15,372**	**14,378**
Share capital		52	52
Capital reserves		136	136
Retained earnings	2.1	10,454	9,759
Foreign currency translation adjustments	2.1	(1,781)	(1,728)
Hedging reserve	2.1	11	4
Equity attributable to equity-holders of Swisscom Ltd		**8,872**	**8,223**
Non-controlling interests		3	(15)
Total equity		**8,875**	**8,208**
Total liabilities and equity		**24,247**	**22,586**

Consolidated statement of cash flows

In CHF million	Note	2019	2018
Net income		1,669	1,521
Income tax expense	6.1	55	395
Result of equity-accounted investees	5.3	28	(5)
Financial income	2.4	(33)	(28)
Financial expense	2.4	191	186
Depreciation and amortisation of property, plant and equipment and intangible assets	3.2, 3.3	2,166	2,144
Depreciation of right-of-use assets	2.3	282	–
Gain on sale of property, plant and equipment	1.2	(13)	(17)
Loss on disposal of property, plant and equipment		–	7
Expense for share-based payments		1	1
Revenue from finance lease		(101)	–
Change in deferred gain from the sale and leaseback of real estate	2.3	(12)	(12)
Change in operating assets and liabilities	3.1	100	(70)
Change in provisions	3.5	58	(57)
Change in defined benefit obligations	4.3	48	64
Interest received		25	24
Dividends received	5.3	18	18
Interest payments for financial liabilities	2.2	(88)	(133)
Interest payments for lease liabilities	2.3	(42)	(24)
Income taxes paid	6.1	(371)	(294)
Cash flow from operating activities		**3,981**	**3,720**
Purchase of property, plant and equipment and intangible assets	3.2, 3.3	(2,390)	(2,404)
Sale of property, plant and equipment and intangible assets		31	21
Acquisition of subsidiaries, net of cash and cash equivalents acquired	5.2	(394)	(78)
Sale of subsidiaries net of cash and cash equivalents sold	5.2	(3)	–
Payments for equity-accounted investees	5.2	(15)	(35)
Proceeds from finance lease receivables		38	–
Purchase of other financial assets		(13)	(31)
Proceeds from other financial assets		52	32
Remaining cash flows from investing activities		(39)	–
Cash flow used in investing activities		**(2,733)**	**(2,495)**
Issuance of financial liabilities	2.2	417	1,451
Repayment of financial liabilities	2.2	(374)	(1,545)
Repayment of lease liabilities	2.3	(276)	(26)
Dividends paid to equity holders of Swisscom Ltd	2.1	(1,140)	(1,140)
Dividends paid to non-controlling interests		(1)	(1)
Acquisition of non-controlling interests		(1)	–
Other cash flows from financing activities		(15)	(9)
Cash flow used in financing activities		**(1,390)**	**(1,270)**
Net decrease in cash and cash equivalents		**(142)**	**(45)**
Cash and cash equivalents at 1 January		474	525
Foreign currency translation adjustments in respect of cash and cash equivalents		(4)	(6)
Cash and cash equivalents at 31 December		**328**	**474**

Consolidated statement of changes in equity

In CHF million	Share capital	Capital reserves	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Equity attributable to equity holders of Swisscom	Non-controlling interests	Total equity
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**
Change in accounting policies [1]	–	–	22	–	–	22	–	22
Balance at 1 January 2019	**52**	**136**	**9,781**	**(1,728)**	**4**	**8,245**	**(15)**	**8,230**
Net income	–	–	1,672	–	–	1,672	(3)	1,669
Other comprehensive income	–	–	148	(53)	7	102	–	102
Comprehensive income	**–**	**–**	**1,820**	**(53)**	**7**	**1,774**	**(3)**	**1,771**
Dividends paid	–	–	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	–	–	(7)	–	–	(7)	22	15
Balance at 31 December 2019	**52**	**136**	**10,454**	**(1,781)**	**11**	**8,872**	**3**	**8,875**

1 See “General information and changes in accounting policies” in the notes to the consolidated financial statements.

Notes to the consolidated financial statements

The 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 2019 comprise Swisscom Ltd, as parent company, and its subsidiaries. Swisscom Ltd is a limited-liability company incorporated in accordance with Swiss law under a private statute, and has its registered office in Ittigen (Berne). Its address is: Swisscom Ltd, Alte 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 5 February 2020. 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 6 April 2020.

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 judgement. This concerns the following positions in particular:

Description	Further information
Leases	Note 2.3
Property, plant and equipment	Note 3.2
Intangible assets	Note 3.3
Goodwill	Note 3.4
Provisions for dismantlement and restoration costs	Note 3.5
Provision for regulatory and competition law procedures	Note 3.5
Defined benefit plans	Note 4.3

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

Standard	Name
IFRS 16	Leases
Amendments to IFRS 9	Prepayment features with negative compensation
Amendments to IFRS 9, IAS 39, IFRS 7	Interest Rate Benchmark Reform
Amendments to IAS 28	Long-term interests in associates and joint ventures
Amendments to IAS 19	Plan amendment, curtailment or settlement
IFRIC 23	Uncertainty over income tax treatments
Various	Amendments IFRS 2015–2017

As from 1 January 2019 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. Further information regarding the changes to the IFRS which must be applied in 2020 or later are set out in Note 6.3.

IFRS 16 Leases

IFRS 16 replaces IAS 17, IFRIC 4 and SIC 27, and lays down the principles governing the recognition, measurement and disclosure of leases. IFRS 16 provides a single lessee accounting model. The differentiation between finance and operating leases required until now under IAS 17 is thus dropped in future for the lessee. The lessee recognises lease liabilities in its balance sheet for all future lease payments to be made, as well as a right-of-use asset for the underlying asset. In future, depreciation and interest expense will be recognised in the income statement instead of rental expense. This will lead to a material increase in operating income before depreciation and amortisation. In the statement of cash flows, the share of the lease payments representing repayment of the principal portion of the newly accounted leases will reduce cash flows from financing activities and no longer cash flows from operating activities, as previously. Interest payments will continue to be presented as cash flows from operating activities. The lessor will continue to differentiate between finance and operating leases for financial reporting purposes. In this regard, the accounting model foreseen under IFRS 16 does not materially differ from the previous provisions under IAS 17.

Swisscom has elected to apply the modified retrospective approach for the initial adoption of IFRS 16. For reasons of simplicity, a reassessment as to whether an existing contract dated 1 January 2019 constitutes or includes a lease was dispensed with. The payment obligations arising under operating leases disclosed in Note 2.3 of the 2018 Annual Report for the most part comprise lease 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 leases will be accounted for as lease liabilities. The corresponding right-of-use assets will be recognised in the amount of the lease liabilities. The reconciliation of payment obligations arising from operating leases as at 31 December 2018 for initial recognition as at 1 January 2019 is as follows:

In CHF million	
Obligations from operating leases as at 31 December 2018	1,298
Discounting	(60)
Carrying amount of finance lease liabilities as of 31 December 2018	384
Lease liabilities as of 1 January 2019	**1,622**

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

In CHF million	31.12.2018	Application IFRS 16	01.01.2019
Property, plant and equipment	10,889	(464)	10,425
Intangible assets	1,860	(88)	1,772
Right-of-use assets	–	1,786	1,786
Other financial assets	421	78	499
Other assets	9,416	–	9,416
Total assets	**22,586**	**1,312**	**23,898**
Financial liabilities	7,783	78	7,861
Lease liabilities	384	1,238	1,622
Provisions	1,032	(4)	1,028
Miscellaneous liabilities	5,179	–	5,179
Total liabilities	**14,378**	**1,312**	**15,690**
Total equity	**8,208**	**–**	**8,208**
Total liabilities and equity	**22,586**	**1,312**	**23,898**

Based on the first adoption of IFRS 16 as of 1 January 2019, additional right-of-use assets and lease liabilities amounting to CHF 1,238 million were recognised. At initial application, the right-of-use assets were adjusted by provisions for onerous contracts amounting to CHF 4 million. The prior year's comparative figures were not restated. The adoption of IFRS 16 has no impact on equity as of 1 January 2019. With regard to the 2018 financial year, the application of IFRS 16 would have led to an increase in operating income before depreciation and amortisation (EBITDA) of some CHF 0.2 billion and to higher depreciation and amortisation, as well as interest expenses of a combined aggregate amount of some CHF 0.2 billion. In addition, other financial assets and financial liabilities totalling USD 79 million (CHF 78 million) which were previously not recorded will be recognised as a result of the discontinuation of SIC 27. 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 leases. Accordingly, no right-of-use assets and lease liabilities will be recognised for these access services, the costs of which will continue to be reported as operating expense.

IFRIC 23 "Uncertainty over Income Tax Treatments"

IFRIC 23 governs the recognition and measurement of deferred and current income taxes where there is uncertainty over their income tax treatment. Uncertainty in the context of income tax treatment exists when it is not clear whether the Group's income tax treatment will be accepted by the tax authorities. If it is probable that the Group's income tax treatment will not be accepted by the tax authorities, this uncertainty must be recorded at either the expected value or the most probable value. Swisscom has reviewed its tax position and, as at 1 January 2019, reduced its current income tax liabilities by CHF 22 million. The effect of applying IFRIC 23 for the first time was recorded directly to retained earnings.

Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"

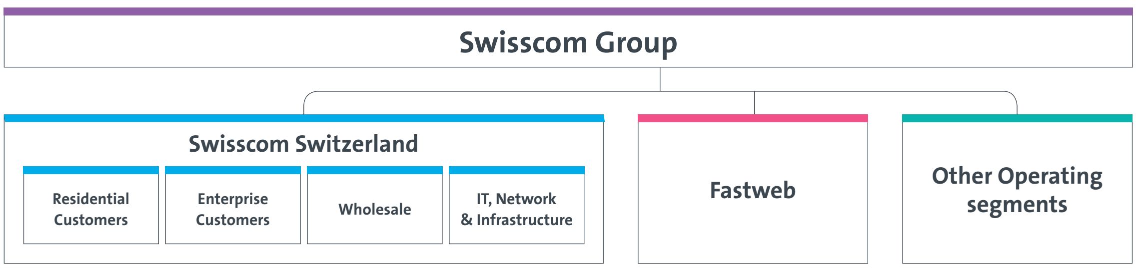
The amendments to IFRS 9, IAS 39 and IFRS 7 aim to mitigate the effects of the reform of reference interest rates (known as the IBOR reform) on financial reporting. The amendments should ensure that hedge accounting continues to exist or can be designated despite the uncertainties associated with the expected replacement of various reference interest rates. The amendments are mandatory for financial years beginning on or after 1 January 2020. Swisscom is exercising the option of early adoption and applying the amendments from 1 January 2019.

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 information



Segment	Activity
Residential Customers	The segment Residential Customers comprises connection fees for broadband and TV services, fixed-network and mobile-phone subscriptions as well as national and international telephone and data traffic for residential customers and customers from small and medium-sized 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 incorporates the use of the Swisscom landline and mobile network by other telecommunications service providers and the use of external networks by Swisscom. In addition, Wholesale includes roaming by foreign operators whose customers use the Swisscom mobile network, as well as broadband services and regulated products related to the unbundling of the local loop for other telecommunication 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 cablex Ltd and Swisscom Broadcast Ltd. 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 divided into the segments "Residential Customers", "Enterprise Customers", "Wholesale", and "IT, Network & Infrastructure", which are grouped under Swisscom Switzerland, as well as "Fastweb" and "Other Operating Segments". In addition, "Group Headquarters", which includes non-allocated costs, is disclosed separately in segment reporting. Various areas were transferred between the segments of Swisscom Switzerland as at 1 January 2019. The prior year's comparatives were restated accordingly.

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

Segment expense encompasses the direct and indirect costs, which include personnel expense, other operating costs less capitalised costs of self-constructed assets and other income. Pension cost includes ordinary employer contributions. The difference between the ordinary employer contributions and the pension cost as provided for under IAS 19 is reported in the column “Eliminations”. In 2019, an expense of CHF 47 million is disclosed under “Eliminations” as a pension cost reconciliation item in accordance with IAS 19 (prior year: CHF 60 million).

Leases between the segments are not recognised in the balance sheet in accordance with IFRS 16. The reported lease expense of the segments in 2019 comprises depreciation and interest on leases excl. depreciation of indefeasible rights of use (IRU) of CHF 30 million and the accounting for the rental of buildings between segments. The lease expense of assets of low value is presented as direct costs. The lease expense of the segments in 2018 comprises the expense for operating and finance leases in accordance with IAS 17 and the accounting for the rental of buildings between segments. The reconciliation of the indirect costs of the segments to the consolidated values is reported in the column “Eliminations”. In 2018, an expense of CHF 207 million is disclosed under “Eliminations” as an indirect cost reconciliation item.

