

2016

Interim Report
January–June



swisscom

Key Financial Figures

In CHF million, except where indicated

		1 st half-year 2016	1 st half-year 2015	Change
Net revenue and results				
Net revenue		5,769	5,758	0.2%
Operating income before depreciation and amortisation (EBITDA) ¹		2,227	2,133	4.4%
EBITDA as % of net revenue	%	38.6	37.0	
Operating income (EBIT) ²		1,135	1,105	2.7%
Net income		788	784	0.5%
Share of net income attributable to equity holders of Swisscom Ltd		789	784	0.6%
Earnings per share	CHF	15.23	15.13	0.6%
Balance sheet and cash flows				
Equity at end of period		4,263	4,917	-13.3%
Equity ratio at end of period ³	%	19.9	23.8	
Capital expenditure		1,193	1,142	4.5%
Operating free cash flow ⁴		788	745	5.8%
Net debt at end of period ⁵		8,856	8,760	1.1%
Operational data at end of period				
Fixed access lines in Switzerland	in thousand	2,518	2,697	-6.6%
Broadband access lines retail in Switzerland	in thousand	1,978	1,922	2.9%
Swisscom TV access lines in Switzerland	in thousand	1,400	1,238	13.1%
Mobile access lines in Switzerland	in thousand	6,623	6,592	0.5%
Revenue generating units (RGU) in Switzerland ⁶	in thousand	12,519	12,449	0.6%
Broadband access lines wholesale in Switzerland	in thousand	342	291	17.5%
Broadband access lines in Italy	in thousand	2,257	2,157	4.6%
Swisscom share at end of period				
Number of issued shares	in thousand	51,802	51,802	-
Closing price	CHF	482.70	524.00	-7.9%
Market capitalisation ⁷		25,005	27,144	-7.9%
Employees at end of period				
Full-time equivalent employees	FTE	21,443	21,486	-0.2%
Full-time equivalent employees in Switzerland	FTE	18,754	18,828	-0.4%

¹ Definition operating income before depreciation and amortisation (EBITDA): operating income before depreciation and amortisation and impairment losses on tangible and intangible assets, gain on sale of subsidiaries, net financial result, share of results of associates and income tax expense.

² Definition operating income (EBIT): operating income before gain on sale of subsidiaries, net financial result, share of results of associates and income tax expense.

³ Equity as a percentage of total assets.

⁴ Definition operating free cash flow: operating income before depreciation and amortisation (EBITDA), change in operating assets and liabilities (excluding cash and cash equivalents) less net capital expenditure in tangible and intangible assets and dividends paid to non-controlling interests.

⁵ Definition net debt: financial liabilities less cash and cash equivalents, current financial assets and non-current fixed-interest-bearing deposits.

⁶ Definition revenue generating units (RGU) in Switzerland: fixed access lines, broadband access lines retail, Swisscom TV access lines and mobile access lines.

⁷ Closing price at end of period, multiplied by number of shares outstanding at end of period.

Group Financial Review

Summary

In CHF million, except where indicated	1 st half-year 2016	1 st half-year 2015	Change
Net revenue	5,769	5,758	0.2%
Operating income before depreciation and amortisation (EBITDA)	2,227	2,133	4.4%
EBITDA as % of net revenue	38.6	37.0	
Operating income (EBIT)	1,135	1,105	2.7%
Net income	788	784	0.5%
Earnings per share (in CHF)	15.23	15.13	0.6%
Capital expenditure	1,193	1,142	4.5%
Operating free cash flow	788	745	5.8%
Net debt at end of period	8,856	8,760	1.1%
Full-time equivalent employees at end of period	21,443	21,486	-0.2%

In the first half of 2016, Swisscom's net revenue rose by CHF 11 million or 0.2% to CHF 5,769 million. Revenue in the Swiss core business decreased by CHF 11 million or 0.2% to CHF 4,650 million. While revenue from telecommunications services fell by CHF 46 million or 1.4% as a result of increasing competitive pressure and falling roaming prices, revenue in the solutions business with corporate customers increased by CHF 29 million or 5.6%. The number of revenue-generating units (RGUs) in the Swiss core business increased year-on-year by 70,000 or 0.6% to 12.5 million. However, this figure fell by 24,000 in the first half of 2016 as a result of market saturation. As a result of customer growth and its strong position in the market for business customers, Italian subsidiary Fastweb's revenue was EUR 19 million or 2.2% higher at EUR 881 million. The number of subscribers to Fastweb's broadband business grew year-on-year by 100,000 or 4.6% to 2.26 million (+56,000 in the first half of 2016).