Capital expenditure consists of the purchase of property, plant and equipment and intangible assets and payments for indefeasible rights of use (IRU). In general, IRUs are paid in full at the beginning of the use and are classified as leases under IFRS 16. From an economic point of view, IRU payments will be considered as capital expenditure in the segment information. In 2019, capital expenditure includes IRU payments of CHF 48 million (prior year: none).

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

Segment information 2019

2019, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	Total
Residential customers	5,609	1,228	–	–	–	6,837
Corporate customers	2,232	958	509	–	–	3,699
Wholesale customers	643	274	–	–	–	917
Net revenue from external customers	**8,484**	**2,460**	**509**	**–**	**–**	**11,453**
Net revenue from other segments	79	8	420	1	(508)	–
Net revenue	**8,563**	**2,468**	**929**	**1**	**(508)**	**11,453**
Direct costs	(1,897)	(888)	(63)	–	33	(2,815)
Indirect costs [1]	(3,175)	(746)	(678)	(73)	392	(4,280)
Segment result before depreciation and amortisation	**3,491**	**834**	**188**	**(72)**	**(83)**	**4,358**
Lease expense	(226)	(56)	(11)	(2)	1	(294)
Depreciation	(1,515)	(623)	(63)	–	5	(2,196)
Segment result	**1,750**	**155**	**114**	**(74)**	**(77)**	**1,868**
Interest expense on lease liabilities						42
Operating income						**1,910**
Financial income and financial expense, net						(158)
Result of equity-accounted investees						(28)
Income before income taxes						**1,724**
Income tax expense						(55)
Net income						**1,669**
Segment result before depreciation and amortisation	3,491	834	188	(72)	(83)	4,358
Capital expenditure	(1,761)	(667)	(47)	–	37	(2,438)
Lease expense	(226)	(56)	(11)	(2)	1	(294)
Operating free cash flow proxy	**1,504**	**111**	**130**	**(74)**	**(45)**	**1,626**

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

Segment information Swisscom Switzerland 2019

2019, in CHF million	Residential Customers	Enterprise Customers	Whole-sale	IT, Network & Infrastructure	Elimi-nation	Total Swisscom Switzerland
Fixed-line	2,527	520	–	–	–	3,047
Mobile	2,486	399	–	–	–	2,885
Telecom services	**5,013**	**919**	**–**	**–**	**–**	**5,932**
Solution business	–	1,021	–	–	–	1,021
Merchandise	560	248	–	–	–	808
Wholesale	–	–	643	–	–	643
Revenue other	36	21	–	23	–	80
Net revenue from external customers	**5,609**	**2,209**	**643**	**23**	**–**	**8,484**
Net revenue from other segments	82	103	325	62	(493)	79
Net revenue	**5,691**	**2,312**	**968**	**85**	**(493)**	**8,563**
Direct costs	(1,293)	(786)	(427)	(11)	620	(1,897)
Indirect costs [1]	(983)	(821)	(16)	(1,228)	(127)	(3,175)
Segment result before depreciation and amortisation	**3,415**	**705**	**525**	**(1,154)**	**–**	**3,491**
Lease expense	(51)	(28)	(1)	(146)	–	(226)
Depreciation	(99)	(74)	–	(1,342)	–	(1,515)
Segment result	**3,265**	**603**	**524**	**(2,642)**	**–**	**1,750**
Capital expenditure	(29)	(37)	–	(1,695)	–	(1,761)

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

Segment information 2018

2018, in CHF million, restated	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head-quarters	Elimi-nation	Total
Residential customers	5,843	1,210	–	–	–	7,053
Corporate customers	2,326	900	560	1	–	3,787
Wholesale customers	566	308	–	–	–	874
Net revenue from external customers	**8,735**	**2,418**	**560**	**1**	**–**	**11,714**
Net revenue from other segments	71	8	349	1	(429)	–
Net revenue	**8,806**	**2,426**	**909**	**2**	**(429)**	**11,714**
Direct costs	(1,971)	(935)	(59)	–	11	(2,954)
Indirect costs [1]	(3,259)	(688)	(653)	(78)	131	(4,547)
Segment result before depreciation and amortisation	**3,576**	**803**	**197**	**(76)**	**(287)**	**4,213**
Lease expense	(221)	(26)	(13)	(2)	262	–
Depreciation	(1,471)	(587)	(59)	–	(27)	(2,144)
Segment result	**1,884**	**190**	**125**	**(78)**	**(52)**	**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	3,576	803	197	(76)	(287)	4,213
Capital expenditure	(1,620)	(757)	(46)	–	19	(2,404)
Lease expense	(221)	(26)	(13)	(2)	262	–
Operating free cash flow proxy	**1,735**	**20**	**138**	**(78)**	**(6)**	**1,809**

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

Segment information Swisscom Switzerland 2018

2018, in CHF million, restated	Residential Customers	Enterprise Customers	Whole-sale	IT, Network & Infrastructure	Elimi-nation	Total Swisscom Switzerland
Fixed-line	2,573	580	–	–	–	3,153
Mobile	2,618	451	–	–	–	3,069
Telecom services	**5,191**	**1,031**	**–**	**–**	**–**	**6,222**
Solution business	–	1,027	–	–	–	1,027
Merchandise	494	224	–	–	–	718
Wholesale	–	–	566	–	–	566
Revenue other	158	24	–	20	–	202
Net revenue from external customers	**5,843**	**2,306**	**566**	**20**	**–**	**8,735**
Net revenue from other segments	81	102	328	59	(499)	71
Net revenue	**5,924**	**2,408**	**894**	**79**	**(499)**	**8,806**
Direct costs	(1,411)	(757)	(430)	(11)	638	(1,971)
Indirect costs [1]	(1,050)	(847)	(17)	(1,206)	(139)	(3,259)
Segment result before depreciation and amortisation	**3,463**	**804**	**447**	**(1,138)**	**–**	**3,576**
Lease expense	(51)	(34)	(1)	(136)	1	(221)
Depreciation	(138)	(69)	–	(1,263)	(1)	(1,471)
Segment result	**3,274**	**701**	**446**	**(2,537)**	**–**	**1,884**
Capital expenditure	(43)	(40)	–	(1,537)	–	(1,620)

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

Disclosure by geographical regions

In CHF million	2019 Net revenue	2019 Non-current assets	2018 Net revenue	2018 Non-current assets
Switzerland	8,969	15,759	9,274	14,440
Italy	2,460	4,041	2,418	3,581
Other countries	24	67	22	69
Not allocated	–	636	–	506
Total	**11,453**	**20,503**	**11,714**	**18,596**

Disclosure by products and services

In CHF million	2019	2018
Telecom services	8,012	8,227
Solution business	1,021	1,027
Merchandise	899	790
Wholesale	916	873
Revenue other	605	797
Total net revenue	**11,453**	**11,714**

Accounting policies

Telecommunication services

Telecommunication services encompass mobile and fixed-network services both in Switzerland and abroad. 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 is generally 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 price of each component is considered in relation to the sum of the stand-alone selling prices of all performance obligations 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 which do not constitute a separate performance obligation 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. In the event that there is no minimum contract term, the revenue is recognised at the time of connection.

Fixed-network services principally comprise 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 principally comprise 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 is generally between three and seven 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 and 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 principally comprise 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	2019	2018
Customer premises equipment and merchandise	1,095	1,175
Services purchased	642	607
Costs to obtain a contract	327	345
Costs to fulfill a contract	16	31
Network access costs of swiss subsidiaries	366	368
Network access costs of foreign subsidiaries	369	428
Total direct costs	**2,815**	**2,954**

Indirect costs

In CHF million	2019	2018
Salary and social security expenses	2,679	2,752
Other personnel expense	121	63
Total personnel expense [1]	**2,800**	**2,815**
Information technology cost	262	284
Maintenance expense	314	334
Rental expense	–	207
Energy costs	116	118
Advertising and selling expenses	223	230
Consultancy expenses and freelance workforce	149	176
Administration expense	101	100
Allowances for receivables and contract assets	82	74
Miscellaneous operating expenses	742	670
Total other operating expense	**1,989**	**2,193**
Capitalised self-constructed tangible and intangible assets	(344)	(331)
Own work for capitalized contract costs	(66)	(49)
Gain on sale of property, plant and equipment	(13)	(17)
Miscellaneous income	(86)	(64)
Total capitalised self-constructed assets and other income	**(509)**	**(461)**
Total indirect costs	**4,280**	**4,547**

1 See Note 4.1.

Capitalised self-constructed tangible and intangible assets include personnel costs for the manufacturing of technical installations, the construction of network infrastructure and the development of software for internal use.

Accounting policies

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 as 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 the costs of obtaining a contract. The amortisation period corresponds to the related revenue-recognition period. See Note 1.1.

Costs to fulfil 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 fulfil a contract and amortised over the minimum term of the contract. The set-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 and the financial risks to which Swisscom is exposed. Swisscom strives to achieve a robust equity basis, which enables 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 ratio incl. lease liabilities/EBITDA

Swisscom has a single A credit rating with rating agencies Standard & Poor's and Moody's. Swisscom aims to maintain this single A credit rating. An important quantitative criterion for the credit rating and the assessment and control of the financial situation by the management is the ratio of net debt including lease liabilities to EBITDA (operating result before depreciation and amortisation). In accordance with Swisscom's definition, net debt is composed of financial liabilities less cash and cash equivalents, current financial assets, derivative financial instruments held to hedge financial liabilities and other non-current financial assets directly related to non-current financial liabilities (certificates of deposit and U.S. treasury bond strips). The ratio of net debt including lease liabilities to EBTDA is as follows:

In CHF million	**31.12.2019**	01.01.2019
Net debt	6,758	7,009
Lease liabilities	2,027	1,622 [1]
Net debt incl. lease liabilities	**8,785**	**8,631**
Operating income before depreciation and amortisation (EBITDA)	4,358	4,420 [2]
Ratio of net debt incl. lease liabilities/EBITDA	**2.0**	**2.0**

1 Incl. effect of the initial application of IFRS 16.

2 Excl. operating lease expense of CHF 207 million in accordance with IAS 17.

Equity ratio

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

In CHF million	**31.12.2019**	01.01.2019
Equity	8,875	8,230
Total assets	24,247	23,898 [1]
Equity ratio in %	**36.6**	**34.4**

1 Incl. effect of the initial application of IFRS 16.

Dividend policy

Swisscom pursues a dividend policy with a stable dividend, taking into account its financial situation and cash flow generation. 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. As at 31 December 2019, Swisscom Ltd's distributable reserves amounted to CHF 6,697 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 2018 and 2019:

In CHF million, except where indicated	**2019**	2018
Number of registered shares eligible for dividend (in millions of shares)	51.802	51.801
Ordinary dividend per share (in CHF)	22.00	22.00
Dividends paid	**1,140**	**1,140**

The Board of Directors will propose to the Annual General Meeting of Shareholders of Swisscom Ltd on 6 April 2020 the payment of an unchanged dividend of CHF 22 per share for the 2019 financial year. This equates to an aggregate dividend distribution of CHF 1,140 million. The expected dividend payment date is 14 April 2020.

Earnings per share

In CHF million, except where indicated	2019	2018
Share of net income attributable to equity holders of Swisscom Ltd	1,672	1,527
Weighted average number of shares outstanding (number)	51,801,540	51,801,182
Basic and diluted earnings per share (in CHF)	**32.28**	**29.48**

Supplementary information on equity

Development of retained earnings and other reserves as well as comprehensive income 2019

In CHF million	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Equity holders of Swisscom	Non-controlling interests	Total
Balance at 31 December 2018	**9,759**	**(1,728)**	**4**	**8,035**	**(15)**	**8,020**
Change in accounting policies [1]	22	–	–	22	–	22
Balance at 1 January 2019, adjusted	**9,781**	**(1,728)**	**4**	**8,057**	**(15)**	**8,042**
Net income	**1,672**	**–**	**–**	**1,672**	**(3)**	**1,669**
Actuarial gains and losses from defined benefit pension plans	193	–	–	193	–	193
Change in fair value of equity instruments	2	–	–	2	–	2
Income tax expense	(47)	–	–	(47)	–	(47)
Items that will not be reclassified to income statement	**148**	**–**	**–**	**148**	**–**	**148**
Foreign currency translation adjustments of foreign subsidiaries	–	(59)	–	(59)	–	(59)
Fair value losses of cash flow hedges transferred to income statement	–	–	8	8	–	8
Equity-accounted investees	–	2	–	2	–	2
Income tax expense	–	4	(1)	3	–	3
Items that may be reclassified to income statement	**–**	**(53)**	**7**	**(46)**	**–**	**(46)**
Other comprehensive income	**148**	**(53)**	**7**	**102**	**–**	**102**
Comprehensive income	**1,820**	**(53)**	**7**	**1,774**	**(3)**	**1,771**
Dividends paid	(1,140)	–	–	(1,140)	(1)	(1,141)
Other changes	(7)	–	–	(7)	22	15
Balance at 31 December 2019	**10,454**	**(1,781)**	**11**	**8,684**	**3**	**8,687**

1 See “General information and changes in accounting policies” in the notes to the consolidated financial statements.

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

In CHF million	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Equity holders of Swisscom	Non-controlling interests	Total
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 may be reclassified 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**

2.2 Financial liabilities

In CHF million	2019	2018
Balance at 1 January	**7,783**	**7,824**
Change in accounting policies [1]	78	–
Balance at 1 January, adjusted	**7,861**	**7,824**
Issuance of bank loans	2	564
Issuance of debenture bonds	405	885
Issuance of other financial liabilities	10	2
Issuance of financial liabilities	**417**	**1,451**
Repayment of bank loans	(95)	(69)
Repayment of debenture bonds	–	(1,385)
Repayment of private placements	(278)	(72)
Repayment of other financial liabilities	(1)	(19)
Repayment of financial liabilities	**(374)**	**(1,545)**
Interest expense	73	114
Interest payments	(88)	(133)
Foreign currency translation adjustments	(146)	(117)
Change in fair value	30	(7)
Accrual of deferred purchase price margins from business combinations	9	158
Expenses for deferred consideration arising on business combinations [2]	(369)	(18)
Other changes	47	56
Balance at 31 December	**7,460**	**7,783**
Bank loans	1,080	1,233
Debenture bonds	5,915	5,554
Private placements	151	426
Derivative financial instruments [3]	84	54
Other financial liabilities	230	516
Total financial liabilities	**7,460**	**7,783**
Thereof current financial liabilities	1,411	1,340
Thereof non-current financial liabilities	6,049	6,443

1 See “General information and changes in accounting policies” in the notes to the consolidated financial statements.

2 Reported in the cash flow statement as cash flow used in investing activities. See Note 5.2.

3 See Note 2.5.

Credit lines

Swisscom has two confirmed lines of credit from banks each amounting to CHF 1,000 million, maturing in 2022 and 2024 respectively. As of 31 December 2019, none of these lines of credit had been drawn down, as in the prior year.

Bank loans

In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	Carrying amount 31.12.2019	Carrying amount 31.12.2018
Bank loans in EUR [1]	2018–2019	500	0.01%	–0.66% [4]	–	563
Bank loans in EUR [1]	2019–2020	460	0.00%	–0.35% [4]	499	–
Bank loans in EUR [1, 3]	2013–2020	60	Euribor +0.386%	0.00%	65	135
Bank loans in EUR [2]	2015–2020	200	0.76%	–0.58% [5]	219	229
Bank loans in EUR [2, 3]	2017–2024	150	0.67%	0.67%	163	169
Bank loans in USD [2]	2009–2028	56	8.30%	4.62%	72	74
Bank loans in USD [2]	2009–2028	49	7.65%	4.63%	62	63
Total bank loans					**1,080**	**1,233**

1 Variable interest-bearing.
2 Fixed interest-bearing.
3 Designated for hedge accounting of net investments in foreign operations.
4 After hedging with currency swap.
5 After hedging with currency swap and taking hedge accounting into consideration.

On 31 December 2019, Swisscom took on short-term bank loans on a weekly and monthly basis for EUR 460 million (CHF 499 million) (prior year EUR 500 million, CHF 563 million). The funds received were used to repay existing debts. Bank loans to the value of EUR 510 million (CHF 553 million) may become due for immediate repayment if the shareholding of the Confederation in the capital of Swisscom falls below one third, or if another shareholder can exercise control over Swisscom.

Debenture bonds

In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	Carrying amount 31.12.2019	Carrying amount 31.12.2018
Debenture bond in EUR (ISIN: XS0972165848) [1]	2013–2020	500	2.00%	2.22%	544	564
Debenture bond in EUR (ISIN: XS1051076922) [1]	2014–2021	500	1.88%	2.06%	544	564
Debenture bond in CHF (ISIN: CH0114695379)	2010–2022	500	2.63%	2.81%	502	501
Debenture bond in CHF (ISIN: CH0268988174)	2015–2023	250	0.25%	–0.43% [3]	256	255
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%	–0.21% [4]	575	584
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%	539	560
Debenture bond in CHF (ISIN: CH0344583783)	2016–2027	200	0.38%	–0.39% [3]	206	199
Debenture bond in CHF (ISIN: CH0362748359)	2017–2027	350	0.38%	0.39%	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	151
Debenture bond in CHF (ISIN: CH0254147504)	2014–2029	160	1.50%	1.47%	161	161
Debenture bond in CHF (ISIN: CH0419040982)	2019–2029	200	0.50%	0.43%	202	–
Debenture bond in CHF (ISIN: CH0336352775)	2016–2032	300	0.13%	0.14%	299	299
Debenture bond in CHF (ISIN: CH0373476164)	2017/ 2019–2033	230	0.75%	0.66%	233	151
Debenture bond in CHF (ISIN: CH0268988182) [2]	2015/ 2018–2035	300	1.00%	0.22% [3]	319	306
Debenture bond in CHF (ISIN: CH0494734335)	2019–2044	125	0.00%	0.00%	125	–
Total debenture bonds					**5,915**	**5,554**

1 Designated for hedge accounting of net investments in foreign operations.
2 Thereof CHF 150 million designated for fair value hedge accounting.
3 After hedging with interest rate swap.
4 After hedging with currency swap and taking hedge accounting into consideration.

In the first quarter of 2019, Swisscom issued a debenture bond for CHF 200 million. It has a coupon of 0.5% and matures in 2029. In the second quarter of 2019, a debenture bond taken out in 2017 to the value of CHF 80 million was topped up. It has a coupon of 0.75% and matures in 2033. In addition, in August 2019 Swisscom issued a debenture bond for CHF 125 million. It has a coupon of 0% and matures in 2044. The funds received were used to repay existing loans.

In 2018, Swisscom issued three debenture bonds of an aggregate nominal amount of CHF 885 million. The funds received were used to repay existing debt. In the third quarter of 2018, Swisscom repaid a debenture bond of a nominal amount of CHF 1.4 billion upon maturity.

Private placements

In CHF million	Maturity years	Par value in currency	Nominal interest rate	Effective interest rate	Carrying amount 31.12.2019	31.12.2018
Private placements in CHF	2007–2019	278	Variable	1.25%	–	276
Private placements in CHF	2016–2031	150	0.56%	0.56%	151	150
Total private placements					**151**	**426**

In the fourth quarter of 2019, Swisscom repaid a private placement of CHF 278 million upon maturity. The outstanding private placements may become due for immediate repayment if the shareholding of the Confederation in the capital of Swisscom falls below 35% or if another shareholder can exercise control over Swisscom.

Other financial liabilities

As of December 31, 2019, the carrying amount of other financial liabilities was CHF 230 million (prior year CHF 516 million), consisting primarily of deferred purchase price payments from business combinations and U.S. treasury bond strips. Repayment of other financial liabilities in 2019 includes the purchase price of CHF 240 million paid to Tamedia for the acquisition of the outstanding share of 31% in Swisscom Directories Ltd. See Note 5.2.

2.3 Leases

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

Lessee

The Swisscom leases comprise the rental of operation and office buildings, antenna sites, and network infrastructure in particular. In addition, indefeasible rights of use (IRU) are classified as leases under IFRS 16. In general, IRUs are paid in full at the beginning of use. The Italian subsidiary, Fastweb, procures various access services from other fixed-network operators for the use of connection cables to the end customer. Swisscom will apply the low value exemption of IFRS 16 for these leases. Accordingly, no right-of-use assets and lease liabilities will be recognised for these access services, the costs of which will be reported as direct costs. There are no material lease commitments arising from leases that began after the balance sheet date.

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 2019, the carrying amount of the deferred gains was CHF 122 million (prior year: CHF 134 million). The deferred gains are released to other income over the term of the individual leases.

Rights-of-use assets

In CHF million	Land and buildings	Technical installations	Other right-of-use assets	Total
At cost				
Balance at 31 December 2018	**–**	**–**	**–**	**–**
Change in accounting policies [1]	1,236	–	2	1,238
Reclassifications [1]	582	624	–	1,206
Balance at 1 January 2019, adjusted	**1,818**	**624**	**2**	**2,444**
Additions	262	430	6	698
Disposals	(72)	(17)	–	(89)
Foreign currency translation adjustments	(9)	(31)	–	(40)
Balance at 31 December 2019	**1,999**	**1,006**	**8**	**3,013**
Accumulated depreciation and impairment losses				
Balance at 31 December 2018	**–**	**–**	**–**	**–**
Change in accounting policies [1]	(4)	–	–	(4)
Reclassifications [1]	(242)	(412)	–	(654)
Balance at 1 January 2019, adjusted	**(246)**	**(412)**	**–**	**(658)**
Depreciation	(219)	(62)	(1)	(282)
Disposals	72	17	–	89
Foreign currency translation adjustments	–	15	–	15
Balance at 31 December 2019	**(393)**	**(442)**	**(1)**	**(836)**
Net carrying amount				
Net carrying amount at 31 December 2019	**1,606**	**564**	**7**	**2,177**
Net carrying amount at 1 January 2019	**1,572**	**212**	**2**	**1,786**

1 See “General information and changes in accounting policies” in the notes to the consolidated financial statements.

Lease liabilities

In CHF million	2019
Balance at 1 January	**384**
Change in accounting policies [1]	1,238
Balance at 1 January, adjusted	**1,622**
Additions	698
Interest expense	42
Payments	(318)
Foreign currency translation adjustments	(17)
Balance at 31 December	**2,027**
Land and buildings	1,642
Technical installations	377
Other leases	8
Total lease liabilities [2]	**2,027**
Thereof current lease liabilities	232
Thereof non-current lease liabilities	1,795

1 See “General information and changes in accounting policies” in the notes to the consolidated financial statements.

2 Note 2.5 shows the maturity analysis for lease liabilities.

Income and expenses arising from leases

In CHF million	2019
Revenue	
Income from leases excluding subleases	184
Income from subleases	7
Other income	
Deferred gain on sale and leaseback of real estate	12
Financial income	
Interest income on finance lease	1
Direct costs	
Expense from leases of low value assets	(135)
Depreciation	
Depreciation of right-of-use assets	(282)
Financial expense	
Interest expense on lease liabilities	(42)

Lessor

Swisscom supplies other providers of telecommunications services with access lines for use, which classify either as finance or operating lease. At the same time, Swisscom leases space in operations and offices buildings and at antenna sites, which is classified as an operating lease. Future lease payments in respect of receivables from finance leases break down as follows as at 31 December 2019.

In CHF million	31.12.2019
Within 1 year	8
Between 1 and 2 years	11
Between 2 and 3 years	7
Between 3 and 4 years	3
Between 4 and 5 years	2
After 5 years	12
Total future payments from finance leases	**43**
Future interest revenue	(1)
Total receivables from finance leases	**42**

Future lease payments in respect of operating leases are as follows as at 31 December 2019:

In CHF million	31.12.2019
Within 1 year	57
Between 1 and 2 years	38
Between 2 and 3 years	34
Between 3 and 4 years	33
Between 4 and 5 years	33
After 5 years	14
Total future payments from operating leases	**209**

Significant judgements or estimates

When determining the terms of leases, management considers all facts and circumstances that provide an economic incentive to exercise renewal options or not exercise termination options. Renewal and termination options are only included in the contract term where there is sufficient certainty that they will be exercised. This assessment is reviewed in the event of a material occurrence or change in circumstances that may affect the previous assessment, where this is within the lessee’s control.

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.

The following paragraphs describe the accounting policies valid as from 1 January 2019. 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”.

Leases

A lease is a contract or part of a contract that transfers the right to control the use of an identifiable asset for an agreed period of time in return for payment. In particular, the Swisscom leases comprise the rental of operation and office buildings, antenna sites, as well as network infrastructure and indefeasible rights of use (IRU). As a lessee, for each lease Swisscom recognises a lease liability for future lease payments and a right-of-use asset as at the time when the leased asset becomes available to Swisscom. The lease payments are divided into a repayment component and an interest component. The interest component is recognised as an interest expense over the lease term computed on the basis of the effective interest method. The right-of-use asset is depreciated on a straight-line basis over the shorter of the useful life and the lease term. As a lessor, Swisscom has to distinguish between finance and operating leases. A lease is recorded as a finance lease whenever essentially all of the risks and rewards incidental to ownership of the asset are transferred. Unless implicitly specified in the lease, the interest rate used to measure the rights of use and lease liabilities is the incremental borrowing rate. In the area of network access services, for selected leases Swisscom applies the exemptions regarding the separation of lease and non-lease components. The non-lease components are accounted for in accordance with other standards. Swisscom procures various access services from other network operators for the use of connection cables to the end customer. Under IFRS 16, part of these access services is classified as a lease. The value of the individual connection cable fulfils the criteria as an asset of low value. Swisscom applies the low value asset exemption for these leases. Accordingly, no right-of-use assets and lease liabilities will be recognised for these access services, the costs of which will continue to be reported as operating expense. The exemption for short-term leases is not applied. A number of leases for the rental of operation and office buildings include renewal and termination options which are taken into account in the initial measurement by category of building. Rental contracts of antenna sites have an initial lease term of 10 to 15 years. In general, these rental contracts include renewal and mutual termination options. For these leases, it’s not reasonable certain that all renewal options will be exercised. Accordingly, no renewal options are taken into account in the initial measurement of lease contracts of antenna sites. It is not possible to estimate the amount of additional undiscounted payments which are currently not included in the lease liabilities. This due to Swisscom’s planning horizon of a maximum of five years and technological developments.