Swisscom's operating income before depreciation and amortisation (EBITDA) increased by CHF 94 million or 4.4% to CHF 2,227 million. This increase is primarily attributable to higher EBITDA at Fastweb, which rose by EUR 75 million or 28.8% to EUR 335 million. In addition to good operating income, Fastweb received compensation from Telecom Italia in the amount of EUR 55 million as a result of an out-of-court settlement following a legal dispute. EBITDA in the Swiss core business decreased by CHF 12 million or 0.6% to CHF 1,912 million. Net income increased year-on-year by CHF 4 million or 0.5% to CHF 788 million. The increase in EBITDA was largely offset by higher depreciation and amortisation and higher net financial expense.

Swisscom capital expenditure increased by CHF 51 million or 4.5% to CHF 1,193 million year-on-year. In Switzerland, capital expenditure rose by CHF 34 million or 4.0% to CHF 876 million due to broadband network expansion. At the end of June 2016, around 2.3 million lines in Switzerland featured the latest fibre-optic technology. In total, Swisscom has connected around 3.3 million homes and offices with ultra-fast broadband (with speeds of more than 50 Mbps). In addition, more than half (1.3 million) of fixed network connections have been converted to IP technology to date. At Fastweb, capital expenditure increased by EUR 7 million or 2.5% to EUR 286 million due to the continuing expansion of the broadband network.

Operating free cash flow rose by CHF 43 million or 5.8% to CHF 788 million. This increase is mainly due to higher EBITDA. Net debt rose year-on-year by CHF 96 million or 1.1% to CHF 8,856 million.

Swisscom headcount decreased year-on-year by 43 FTEs or 0.2% to 21,443 FTEs. Adjusted for company acquisitions, headcount fell by 198 FTEs or 0.7% as a result of efficiency measures. In the Swiss core business, the number of FTEs fell by 214 or 1.3% (-294 or -1.4% in the first half of 2016) year-on-year. In view of the compensation from Telecom Italia and higher capital expenditure in the broadband network in Switzerland, Swisscom is adjusting the financial outlook for the 2016 financial year. Swisscom continues to expect net revenue of more than CHF 11.6 billion and now anticipates EBITDA of around CHF 4.25 billion (previously, about CHF 4.2 billion) and capital expenditure of around CHF 2.4 billion (previously, more than CHF 2.3 billion). If the targets are met, Swisscom will propose to the Annual General Meeting of Shareholders payment of an unchanged dividend of CHF 22 per share for the 2016 financial year.