2.4 Financial result

In CHF million	2019	2018
Interest income on financial assets	11	10
Change in fair value of interest rate swaps [1]	–	6
Capitalised borrowing costs	3	4
Other financial income	19	8
Total financial income	**33**	**28**
Interest expense on financial liabilities	(73)	(114)
Interest expense on lease liabilities	(42)	(24)
Interest expense on defined benefit obligations [2]	(8)	(6)
Foreign exchange losses	(12)	(6)
Change in fair value of interest rate swaps [1]	(23)	–
Present-value adjustments on provisions [3]	(8)	(8)
Other financial expense	(25)	(28)
Total financial expense	**(191)**	**(186)**
Financial income and financial expense, net	**(158)**	**(158)**
Interest expense on lease liabilities	(42)	(24)
Net interest expense for financial assets and liabilities	(62)	(104)

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) • Reduction 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.	• Use of interest rate swaps to manage fixed/variable share of financial debt
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 existed for foreign currencies as of 31 December 2018 and 2019:

	31.12.2019		31.12.2018	
In CHF million	**EUR**	**USD**	EUR	USD
Cash and cash equivalents	48	6	44	9
Trade receivables	8	9	4	7
Other financial assets	49	309	69	227
Financial liabilities	(3,151)	(234)	(3,443)	(144)
Trade payables	(34)	(35)	(34)	(47)
Net exposure at carrying amounts	**(3,080)**	**55**	**(3,360)**	**52**
Net exposure to forecasted cash flows in the next 12 months	41	(358)	(64)	(423)
Net exposure before hedges	**(3,039)**	**(303)**	**(3,424)**	**(371)**
Forward currency contracts	–	358	–	430
Foreign currency swaps	527	(44)	635	(62)
Currency swaps	760	–	789	–
Hedges	**1,287**	**314**	**1,424**	**368**
Net exposure	**(1,752)**	**11**	**(2,000)**	**(3)**

In addition, as of 31 December 2019, Swisscom had outstanding financial liabilities with a nominal value totalling EUR 1,710 million (CHF 1,855 million, prior year EUR 1,770 million, CHF 1,995 million), which is designated for hedge accounting of net investments in foreign operations. In 2019, income of CHF 72 million (prior year: income of CHF 85 million) arising from the measurement of financial liabilities was recognised in other comprehensive income in the position of foreign currency translation of foreign Group companies. As of 31 December 2019, the cumulative positive amount of foreign currency translation differences in equity totals CHF 234 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
31.12.2019				
EUR volatility 4.67%	144	(60)	(2)	–
USD volatility 6.01%	(3)	3	22	(22)
31.12.2018				
EUR volatility 6.28%	211	(89)	4	–
USD volatility 7.68%	(4)	5	32	(33)

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	31.12.2019	31.12.2018
Fixed interest-bearing financial liabilities	6,589	6,497
Variable interest-bearing financial liabilities	646	1,053
Total interest-bearing financial liabilities	**7,235**	**7,550**
Fixed interest-bearing financial assets	(250)	(139)
Variable interest-bearing financial assets	(414)	(556)
Total interest-bearing financial assets	**(664)**	**(695)**
Total interest-bearing financial assets and liabilities, net	**6,571**	**6,855**
Variable interest-bearing	232	497
Variable through interest rate swaps	1,335	1,364
Variable interest-bearing, net	**1,567**	**1,861**
Fixed interest-bearing	6,339	6,358
Variable through interest rate swaps	(1,335)	(1,364)
Fixed interest-bearing, net	**5,004**	**4,994**
Total interest-bearing financial assets and liabilities, net	**6,571**	**6,855**

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 2018 and 2019.

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 receivables and contract assets) may be analysed as follows:

In CHF million	31.12.2019	31.12.2018
Cash and cash equivalents	328	474
Financial assets at amortised cost	390	259
Derivative financial instruments	84	82
Other assets valued at fair value	1	2
Total carrying amount of financial assets	**803**	**817**

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

In CHF million	31.12.2019	31.12.2018
AAA	31	35
AA– to AA+	421	453
A– to A+	168	212
BBB– to BBB+	63	56
Without rating	120	61
Total	**803**	**817**

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 divides the credit risks from operating activities between Swisscom Switzerland and Fastweb. Default risks are principally impacted by 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 the process a differentiation is made between individual and business customers, among other things. In addition, the ageing structure of the receivables is taken into account, as well as the industry segment in which a business customer is active.

The split of trade receivables and contract assets by operating segment may be analysed as follows:

In CHF million	31.12.2019	31.12.2018
Notional amount		
Residential Customers	1,069	1,140
Enterprise Customers	436	481
Wholesale	173	149
IT, Network & Infrastructure	26	25
Swisscom Switzerland	**1,704**	**1,795**
Fastweb	658	696
Other Operating Segments	187	176
Total notional amount	**2,549**	**2,667**
Allowances for doubtful debts		
Residential Customers	(56)	(51)
Enterprise Customers	(2)	(3)
Wholesale	(1)	(1)
IT, Network & Infrastructure	(1)	(2)
Swisscom Switzerland	**(60)**	**(57)**
Fastweb	(69)	(87)
Other Operating Segments	(15)	(13)
Total allowances for doubtful debts	**(144)**	**(157)**
Total notional amount less allowances for doubtful debts	**2,405**	**2,510**

As of 31 December 2019, the maturities of trade receivables and contract assets as well as any applicable related valuation allowances may be analysed as follows:

			31.12.2019
In CHF million	Rate	Par value	Allowance
Not due	0.64%	1,729	(11)
Past due up to 3 months	4.79%	585	(28)
Past due 4 to 6 months	26.15%	65	(17)
Past due 7 to 12 months	42.67%	75	(32)
Past due over 1 year	58.95%	95	(56)
Total	**5.65%**	**2,549**	**(144)**

As of 31 December 2018, the maturities of trade receivables and contract assets as well as any applicable related valuation allowances may be analysed as follows:

In CHF million	Rate	Par value	Allowance
			31.12.2018
Not overdue	0.51%	1,974	(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%**	**2,667**	**(157)**

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

In CHF million	2019	2018
Balance at 1 January	**157**	**225**
Additions to allowances	85	81
Write-off of irrecoverable receivables subject to allowance	(92)	(138)
Release of unused allowances	(3)	(7)
Foreign currency translation adjustments	(3)	(4)
Balance at 31 December	**144**	**157**

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
31.12.2019						
Bank loans	1,080	1,133	790	7	184	152
Debenture bonds	5,915	6,095	617	607	1,385	3,486
Private placements	151	160	1	1	2	156
Derivative financial instruments	84	82	18	3	11	50
Other financial liabilities	230	230	39	94	13	84
Lease liabilities	2,027	2,727	282	246	566	1,633
Trade payables	1,614	1,614	1,595	10	9	–
Total	**11,101**	**12,041**	**3,342**	**968**	**2,170**	**5,561**

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
Derivative financial instruments	54	58	9	3	12	34
Other financial liabilities	516	516	394	90	32	–
Lease liabilities	384	775	45	39	98	593
Trade payables	1,658	1,658	1,610	21	27	–
Total	**9,825**	**10,700**	**3,052**	**1,094**	**1,663**	**4,891**

Derivative financial instruments

In CHF million	Contract value 31.12.2019	Contract value 31.12.2018	Positive fair value 31.12.2019	Positive fair value 31.12.2018	Negative fair value 31.12.2019	Negative fair value 31.12.2018
Interest rate swaps in CHF	575	575	30	11	–	(1)
Currency swaps in EUR	760	789	53	70	–	–
Total fair value hedges	**1,335**	**1,364**	**83**	**81**	**–**	**(1)**
Forward currency contracts in USD	147	202	–	–	(4)	(2)
Total cash flow hedges	**147**	**202**	**–**	**–**	**(4)**	**(2)**
Interest rate swaps in CHF	200	200	–	–	(70)	(48)
Currency swaps in USD	45	62	1	1	–	–
Currency swaps in EUR	527	635	–	–	(5)	(1)
Forward currency contracts in USD	211	221	–	–	(5)	(2)
Total other derivative financial instruments	**983**	**1,118**	**1**	**1**	**(80)**	**(51)**
Total derivative financial instruments	**2,465**	**2,684**	**84**	**82**	**(84)**	**(54)**
Thereof current derivative financial instruments			11	1	(14)	(5)
Thereof non-current derivative financial instruments			73	81	(70)	(49)

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 goods 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 exclusively comprise 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.

The fair value hedge transactions of CHF 575 million and EUR 500 million designated by Swisscom will be affected by the Interest Rate Benchmark Reform (known as the IBOR Reform). In Switzerland, the changeover from the reference interest rate LIBOR to SARON is being pursued. In the EUR zone, the EURIBOR was recently reformed and EONIA is to be replaced by the ESTR. Swisscom is closely following developments relating to the changeover of reference interest rates, and will contact the counterparties in due course to ensure that the changeover can be completed on individual contracts. By adopting the modifications early, Swisscom is guaranteeing that hedge accounting continues to exist or can be designated despite the uncertainties associated with the expected replacement of the reference interest rates in CHF and EUR.

Accounting policies

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value and are subsequently 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 are 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 as 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 immediately recorded as 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
			31.12.2019
Other financial assets			
Term deposits	7	7	2
Certificates of deposit	142	160	2
Listed debt instruments	139	134	1
Loans	102	102	2
At amortised cost	**390**	**403**	
Equity instruments valued at fair value	82	82	3
Fair value through other comprehensive income	**82**	**82**	
Loans	1	1	2
Derivative financial instruments	84	84	2
Fair value through profit or loss	**85**	**85**	
Total other financial assets	**557**	**570**	
Financial liabilities			
Bank loans	1,080	1,111	2
Debenture bonds	5,915	6,194	1
Private placements	151	159	2
Derivative financial instruments	84	84	2
Other financial liabilities	230	230	2
Total financial liabilities	**7,460**	**7,778**	

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
Quoted 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
At 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
Derivative financial instruments	54	54	2
Other financial liabilities	516	516	2
Total financial liabilities	**7,783**	**7,965**	

Financial assets amounting to CHF 281 million (prior year: CHF 208 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 operating assets and liabilities, as well as in significant non-current tangible and intangible assets. In addition, it provides information about the allocation of goodwill to the individual cash-generating units and on the results of any applicable impairment tests. Movements in provisions and contingent liabilities are also presented in this section.

3.1 Operating net working capital

Movements in operating assets and liabilities

In CHF million	31.12.2018	Operational changes	Other changes [1]	**31.12.2019**
Financial year 2019				
Trade receivables	2,189	18	(24)	2,183
Other operating assets	1,243	(64)	(23)	1,156
Trade payables	(1,658)	15	29	(1,614)
Other operating liabilities	(1,127)	(69)	14	(1,182)
Total operating assets and liabilities, net	**647**	**(100)**	**(4)**	**543**

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

In CHF million	31.12.2017	Operational changes	Other changes [1]	31.12.2018
Financial year 2018				
Trade receivables	2,389	(139)	(61)	2,189
Other operating assets	729	84	430	1,243
Trade payables	(1,753)	50	45	(1,658)
Other operating liabilities	(1,165)	75	(37)	(1,127)
Total operating assets and liabilities, net	**200**	**70**	**377**	**647**

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

Trade receivables

In CHF million	**31.12.2019**	31.12.2018
Billed revenue	2,238	2,231
Accrued revenue	88	113
Allowances	(143)	(155)
Total trade receivables [1]	**2,183**	**2,189**

1 Credit risks. See Note 2.5.

Other operating assets and liabilities

In CHF million	31.12.2019	31.12.2018
Other operating assets		
Contract assets	222	321
Contract costs	262	274
Other receivables	74	52
Inventories	125	154
Prepaid expenses	338	316
Advance payments made	71	35
Value-added taxes receivable	31	46
Other non-financial assets	33	45
Total other operating assets	**1,156**	**1,243**
Other operating liabilities		
Contract liabilities	672	620
Accruals for variable performance-related bonus	145	163
Value-added taxes payable	93	85
Accruals for annual holiday, overtime	47	61
Liabilities from collection activities	12	14
Advance payments received	6	11
Miscellaneous liabilities	207	173
Total other operating liabilities	**1,182**	**1,127**

Contract assets and liabilities

In CHF million	31.12.2019	31.12.2018
Contract assets		
Swisscom Switzerland	162	258
Fastweb	–	9
Other	60	54
Total contract assets	**222**	**321**
Contract liabilities		
Swisscom Switzerland	456	427
Fastweb	127	113
Other	89	80
Total contract liabilities	**672**	**620**

Contract assets of Swisscom Switzerland primarily include 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. Contractual liabilities largely cover deferrals from payments for prepaid cards and prepaid Swisscom Switzerland subscription fees. In 2019, an amount of CHF 209 million was recorded as revenue which had been recognised as a contract liability as of 1 January 2019. 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. These contracts incorporate revenue of CHF 559 million (2020: CHF 482 million; 2021: CHF 77 million). The decrease in the reported transaction price from CHF 961 million to CHF 559 million is due to the introduction of the SIM-Only tariff in March 2019.

Contract costs

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

In CHF million	31.12.2019	31.12.2018
Costs to obtain a contract		
Commissions to dealers for customer acquisition and retention	38	38
Commissions to dealers for handset subsidies	28	63
Swisscom Switzerland	**66**	**101**
Fastweb	24	24
Other	47	48
Total costs to obtain a contract	**137**	**173**
Costs to fulfill a contract		
Router and TV boxes	36	33
Initial costs from outsourcing contracts	89	68
Total costs to fulfill a contract	**125**	**101**
Total contract costs	**262**	**274**

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 the 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 expenses.

3.2 Property, plant and equipment

In CHF million	Technical installations	Land, buildings and leasehold improvements	Other installations	Advances made and assets under construction	Total
Cost of acquisition					
Balance at 31 December 2017	**28,175**	**2,696**	**4,273**	**364**	**35,508**
Additions	1,368	2	242	196	1,808
Disposals	(1,586)	(99)	(167)	–	(1,852)
Adjustment to dismantlement and restoration costs	(1)	–	4	–	3
Reclassifications	99	(3)	160	(202)	54
Business combinations	10	–	–	–	10
Foreign currency translation adjustments	(192)	(4)	–	(1)	(197)
Balance at 31 December 2018	**27,873**	**2,592**	**4,512**	**357**	**35,334**
Reclassifications [1]	(560)	(445)	(64)	–	(1,069)
Balance at 1 January 2019, adjusted	**27,313**	**2,147**	**4,448**	**357**	**34,265**
Additions	1,122	2	201	362	1,687
Disposals	(459)	(479)	(124)	–	(1,062)
Adjustment to dismantlement and restoration costs	28	–	19	–	47
Reclassifications	141	17	73	(234)	(3)
Sales of subsidiaries	(4)	–	(3)	–	(7)
Foreign currency translation adjustments	(186)	(3)	–	(1)	(190)
Balance at 31 December 2019	**27,955**	**1,684**	**4,614**	**484**	**34,737**
Accumulated depreciation and impairment losses					
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)**
Reclassifications [1]	377	193	35	–	605
Balance at 1 January 2019, adjusted	**(18,921)**	**(1,841)**	**(3,078)**	**–**	**(23,840)**
Depreciation	(1,195)	(18)	(306)	–	(1,519)
Impairment losses	(1)	(1)	(8)	–	(10)
Disposals	459	470	119	–	1,048
Sales of subsidiaries	4	–	2	–	6
Reclassifications	–	(1)	1	–	–
Foreign currency translation adjustments	106	1	–	–	107
Balance at 31 December 2019	**(19,548)**	**(1,390)**	**(3,270)**	**–**	**(24,208)**
Net carrying amount					
Net carrying amount at 31 December 2019	**8,407**	**294**	**1,344**	**484**	**10,529**
Net carrying amount at 31 December 2018	**8,575**	**558**	**1,399**	**357**	**10,889**
Net carrying amount at 31 December 2017	**8,295**	**656**	**1,382**	**364**	**10,697**

1 See “General information and changes in accounting policies” in the notes to the consolidated financial statements.

Commitments for future capital expenditures

Firm contractual commitments for future capital investments in property, plant and equipment as of 31 December 2019 aggregated CHF 809 million (prior year: CHF 914 million).

Non-cash investing and financing transactions

As a result of changes in the assumptions made in estimating the provisions for dismantlement and restoration costs, an increase therein of CHF 47 million (prior year: CHF 3 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 restoring 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]	15 to 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 impact from adjusting useful economic lives and residual values is recognised on a prospective basis. The useful life of copper cables was reviewed following the adjustment of the network expansion strategy. As a result of the review, the useful life of copper cables was adjusted from 30 to 15 years. In line with IAS 8, the change was applied prospectively from 1 January 2019. The impact on depreciation in 2019 was CHF 25 million. 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. 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 Intangible assets

In CHF million	Purchased software	Internally generated software	Licenses	Brands and customer relations	Other intangible assets	Total
Cost of acquisition						
Balance at 31 December 2017	**2,428**	**1,427**	**413**	**560**	**636**	**5,464**
Additions	220	174	62	–	125	581
Disposals	(577)	(351)	(6)	(70)	(142)	(1,146)
Reclassifications	46	98	–	–	(208)	(64)
Business combinations	–	–	243	–	3	246
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**	**710**	**479**	**411**	**4,976**
Reclassifications [1]	–	–	–	–	(137)	(137)
Balance at 1 January 2019, adjusted	**2,039**	**1,337**	**710**	**479**	**274**	**4,839**
Additions	179	133	251	–	143	706
Disposals	(57)	(139)	(2)	(11)	(17)	(226)
Reclassifications	39	78	–	–	(107)	10
Business combinations	4	5	–	13	–	22
Sales of subsidiaries	(2)	(2)	–	(9)	(9)	(22)
Foreign currency translation adjustments	(59)	(8)	(10)	(11)	–	(88)
Balance at 31 December 2019	**2,143**	**1,404**	**949**	**461**	**284**	**5,241**
Accumulated amortisation and impairment losses						
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)**
Reclassifications [1]	–	–	–	–	49	49
Balance at 1 January 2019, adjusted	**(1,561)**	**(825)**	**(175)**	**(376)**	**(130)**	**(3,067)**
Amortisation	(243)	(274)	(74)	(32)	(13)	(636)
Impairment losses	–	(1)	–	–	–	(1)
Disposals	57	139	2	11	17	226
Sales of subsidiaries	1	2	–	7	5	15
Foreign currency translation adjustments	50	4	1	9	–	64
Balance at 31 December 2019	**(1,696)**	**(955)**	**(246)**	**(381)**	**(121)**	**(3,399)**
Net carrying amount						
Net carrying amount at 31 December 2019	**447**	**449**	**703**	**80**	**163**	**1,842**
Net carrying amount at 31 December 2018	**478**	**512**	**535**	**103**	**232**	**1,860**
Net carrying amount at 31 December 2017	**479**	**532**	**263**	**139**	**345**	**1,758**

1 See "General information and changes in accounting policies" in the notes to the consolidated financial statements.

As of 31 December 2019, other intangible assets include advance payments made and uncompleted development projects of CHF 149 million (prior year: CHF 125 million).

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

Commitments for future capital expenditures

As of 31 December 2019, firm contractual commitments for future capital investments in intangible assets aggregated CHF 62 million (prior year: CHF 91 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 licences, 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. Mobile-phone licences are amortised based on the term of the licence. 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.

3.4 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	Enterprise Customers Swisscom Switzerland	Fastweb	Other cash-generating units [1]	**Total**
At cost					
Balance at 31 December 2017	**3,277**	**932**	**2,070**	**422**	**6,701**
Additions	–	–	3	–	3
Sales of subsidiaries	–	–	–	(23)	(23)
Foreign currency translation adjustments	–	–	(76)	–	(76)
Balance at 31 December 2018	**3,277**	**932**	**1,997**	**399**	**6,605**
Additions	–	16	–	4	20
Sales of subsidiaries	–	(3)	–	–	(3)
Foreign currency translation adjustments	–	–	(75)	–	(75)
Balance at 31 December 2019	**3,277**	**945**	**1,922**	**403**	**6,547**
Accumulated impairment losses					
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)**
Foreign currency translation adjustments	–	–	54	–	54
Balance at 31 December 2019	**–**	**–**	**(1,384)**	**–**	**(1,384)**
Net carrying amount					
Net carrying amount at 31 December 2019	**3,277**	**945**	**538**	**403**	**5,163**
Net carrying amount at 31 December 2018	**3,277**	**932**	**559**	**399**	**5,167**
Net carrying amount at 31 December 2017	**3,277**	**932**	**578**	**399**	**5,186**

1 Comprises the cash-generating units Wholesale Swisscom Switzerland and Swisscom Directories.

Impairment testing

In the fourth quarter of 2019 and after the 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 Fastweb impairment test. 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 projected cash flows and management assumptions are corroborated by external sources of information. 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 is taken (abroad: Germany) with a duration of ten years and a zero-interest rate, 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

Cash-generating unit	**2019** WACC pre-tax	WACC post-tax	Long-term growth rate	2018 WACC pre-tax	WACC post-tax	Long-term growth rate
Residential Customers Swisscom Switzerland	4.91%	3.93%	0%	5.54%	4.42%	0%
Enterprise Customers Swisscom Switzerland	4.84%	3.93%	0%	5.52%	4.42%	0%
Fastweb	7.71%	5.87%	0.7%	8.34%	6.42%	1.0%
Other cash-generating units	4.86–7.33%	3.93–5.86%	0%	5.55–11.67%	4.42–9.16%	0%

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 1,471 million (CHF 1,618 million). In the prior year, the difference amounted to EUR 1,178 million (CHF 1,343 million). The following changes in material assumptions would lead to a situation where the value in use would equate to the carrying amount:

	2019 Assumptions	Sensitivity	2018 Assumptions	Sensitivity
Average annual growth rate till 2024 with the same EBITDA margin as in the business plan	5.8%	3.2%	6.2%	4.0%
Normalised EBITDA margin	34%	30%	33%	29%
Normalised capital expenditure rate	20%	24%	21%	25%
Post-tax discount rate	5.87%	8.01%	6.42%	8.43%
Long-term growth rate	0.7%	–2.1%	1.0%	–1.6%

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 the judgement of Management. 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 to sell and the value in use.

3.5 Provisions and contingent liabilities

Provisions

In CHF million	Dismantlement and restoration costs	Regulatory and competition law proceedings	Termination benefits [1]	Others	Total
Balance at 31 December 2018 [2]	**635**	**166**	**69**	**162**	**1,032**
Change in accounting policies	–	–	–	(4)	(4)
Balance as at 1 January 2019	**635**	**166**	**69**	**158**	**1,028**
Additions to provisions	–	40	62	55	157
Adjustments recorded under property, plant and equipment	47	–	–	–	47
Present-value adjustments	7	–	–	1	8
Release of unused provisions	(2)	–	(6)	(12)	(20)
Use of provisions	(7)	–	(34)	(32)	(73)
Foreign currency translation adjustments	–	–	–	(1)	(1)
Balance at 31 December 2019	**680**	**206**	**91**	**169**	**1,146**
Thereof current provisions	–	–	86	77	163
Thereof non-current provisions	680	206	5	92	983

1 See Note 4.1.

2 See "General information and changes in accounting policies" in the notes to the consolidated financial statements.

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 0.72% (prior year: 1.16%). The effect of using different interest rates amounted to CHF 64 million (prior year: CHF 3 million). The cost index used for computing the dismantling costs was amended, resulting in an impact of CHF 25 million. In 2019, as a result of reassessments, adjustments totalling CHF 47 million (prior year: CHF 3 million) were recognised under property, plant and equipment, with no impact on the income statement, and an expense of CHF 2 million (prior year CHF 1 million) recorded in the income statement. The non-current portion of the provisions is expected to be settled after 2021. An increase of estimated costs by 10% would result in an increase of CHF 65 million in the amount of the provision. A delay of another ten years in the timing of the dismantling would lead to a reduction of CHF 8 million in the provisions.