Segment results

In CHF million	2. quarter 2016	2. quarter 2015	Change	1 st half-year 2016	1 st half-year 2015	Change
Net revenue						
Residential Customers	1,272	1,283	-0.9%	2,559	2,574	-0.6%
Small and Medium-Sized Enterprises	343	340	0.9%	679	667	1.8%
Enterprise Customers	652	650	0.3%	1,308	1,307	0.1%
Wholesale	249	234	6.4%	469	464	1.1%
IT, Network & Innovation	31	31	-	61	65	-6.2%
Intersegment elimination	(210)	(196)	7.1%	(394)	(380)	3.7%
Swisscom Switzerland	2,337	2,342	-0.2%	4,682	4,697	-0.3%
Fastweb	483	453	6.6%	965	921	4.8%
Other Operating Segments	146	156	-6.4%	275	300	-8.3%
Group Headquarters	1	1	-	1	1	-
Intersegment elimination	(83)	(87)	-4.6%	(154)	(161)	-4.3%
Net revenue	2,884	2,865	0.7%	5,769	5,758	0.2%
Operating income before depreciation and amortisation (EBITDA)						
Residential Customers	729	742	-1.8%	1,484	1,472	0.8%
Small and Medium-Sized Enterprises	228	232	-1.7%	452	449	0.7%
Enterprise Customers	205	226	-9.3%	417	445	-6.3%
Wholesale	100	92	8.7%	193	193	-
IT, Network & Innovation	(316)	(323)	-2.2%	(634)	(635)	-0.2%
Swisscom Switzerland	946	969	-2.4%	1,912	1,924	-0.6%
Fastweb	223	148	50.7%	367	278	32.0%
Other Operating Segments	27	19	42.1%	49	35	40.0%
Group Headquarters	(27)	(29)	-6.9%	(57)	(58)	-1.7%
Intersegment elimination	(6)	(6)	-	(9)	(10)	-10.0%
Reconciliation to pension cost ¹	(17)	(19)	-10.5%	(35)	(36)	-2.8%
Operating income before depreciation and amortisation (EBITDA)	1,146	1,082	5.9%	2,227	2,133	4.4%

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

Reporting will be divided into three operating divisions: Swisscom Switzerland, Fastweb and Other Operating Segments as well as Group Headquarters. Swisscom Switzerland is the Swiss market leader in the field of telecommunications. Fastweb is one of the largest broadband telecom companies in Italy. Other Operating Segments mainly comprises Participations, Health and Connected Living. Group Headquarters largely comprises the Group divisions. Swisscom Switzerland consists of the customer segments Residential Customers, Small & Medium-Sized Enterprises, Enterprise Customers and Wholesale as well as IT, Network & Innovation.

The IT, Network & Innovation segment does not charge any network costs to other segments, nor does Group Headquarters charge any management fees to other segments. Other intersegment services are charged at market rates. Network costs in Switzerland are budgeted, monitored and controlled by the IT, Network & Innovation division, which is managed as a cost centre. For this reason, no revenue is credited to the IT, Network & Innovation segment within the segment reporting, with the exception of the rental and administration of buildings. The results of the Residential Customers, Small & Medium-Sized Enterprises, Enterprise Customers and Wholesale segments are reported as a contribution margin before network costs.

Segment expense includes the costs of goods and services purchased, personnel expense and other operating costs less capitalised self-constructed assets and other income. Segment expense contains the ordinary employer contributions as pension costs. Under IAS 19, the difference between the ordinary employer contributions and the pension cost is reported as a reconciliation item between the operating incomes of the segments and Group operating income.

Swisscom Switzerland

In CHF million, except where indicated

	2. quarter 2016	2. quarter 2015	Change	1 st half-year 2016	1 st half-year 2015	Change
Net revenue and results						
Mobile single subscriptions	649	691	-6.1%	1,298	1,362	-4.7%
Fixed-line single subscriptions	382	435	-12.2%	779	887	-12.2%
Bundles	610	547	11.5%	1,213	1,077	12.6%
Solution business	273	260	5.0%	550	521	5.6%
Wholesale	148	140	5.7%	287	288	-0.3%
Other	259	252	2.8%	523	526	-0.6%
Revenue from external customers	2,321	2,325	-0.2%	4,650	4,661	-0.2%
Intersegment revenue	16	17	-5.9%	32	36	-11.1%
Net revenue	2,337	2,342	-0.2%	4,682	4,697	-0.3%
Direct costs	(483)	(461)	4.8%	(952)	(944)	0.8%
Indirect costs	(908)	(912)	-0.4%	(1,818)	(1,829)	-0.6%
Segment expenses	(1,391)	(1,373)	1.3%	(2,770)	(2,773)	-0.1%
Segment result before depreciation and amortisation (EBITDA)	946	969	-2.4%	1,912	1,924	-0.6%
Margin as % of net revenue	40.5	41.4		40.8	41.0	
Depreciation, amortisation and impairment losses	(377)	(343)	9.9%	(744)	(674)	10.4%
Segment result	569	626	-9.1%	1,168	1,250	-6.6%
Operational data at end of period in thousand						
Fixed access lines				2,518	2,697	-6.6%
Broadband access lines retail				1,978	1,922	2.9%
Swisscom TV access lines				1,400	1,238	13.1%
Mobile access lines				6,623	6,592	0.5%
Revenue generating units (RGUs)				12,519	12,449	0.6%
Bundles				1,515	1,307	15.9%
Unbundled fixed access lines				125	150	-16.7%
Broadband access lines wholesale				342	291	17.5%
Capital expenditure and headcount						
Capital expenditure	447	453	-1.3%	872	841	3.7%
Full-time equivalent employees at end of period				16,969	17,062	-0.5%