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 that the Federal Communications Commission (ComCom) reduce the prices charged to them by Swisscom. In February 2019, ComCom issued its decision on the disputed access prices for 2013 to 2016. Swisscom has lodged an appeal against this decision with the Federal Administrative Court. The price-setting procedure for 2017 and beyond is still pending, and has been suspended by OFCOM until the Federal Administrative Court issues its decision on the complaints regarding the access procedure for 2013 to 2016. In 2009, the Competition Commission (COMCO) imposed a fine of CHF 220 million on Swisscom for abuse of a market-dominant position in the area of ADSL services during the period through to the end of 2007. Swisscom lodged an appeal against the ruling with the Federal Administrative Court. In September 2015, the Federal Administrative Court upheld the COMCO decision in principle, and reduced the fine imposed on Swisscom by COMCO from CHF 220 million to CHF 186 million. As a result of the decision, Swisscom recognised a provision of CHF 186 million in the third quarter of 2015. Swisscom does not consider the penalty to be justified and has lodged an appeal with the Federal Supreme Court. It paid the fine of CHF 186 million at the beginning of 2016, as no suspensive effect was granted. On 9 December 2019, the Federal Supreme Court dismissed Swisscom's appeal in the last instance and confirmed the sanction of CHF 186 million. As a result of the legally binding decision on abuse of a market-dominant position, claims could be asserted against Swisscom under civil law. On the basis of legal opinions, Swisscom has recognised 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 primarily include 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 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 the Federal Communications Commission (ComCom) reduce the prices charged to them by Swisscom. The legally binding definition of the prices for the years 2013 and thereafter is still outstanding. The Competition Commission (COMCO) is also conducting several proceedings against Swisscom. In the event that a legally enforceable finding of market abuse is reached, COMCO can sanction Swisscom. In addition, claims under civil law might be asserted against Swisscom. In April 2013, COMCO opened an investigation against Swisscom under the Federal Cartel Act concerning the broadcasting of live sporting events on pay TV. In May 2016, COMCO imposed 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, COMCO reached the conclusion that Swisscom has a dominant position on the market for broadband access for business clients. As a result of this conduct, which was judged to be unlawful under competition law, COMCO imposed a penalty of CHF 8 million. Swisscom has challenged COMCO's rulings concerning live sports broadcasts on pay TV, as well as the invitation to tender for the corporate network of 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 not probable, which is why no provisions have been recognised in the consolidated financial statements as of and for the year ended 31 December 2019, as in prior years. In view of the previous proceedings conducted by COMCO, 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. The provisions and contingent liabilities for regulatory and antitrust proceedings relate to proceedings in connection with regulated access services provided by Swisscom and proceedings initiated by the COMCO. The legal and accounting assessment of these proceedings is associated with significant uncertainties in estimation and scope for discretion with regard to the probability of occurrence and the amount of a possible cash outflow. The provisions established in this way constitute the best possible estimate of the liability. Possible liabilities whose occurrence as of the balance-sheet date cannot be assessed, or liabilities for which the level 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 currently employs around 19,300 people, of which around 16,600 are in Switzerland. This section contains information on employee headcount and personnel expense, the compensation paid to key management personnel, as well as retirement-benefit obligations.

4.1 Employee headcount and personnel expense

Employee headcount

In full-time equivalent	31.12.2019	31.12.2018	Change
Residential Customers	5,009	5,293	–5.4%
Enterprise Customers	4,426	4,422	0.1%
Wholesale	85	83	2.4%
IT, Network & Infrastructure	4,459	4,650	–4.1%
Swisscom Switzerland	**13,979**	**14,448**	**–3.2%**
Fastweb	2,456	2,484	–1.1%
Other Operating Segments	2,685	2,679	0.2%
Group Headquarters	197	234	–15.8%
Total headcount	**19,317**	**19,845**	**–2.7%**
Thereof Switzerland	16,628	17,147	–3.0%
Thereof foreign countries	2,689	2,698	–0.3%
Average number of employees	19,561	20,083	–2.6%

Personnel expense

In CHF million	2019	2018
Salary and wage costs	2,093	2,145
Social security expenses	249	250
Expense of defined benefit plans [1]	326	346
Expense of defined contribution plans	10	10
Expense for share-based payments	1	1
Termination benefits	56	(2)
Other personnel expense	65	65
Total personnel expense	**2,800**	**2,815**
Thereof Switzerland	2,569	2,591
Thereof foreign countries	231	224

1 See Note 4.3.

Termination benefits

Swisscom supports employees affected by restructuring through a social plan. In addition to other benefits, the social plan benefits include continued salary payments beyond the contractual notice period for a maximum period of time, which depends on the seniority and age of the employee concerned. Under certain conditions, older employees affected by job cuts may transfer to the subsidiary Worklink AG at reduced guaranteed continued salary payments. Worklink AG aims to place participants with third parties for temporary work assignments, whereby the participants are paid a share of the turnover as a wage supplement. The net expense for personnel reduction amounts to CHF 56 million. This is comprised of additions to provisions of CHF 62 million, minus the release of unused provisions to the value of CHF 6 million. These personnel downsizing measures are connected with Swisscom's aim of reducing the cost base by a further CHF 100 million per year between 2020 and 2022. The efficiency improvement measures will primarily be achieved through a simplification of work processes, the use of more cost-effective systems, and a reduction of positions offered in declining business sectors.

4.2 Key management compensation

In CHF thousand	2019	2018
Current compensation	1,365	1,428
Share-based payments	719	724
Social security contributions	128	139
Total compensation to members of the Board of Directors	**2,212**	**2,291**
Current compensation	5,347	5,663
Share-based payments	757	886
Benefits paid following retirement from Group Executive Board	–	605
Pension contributions	873	892
Social security contributions	539	575
Total compensation to members of the Group Executive Board	**7,516**	**8,621**
Total compensation to members of the Board of Directors and of the Group Executive Board	**9,728**	**10,912**

Swisscom's key management personnel are the members of the Group Executive Board and Board of Directors of Swisscom Ltd. Compensation paid to members of the Board of Directors consists of a base salary 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

Pension plans

comPlan

The majority of employees in Switzerland are insured under the Swisscom pension plan against the risks of old age, death and disability. The pension plan is implemented by the comPlan foundation. The supreme governing body of the pension fund is the Foundation Council, which is made up of an equal number of representatives from 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, which savings contributions varying with age are credited to as well as any interest which accrues. 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 from both 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 at the time of retirement by a conversion rate set out in the pension-fund rules. The retirement benefits can also be paid out in the form of a capital payment either in full or in part. In case of early retirement, the employer also finances 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 years of service.

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 accounting standards for pension funds (Swiss GAAP ARR 26), the Foundation Council lays down measures which shall lead to the elimination of this funding deficit and the restoration of financial equilibrium within a timeframe of five to seven years. Such measures may include a reduced or zero interest rate on retirement savings accounts, a reduction in future benefits, the levying of restructuring contributions or a combination of these 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 exists over and above the legal minimum obligation to pay additional or restructuring contributions in the case of funding shortfalls and structural funding deficits, 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 26) which are relevant for the pension fund, as at 31 December 2019 comPlan had a technical coverage ratio of 110% (prior year: 103%). 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 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	2019	comPlan	Other plans	2018
Current service cost	305	3	308	339	2	341
Plan amendments	14	–	14	–	–	–
Administration expense	3	1	4	4	1	5
Total recognised in personnel expense	**322**	**4**	**326**	**343**	**3**	**346**
Interest expense on net defined benefit obligations	8	–	8	6	–	6
Total recognised in financial expense	**8**	**–**	**8**	**6**	**–**	**6**
Total expense of defined benefit plans recognised in income statement	**330**	**4**	**334**	**349**	**3**	**352**

In CHF million	comPlan	Other plans	2019	comPlan	Other plans	2018
Actuarial gains and losses from						
Change of the demographical assumptions	–	–	–	(82)	–	(82)
Change of the financial assumptions	990	–	990	(233)	–	(233)
Experience adjustments to defined benefit obligations	7	1	8	29	(1)	28
Change in share of employee contribution (risk sharing)	(52)	–	(52)	(13)	–	(13)
Return on plan assets excluding the part recognised in financial result	(1,139)	–	(1,139)	379	(1)	378
Total (income) expense of defined benefit plans recognised in other comprehensive income	**(194)**	**1**	**(193)**	**80**	**(2)**	**78**

Status of pension plans

In CHF million	comPlan	Other plans	2019	comPlan	Other plans	2018
Defined benefit obligations						
Balance at 1 January	**11,633**	**35**	**11,668**	**11,894**	**35**	**11,929**
Current service cost	305	3	308	339	2	341
Interest cost on defined benefit obligations	102	–	102	84	–	84
Employee contributions	186	–	186	189	–	189
Benefits paid	(520)	–	(520)	(575)	–	(575)
Actuarial losses (gains)	945	1	946	(299)	(1)	(300)
Business combinations	(1)	–	(1)	–	1	1
Plan amendments	14	–	14	–	–	–
Foreign currency translation adjustments	–	(1)	(1)	–	(1)	(1)
Transfer of pension plans to comPlan	–	–	–	1	(1)	–
Balance at 31 December	**12,664**	**38**	**12,702**	**11,633**	**35**	**11,668**
Plan assets						
Balance at 1 January	**10,457**	**15**	**10,472**	**10,864**	**17**	**10,881**
Interest income on plan assets	94	–	94	78	–	78
Employer contributions	274	5	279	278	4	282
Employee contributions	186	–	186	189	–	189
Benefits paid	(520)	–	(520)	(575)	–	(575)
Return (expense) on plan assets excluding the part recognised in financial result	1,139	–	1,139	(379)	1	(378)
Administration expense	(3)	(1)	(4)	(4)	(1)	(5)
Business combinations	–	(2)	(2)	–	–	–
Transfer of pension plans to comPlan	–	–	–	6	(6)	–
Balance at 31 December	**11,627**	**17**	**11,644**	**10,457**	**15**	**10,472**
Net defined benefit obligations						
Net defined benefit obligations recognised at 31 December	**1,037**	**21**	**1,058**	**1,176**	**20**	**1,196**

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

In CHF million	comPlan	Other plans	2019	comPlan	Other plans	2018
Balance at 1 January	**1,176**	**20**	**1,196**	**1,030**	**18**	**1,048**
Pension cost, net	330	4	334	349	3	352
Employer contributions and benefits paid	(274)	(5)	(279)	(278)	(4)	(282)
Business combinations	(1)	2	1	–	1	1
(Income) expense of defined benefit plans, recognised in other comprehensive income	(194)	1	(193)	80	(2)	78
Foreign currency translation adjustments	–	(1)	(1)	–	(1)	(1)
Transfer of pension plans to comPlan	–	–	–	(5)	5	–
Balance at 31 December	**1,037**	**21**	**1,058**	**1,176**	**20**	**1,196**

The weighted average run time of the cash value of the defined benefit obligations is 17 years (prior year 16 years).

Breakdown of pension plan assets
comPlan

Category	Investment strategy	Quoted	Not quoted	Total 31.12.2019	Quoted	Not quoted	Total 31.12.2018
Government bonds Switzerland	5.0%	1.2%	3.4%	4.6%	1.7%	3.6%	5.3%
Corporate bonds Switzerland	6.0%	5.7%	0.0%	5.7%	6.1%	0.0%	6.1%
Government bonds developed markets, World	7.0%	5.7%	0.0%	5.7%	7.2%	0.0%	7.2%
Corporate bonds developed markets, World	10.0%	9.7%	0.0%	9.7%	10.3%	0.0%	10.3%
Government bonds emerging markets, World	8.0%	8.0%	0.0%	8.0%	8.1%	0.0%	8.1%
Private debt	6.0%	0.0%	5.7%	5.7%	0.0%	6.3%	6.3%
Third-party debt instruments	**42.0%**	**30.3%**	**9.1%**	**39.4%**	**33.4%**	**9.9%**	**43.3%**
Equity shares Switzerland	6.0%	6.4%	0.0%	6.4%	5.4%	0.0%	5.4%
Equity shares developed markets, World	12.0%	12.9%	0.0%	12.9%	11.2%	0.0%	11.2%
Equity shares emerging markets, World	7.0%	7.3%	0.0%	7.3%	7.0%	0.0%	7.0%
Equity instruments	**25.0%**	**26.6%**	**0.0%**	**26.6%**	**23.6%**	**0.0%**	**23.6%**
Real estate Switzerland	13.0%	6.9%	6.1%	13.0%	7.0%	6.0%	13.0%
Real estate World	7.0%	1.2%	5.3%	6.5%	1.4%	4.8%	6.2%
Real estate	**20.0%**	**8.1%**	**11.4%**	**19.5%**	**8.4%**	**10.8%**	**19.2%**
Commodities	4.0%	1.8%	2.2%	4.0%	1.9%	2.0%	3.9%
Private markets	8.0%	0.0%	9.8%	9.8%	0.0%	9.6%	9.6%
Cash and cash equivalents and other investments	1.0%	0.0%	0.7%	0.7%	0.0%	0.4%	0.4%
Cash and cash equivalents and alternative investments	**13.0%**	**1.8%**	**12.7%**	**14.5%**	**1.9%**	**12.0%**	**13.9%**
Total plan assets	**100.0%**	**66.8%**	**33.2%**	**100.0%**	**67.3%**	**32.7%**	**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 7.24 years (prior year: 5.98 years), and the average rating of these assets is A– (unchanged from prior year). 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). Following this investment strategy, comPlan expects its results prepared in accordance with Swiss GAAP ARR to show a target value for the value fluctuation reserve of 17.8% of total assets (based on the 2020 financial year).

Additional information on plan assets
As at 31 December 2019, plan assets include Swisscom Ltd shares and bonds with a fair value of CHF 10 million (prior year CHF 6 million). The effective income from plan assets was CHF 1,233 million in 2019 (prior year CHF –299 million). In 2020, Swisscom expects to make payments to the pension funds for statutory employee contributions totalling CHF 281 million.

Assumptions underlying actuarial computations

Assumptions	2019 comPlan	2019 Other plans	2018 comPlan	2018 Other plans
Discount rate at 31 December	0.22%	0.77%	0.86%	1.57%
Expected rate of salary increases	1.08%	–	1.08%	–
Expected rate of pension increases	–	–	–	–
Interest on old age savings accounts	0.37%	–	0.86%	–
Share of employee contribution to funding shortfall	40%	–	40%	–
Life expectancy at age of 65 – men (number of years)	22.30	22.30	22.20	22.20
Life expectancy at age of 65 – women (number of years)	24.10	24.10	24.00	24.00

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 pension increases are anticipated, as comPlan has insufficient fluctuation reserves available under pension law. The lower limit is the statutory minimum interest rate on BVG retirement savings accounts. 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 improvements in mortality observed in Switzerland in the past. A future long-term mortality improvement rate of 1.75% is assumed.

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 a gradual lowering of future pensions by 8.80% (prior year: 4.31%) over a period of ten years will take place 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 0.22%. 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. Based on an assumption of a limited employer contribution to the funding shortfall, there is a reduction in defined benefit obligations of CHF 530 million (prior year CHF 482 million) which corresponds to the assumed employer contributions. The change of the employee share is recognised in other comprehensive income.

Sensitivity analysis comPlan
Sensitivity analysis 2019

In CHF million	Defined benefit obligations – Increase assumption	Defined benefit obligations – Decrease assumption	Current service cost [1] – Increase assumption	Current service cost [1] – Decrease assumption
Discount rate (change +/–0.5%)	(598)	698	(37)	44
Expected rate of salary increases (change +/–0.5%)	42	(40)	6	(6)
Expected rate of pension increases (change +0.5%; –0.0%)	578	–	28	–
Interest on old age savings accounts (change +0.5%; –0.0%)	25	–	7	–
Share of employee contribution to funding shortfall (change +/–10%)	133	(133)	–	–
Life expectancy at age of 65 (change +/–0.5 year)	143	(144)	5	(5)

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

Sensitivity analysis 2018

In CHF million	Defined benefit obligations Increase assumption	Defined benefit obligations Decrease assumption	Current service cost [1] Increase assumption	Current service cost [1] 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.

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, no change was made in view of a negative movement in pension increases as it is not possible to reduce current pensions.

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 from domestic and foreign issuers quoted on the Swiss Exchange with an AA rating. The discount rates match the anticipated payment maturities of the liabilities.

Accounting policies

Actuarial computations of pension expenses and the related defined benefit obligations are carried out 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 a finance expense. Actuarial gains and losses and the return on plan assets, excluding the 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 when 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 in order to eliminate funding deficits. Should the level of committed long-term disability benefits (disability pensions), irrespective of the number of years of service, 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 predominantly holds 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 Changes in the scope of consolidation

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

In CHF million	2019	2018
Expenses for business combinations net of cash and cash equivalents acquired	(25)	(60)
Expenses for deferred consideration arising on business combinations	(369)	(18)
Sale of subsidiaries minus disposal of currency	(3)	–
Expenses for shareholdings accounted for using the equity method	(15)	(35)
Acquisition of non-controlling interests	(1)	–
Total cash flow from the purchase and sale of shareholdings, net	**(413)**	**(113)**

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 transaction is valued at EUR 185 million (CHF 208 million) and was completed 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, since not all necessary information for the purchase price allocation was available at the date of preparation of the consolidated financial statements. The definitive allocation of the acquisition cost to net assets can be summarised as follows:

In CHF million	2018
Property, plant and equipment	10
Intangible assets	243
Other current liabilities	(48)
Identified assets and liabilities/acquisition costs	**205**
Goodwill	3
At cost	**208**
Deferred payment of purchase price	(152)
Total cash outflow	**56**

No transaction costs arose in connection with the acquisition. The deferred residual acquisition price was settled through a cash payment of EUR 80 million (CHF 90 million) in 2019 and the provision of services for an amount of EUR 55 million (CHF 62 million). The impact of the business combination on Swisscom's net revenue and net income in 2018 is not material.

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

In December 2018, Swisscom exercised its call option to acquire the outstanding 31% share in Swisscom Directories Ltd for a purchase price of CHF 240 million. Swisscom had previously held a 69% share in the share capital of Swisscom Directories Ltd, 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. 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 effect on income. See Note 2.2.

Other non-material acquisitions and disposal of subsidiaries

The other acquisitions and disposals of subsidiaries in 2019 are not individually material. They include the acquisitions of United Security Provider AG and Ajila AG as well as the disposal of Datasport Ltd, plus the loss of control in tiko Energy Solutions Ltd.

Accounting policies

Consolidation

Subsidiaries are all companies over which Swisscom Ltd has the effective ability to control the 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. Intragroup balances and transactions, income and expenses, shareholdings and dividends as well as unrealised gains and losses are fully eliminated. Non-controlling interests in subsidiaries are reported within equity in the consolidated balance sheet, but separately from equity 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. Acquisition costs are recognised at fair value as of the date of the business combination. 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. All identifiable assets and liabilities that satisfy the recognition criteria are recognised at their fair values at the time of acquisition. 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	2019	2018
Balance at 1 January	**174**	**152**
Additions	27	35
Disposals	–	(4)
Dividends	(18)	(18)
Share of net results	4	11
Share of other comprehensive income	2	1
Impairment losses	(32)	–
Dilutive gains	3	–
Foreign currency translation adjustments	(4)	(3)
Balance at 31 December	**156**	**174**

In 2019, an aggregate amount of CHF –28 million (prior year: CHF 5 million) was recognised as the attributable share of net results in equity-accounted investees. The profits for the prior year include impairment losses to the value of CHF 6 million from loans which were considered net investments in equity-accounted investees.

Selected key performance indicators for equity-accounted investees

In CHF million	2019	2018
Income statement		
Net revenue	1,786	1,814
Operating expense	(1,706)	(1,756)
Operating income	80	57
Net income	**54**	**30**
Other comprehensive income	**8**	**7**
Balance sheet at 31 December		
Current assets	1,008	1,089
Non-current assets	1,268	1,084
Current liabilities	(1,148)	(1,021)
Non-current liabilities	(512)	(549)
Equity	**616**	**603**

5.4 Group companies

Group companies in Switzerland

Registered name	Registered office	Part 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
Ajila AG [2]	Sursee	60	CHF	0.1	OTH
autoSense Ltd [2,3]	Zurich	33	CHF	0.3	OTH
Billag Ltd [1]	Fribourg	100	CHF	0.1	OTH
cablex Ltd [2]	Muri bei Bern	100	CHF	5.0	OTH
Credit Exchange Ltd [2,3]	Zurich	25	CHF	0.1	OTH
CT Cinetrade Ltd [1]	Zurich	100	CHF	0.5	SCS
Custodigit Ltd [2]	Zurich	75	CHF	1.0	OTH
daura Ltd [2,3]	Zurich	29	CHF	0.2	OTH
ecmt AG [2,3]	Embrach	20	CHF	0.1	OTH
finnova ltd bankware [2,3]	Lenzburg	9	CHF	0.5	SCS
Global IP Action Ltd [2]	Freienbach	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
SEC consult (Switzerland) Ltd [2,3]	Zurich	47	CHF	0.1	OTH
SmartLife Care Ltd [2,3]	Wangen	48	CHF	0.2	OTH
Swisscom Blockchain Ltd [2]	Zurich	97	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 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 [2,3]	Ittigen	29	CHF	13.3	OTH
United Security Provider Ltd [2]	Berne	100	CHF	0.5	SCS
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	Part 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					
Mila Europe GmbH [2]	Berlin	100	EUR	–	SCS
Swisscom Telco GmbH [2]	Leipzig	100	EUR	–	GHQ
France					
local.fr SA [2]	Bourg-en-Bresse	81	EUR	1.0	OTH
SoftAtHome SA [2,3]	Colombes	10	EUR	6.5	SCS
Great Britain					
Ajila UK Ltd [2]	London	60	GBP	–	OTH
Italy					
Fastweb S.p.A. [2]	Milan	100	EUR	41.3	FWB
Fastweb Air S.r.l. [2]	Milan	100	EUR	–	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					
Swisscom DevOps Center B.V. [2]	Rotterdam	100	EUR	–	SCS
NGT International B.V. [2]	Capelle a/d IJssel	100	EUR	–	OTH
Austria					
Swisscom IT Services 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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4 SCS = Swisscom Switzerland, FWB = Fastweb, OTH = Other, GHQ = Group Headquarters (unallocated costs).

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 parties.

6.1 Income taxes

Income tax expense

In CHF million	2019	2018
Current income tax expense	332	337
Adjustments recognised for current tax of prior periods	(16)	1
Deferred income tax (income) expense	(261)	57
Total income tax expense recognised in income statement	**55**	**395**
Thereof Switzerland	28	335
Thereof foreign countries	27	60

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

In CHF million	2019	2018
Foreign currency translation adjustments of foreign subsidiaries	(4)	(1)
Actuarial gains and losses from defined benefit pension plans	47	(16)
Change to the fair value of equity instruments	–	1
Change in cash flow hedges	1	–
Total income tax expense recognised in other comprehensive income	**44**	**(16)**

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 is 20.0% (prior year: 20.4%). The decline in the applicable income tax rate can be attributed to a a reduction in the tax rates in various Swiss cantons.

In CHF million	2019	2018
Income before income taxes in Switzerland	1,598	1,732
Income before income taxes foreign countries	126	184
Income before income taxes	**1,724**	**1,916**
Applicable income tax rate	20.0%	20.4%
Income tax expense at the applicable income tax rate	**345**	**391**
Reconciliation to reported income tax expense		
Effect from result of shareholdings accounted for using the equity method	6	(1)
Effect of changes in tax law in Switzerland	(269)	–
Effect of use of different income tax rates in Switzerland	–	(8)
Effect of use of different income tax rates in foreign countries	2	22
Effect of non-recognition of tax loss carry-forwards	8	9
Effect of recognition and offset of tax loss carry-forwards not recognised in prior years	–	(3)
Effect of exclusively tax-deductible expenses and income	(21)	(16)
Effect of income tax of prior periods	(16)	1
Total income tax expense	**55**	**395**
Effective income tax rate	3.2%	20.6%

As at 1 January 2020, various legislative changes concerning company taxation will come into force. A core element is the abolition of various tax privileges for companies, such as the privileged taxation of the profits of holding companies. In return, most of the cantons will reduce the corporate income tax rates. Temporary transitional regulations additionally dampen the financial impact. Changes in the law, reductions in tax rates and transitional rules led to positive tax effects of CHF 269 million in the Swisscom consolidated financial statements for 2019. These tax effects are the result in part of the revaluation of existing deferred tax liabilities based on modified tax rates and in part to other adjustments to the evaluation in line with the transitional rule on ordinary profit taxation on the holding company for new deferred tax credit.

Current income tax assets and liabilities

In CHF million	**2019**	2018
Current income tax liabilities at 1 January, net	**248**	**203**
Change in accounting policies [1]	(22)	–
Balance at 1 January, net and adjusted	**226**	**203**
Recognised in income statement	316	338
Recognised in other comprehensive income	(1)	1
Income taxes paid in Switzerland	(357)	(277)
Income taxes paid in foreign countries	(14)	(17)
Current income tax liabilities at 31 December, net	**170**	**248**
Thereof current income tax assets	(4)	(2)
Thereof current income tax liabilities	174	250
Thereof Switzerland	170	218
Thereof foreign countries	–	30

1 See "General information and changes in accounting policies" in the notes to the consolidated financial statements.

Deferred income tax assets and liabilities

			31.12.2019			31.12.2018
In CHF million	**Assets**	**Liabilities**	**Net amount**	Assets	Liabilities	Net amount
Property, plant and equipment	44	(643)	(599)	37	(669)	(632)
Intangible assets	12	(67)	(55)	–	(303)	(303)
Provisions	92	(85)	7	103	(69)	34
Defined benefit obligations	178	–	178	216	–	216
Tax loss carry-forwards	40	–	40	51	–	51
Other	112	(120)	(8)	135	(148)	(13)
Total tax assets (tax liabilities)	**478**	**(915)**	**(437)**	**542**	**(1,189)**	**(647)**
Thereof deferred tax assets			152			167
Thereof deferred tax liabilities			(589)			(814)
Thereof Switzerland			(442)			(673)
Thereof foreign countries			5			26

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

In CHF million	**31.12.2019**	31.12.2018
Expiring within 1 year	4	1
Expiring within 2 to 7 years	123	136
No expiration	18	16
Total unrecognised tax loss carry-forwards	**145**	**153**
Thereof Switzerland	128	137
Thereof foreign countries	17	16

Other disclosures

No deferred tax liabilities (prior year: none) were recognised on the undistributed earnings of subsidiaries as of 31 December 2019. Temporary differences of subsidiaries and equity-accounted investees, on which no deferred income taxes are recognised as of 31 December 2019, amounted to CHF 3,117 million (prior year: CHF 1,829 million). The uncertain tax positions in connection with tax assessments from previous years did not change significantly in 2019.

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 as a general rule deferred taxes are recognised 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, 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. If it is probable that the tax authority will accept the chosen tax treatment, the tax amount in the consolidated financial statements is the same as that entered in the tax return submitted. If this is not probable, however, the amounts will be different. The uncertainty is taken into account in the measurement, which requires a best-possible estimate of the expected cash outflow. If there are few possible outcomes, the most likely outcome is used to determine the tax liability. If there are a large number of possible tax consequences, an expected value is determined on the basis of a probability calculation. Current and deferred tax assets and liabilities are offset 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 2019, 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 the right of optional 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 also 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 and 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 under 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 2019				
Confederation	193	97	221	161
Equity-accounted investees	89	113	30	11
Total 2019/Balance at 31 December 2019	**282**	**210**	**251**	**172**

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**

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 the average exchange rate. 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	**31.12.2019**	31.12.2018	31.12.2017	**2019**	2018
1 EUR	1.085	1.127	1.170	1.113	1.153
1 USD	0.966	0.984	0.976	0.992	0.977

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

The following Standards and Interpretations published up to the end of 2019 are mandatory for annual periods beginning on or after 1 January 2020:

Standard	Name	Effective from
Amendments to IFRS 3	Definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8	Definition of material	1 January 2020
–	Amendments to references to conceptual framework in IFRS Standards	1 January 2020
IFRS 17	Insurance contracts	1 January 2021
Amendments 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 2020, and for which Swisscom did not choose to adopt early. At present, Swisscom anticipates no material impact on consolidated financial statements.

Report of the statutory auditor

to the General Meeting of Swisscom AG

Ittigen (Bern)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Swisscom AG and its subsidiaries (the Group), which comprise the consolidated statement of comprehensive income for the year ended 31 December 2019, the consolidated balance sheet as at 31 December 2019, the consolidated statement of cash flows and the consolidated statement of changes in equity 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 110 to 171) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 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.

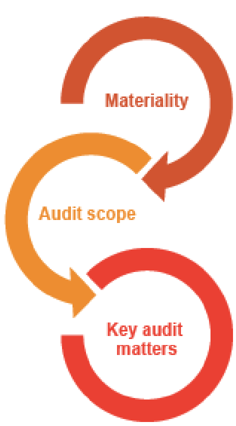
Basis for opinion

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.

Our audit approach

Overview



Overall materiality for the consolidated financial statements: CHF 86 million

We conducted full scope audit work at three Group companies in two countries. These Group companies represent 94% of the Group's revenue. In addition, specified procedures were performed on selected balance sheet and income statement line items for four additional Group companies located in Switzerland.

As key audit matters, the following areas of focus were identified:

- Impairment of Fastweb goodwill
- Revenue recognition – Solutions business with Enterprise Customers
- Capitalisation and impairment of technical installations and intangible assets
- Assessment of litigation arising from regulatory and competition law proceedings

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Context of our 2019 audit

We have audited the consolidated financial statements for the first time for the financial year 2019. During initial audits, additional procedures are performed in connection with the opening balance sheet. In performing these procedures, we paid particular attention to matters that could have a material effect on the financial statements for the period under review. Further, during our audit, we considered whether the accounting policies used in the opening balances had been applied appropriately and consistently in the financial statements for the period under audit.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 86 million
How we determined it	5% of income before income taxes
Rationale for the materiality benchmark applied	We chose income before income taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 2.4 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of three operating segments (Swisscom Switzerland, Fastweb, Other Operating Segments) and operates mainly in Switzerland and Italy. Swisscom (Schweiz) AG generates most of the revenue. Another significant company we identified is Fastweb S.p.A. (Fastweb).

The audits of Swisscom (Schweiz) AG and Swisscom AG were led by the Group audit team. The audit of Fastweb was performed by the PwC component auditor in Italy, to whom we provided instructions and with whom we are in regular contact to discuss the treatment of transactions that are material to the consolidated financial statements as well as questions regarding valuation and disclosure. In addition, we participate in important discussions with Fastweb's management. The audit of these three companies addresses the major part of the consolidated financial statements.

In addition, for some subsidiaries, we identified balance sheet and income statement line items, which were covered by component auditors to address specific risks. The audit procedures they performed were centrally controlled and monitored by us.

Group-wide topics, such as treasury, taxes, investments (including goodwill) or the implementation of new accounting requirements were addressed by the Group audit team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

Impairment of Fastweb goodwill

Key audit matter	How our audit addressed the key audit matter
The impairment testing of goodwill relating to Fastweb was deemed a key audit matter for the following reasons: • As at 31 December 2019, the goodwill relating to the Fastweb operating segment amounted to CHF 538 million (2018: CHF 559 million), which is a significant amount. • In performing the annual impairment test of the Fastweb goodwill management has considerable scope for judgement regarding expected future cash flows, the discount rate (WACC) used and forecast growth. Please refer to note 3.4 'Goodwill' (page 150) in the notes to the consolidated financial statements.	During our audit, we assessed whether a correct valuation method was used, the calculation was coherent and the assumptions made were appropriate. In particular, we challenged the input data and assumptions related to the underlying cash flows and the future growth rates, based on written statements from local management and Group management. In addition, we compared the results of the year under review with the forecasts made in the previous year in order to assess the appropriateness of the previous year's assumptions. With regard to the discount rate used, we analysed together with our own valuation specialists how it was derived and compared it with our own calculation. We also examined whether the information on impairment testing in the notes to the consolidated financial statements was disclosed correctly and whether the sensitivity analyses presented indicate appropriately the risks of impairment. We consider the valuation method and the assumptions used by management to test for the impairment of the Fastweb goodwill to be appropriate.

Revenue recognition – Solutions business with Enterprise Customers

Key audit matter	How our audit addressed the key audit matter
For the 2019 financial year, Swisscom reports net revenue of CHF 11,453 million (2018: CHF 11,714 million). Of this amount, CHF 1,021 million (2018: CHF 1,027 million) is generated by the Solutions business with Enterprise Customers. The Solutions business with Enterprise Customers comprises integrated communications solutions (e.g. IT outsourcing) for large enterprises in Switzerland. We consider revenue recognition in the Solutions business with Enterprise Customers to be a key audit matter for the following reasons: • The specific projects within the Solutions business are based on complex individual contracts that may include multiple performance obligations. The accounting treatment of these contracts requires management to estimate the expected transaction price and the timing of revenue recognition. • The projects typically last between three and seven years. In its assessment of a loss-free valuation of the projects, management has significant scope for judgement in its assessment of the future costs of each project. Please refer to note 1.1 'Segment information' (page 117) in the notes to the consolidated financial statements.	We assessed the design and effectiveness of the controls implemented to ensure the correct recognition of revenue in the Solutions business with Enterprise Customers. Further, we performed analytical audit procedures. On the basis of internal and external reports, we defined our expectations and critically assessed deviations from them. For a sample of contracts entered into in the 2019 financial year, we assessed the accounting treatment applied by Swisscom. We also assessed whether management's estimate of the expected transaction price and the timing of revenue recognition relating to specific performance obligations is appropriate. To address the significant scope for judgement when assessing future costs in order to minimise losses on projects, we performed the following audit procedures: • We gained an understanding of the process implemented by management to assess future developments in the Solutions business and critically assessed that process. • We discussed with Swisscom their expectations regarding the future development of individual projects and critically assessed those expectations on the basis of current developments. • Using a sample of projects, we compared Swisscom's forecasts from the previous year with actual developments in the financial year under audit and analysed any deviations. Finally, on the basis of a sample, we assessed whether revenue in the Solutions business with Enterprise Customers was recorded correctly. To do so, we checked specific accounts receivable payments and obtained external balance confirmations from Swisscom customers. We consider management's estimates relating to the recognition of revenue in the Solutions business with Enterprise Customers to be appropriate.

Capitalisation and impairment of technical installations and intangible assets

Key audit matter	How our audit addressed the key audit matter
We consider the capitalisation and impairment of technical installations and intangible assets to be a key audit matter for the following reasons: • In the 2019 financial year, Swisscom made investments in technical installations and intangible assets amounting to CHF 1,828 million (2018: CHF 1,949 million). • There is a risk that, whether by accident or design, investments may be capitalised that, according to Swisscom's policies, should not be capitalised. The risk is increased by the inherent complexity and the range of the investments. • Swisscom recognises as of 31 December 2019 technical installations with a net book value of CHF 8,407 million (2018: CHF 8,575 million) and intangible assets with a net book value of CHF 1,842 million (2018: CHF 1,860 million). Both represent significant amounts. • Management has significant scope for judgement when assessing and determining the useful life of existing technologies. Please refer to note 3.2 'Property, plant and equipment' (page 146) and note 3.3 'Intangible assets' (page 148) in the notes to the consolidated financial statements.	We assessed the design and effectiveness of the controls implemented to ensure the correct capitalisation and impairment testing of technical installations and intangible assets. With regard to capitalisation, we performed the following audit procedures: • We assessed the compliance of Swisscom's capitalisation policy with International Financial Reporting Standards (IFRS). • We assessed on a sample basis the capitalisation of the investments and the timing of the capitalisation of technical installations and intangible assets. • We checked for plausibility the capitalisation of self-constructed assets on the basis of the actual hours worked by staff and the hourly rates invoiced to an external customer of Swisscom. With regard to impairment testing, we performed the following audit procedures: • We discussed with Group management the estimate of the future useful lives of existing technologies and critically assessed these on the basis of current developments at Swisscom and other telecommunications companies. • We assessed the completeness and appropriateness of changes in useful lives and actual impairments for the 2019 financial year. We consider the approach to capitalisation and management's assessment of the expected period over which Swisscom will derive economic benefits from the use of existing technologies to be appropriate.

Assessment of litigation arising from regulatory and competition law proceedings

Key audit matter	How our audit addressed the key audit matter
Swisscom recorded as at 31 December 2019 provisions amounting to CHF 1,146 million (2018: CHF 1,032 million). Of this amount, CHF 206 million (2018: CHF 166 million) relates to provisions for litigation arising from regulatory and competition law proceedings. Swisscom provides regulated access services in accordance with the Telecommunications Act to other telecommunication service providers. The prices charged by Swisscom are subject to reviews by the Federal Communications Commission (ComCom). If the Commission issues a ruling against Swisscom, the prices charged must be reduced with retroactive effect. Swisscom is also a party to proceedings conducted by the Federal Competition Commission (COMCO). In the event of a final verdict establishing market abuse by Swisscom, COMCO may impose a sanction. In addition, civil law claims may be brought against Swisscom. We consider the assessment of the financial implications of litigation arising from regulatory and competition law proceedings to be a key audit matter because management has significant scope for judgement in estimating the probability of occurrence, the timing and the amount of a potential cash outflow due to litigation. Please refer to note 3.5 'Provisions, contingent liabilities and contingent assets' (page 152) in the notes to the consolidated financial statements.	To address the significant scope for judgement in estimating the probability of occurrence, the timing and the amount of a potential cash outflow due to litigation, we performed together with an internal legal specialist the following audit procedures: • We discussed with Group management and Swisscom's internal legal counsel the pending litigation. • We obtained written statements from Swisscom's external and internal legal counsel. • We gained an understanding of the process and controls implemented by Group management to identify, assess and recognize legal proceedings and critically assessed it. To assess the amount of the provisions established, we also assessed whether the underlying data have been adequately factored into the calculation of the provisions. Finally, we assessed the recognition and disclosure in the consolidated financial statements of litigation arising from regulatory and competition law proceedings. We consider management's approach to the treatment in the consolidated financial statements of litigation arising from regulatory and competition law proceedings to be appropriate.

Other matters

The consolidated financial statements of Swisscom AG for the year ended 31 December 2018 were audited by another firm of auditors whose report, dated 6 February 2019, expressed an unmodified opinion on those statements.

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 and the compensation report of Swisscom AG 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.

Responsibilities 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 judgement and maintain professional scepticism 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- 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.
- 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 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 paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Peter Kartscher	Petra Schwick
Audit expert Auditor in charge	Audit expert

Zurich, 5 February 2020