Revenue generated by Swisscom Switzerland with external customers fell by CHF 11 million or 0.2% to CHF 4,650 million (-0.2% in the second quarter). Compared to the previous year, revenue from telecommunications services fell by CHF 46 million or 1.4% to CHF 3,322 million, while the solutions business grew by CHF 29 million or 5.6% to CHF 550 million. The decline in revenue from telecommunications services is due to increasing competitive pressure and falling roaming prices. Unlike in the past, this trend could not be offset through customer growth. The number of revenue-generating units (RGUs) increased year-on-year by 70,000 or 0.6% to 12.5 million, although this figure fell by 24,000 in the first half of 2016 as a result of increasing market saturation. In the Residential Customers and Small and Medium-Sized Enterprises (SME) units, third-party revenue remained stable at CHF 3,150 million (-0.6% in the second quarter). The decline in the mobile market due to lower prices for roaming was offset by higher revenue as a result of the acquisition of search.ch in July 2015. In the Enterprise Customers unit, third-party revenue remained almost the same compared with the previous year at CHF 1,202 million or -0.2% (-0.2% in the second quarter). The price-related decline in revenue in the mobile market was offset by higher revenue in the solutions business, albeit it with a lower margin. Incoming orders in the corporate business fell by 2.0% to CHF 1,028 million as a result of strong competition.

The huge demand for bundled offerings with flat-rate tariffs continues. By the end of June 2016, 1.52 million customers were using a bundled offering, which corresponds to an increase year-on-year of 208,000 or 15.9% (+99,000 in the first half of the year). Revenue from bundled contracts rose year-on-year by CHF 136 million or 12.6% to CHF 1,213 million (+11.5% in the second quarter).

The increasingly saturated market is reflected in the increase in the number of subscribers in the mobile market. Year-on-year, the number of mobile lines increased by 31,000 or 0.5% to 6.6 million; However, this figure fell by 2,000 in the first half of 2016 as a result of market saturation. The number of postpaid lines including bundled offerings rose by 50,000 (+10,000 in the first half of the year), while the number of prepaid lines declined by 19,000 (-12,000 in the first half of the year).

In the roaming business, a drop in roaming fees and the inclusion of roaming in the Natel infinity subscription packages has driven roaming volumes up at an even faster pace. The related price reduction in 2016 is around CHF 100 million. In the first half of 2016, data traffic rose by a factor of 2.4 year-on-year, and voice traffic rose by 13%. With the introduction of Natel infinity 2.0 in March 2016, customers benefit from much higher speeds, more roaming options and unlimited online storage. By the end of June 2016, 632,000 customers had opted for the new infinity subscriptions. The number of customers for all Natel infinity subscriptions is 2.33 million, which is equal to 70% of postpaid lines (excluding corporate customers).

Despite stiffer competition, the number of Swisscom TV connections increased year-on-year by 162,000 or 13.1% to 1.40 million (+69,000 in the first half of the year), of which basic package subscriptions accounted for 1.15 million. Three-quarters of customers use the cloud-based Swisscom TV 2.0 service. Retail broadband access lines grew year-on-year by 56,000 or 2.9% to 1.98 million (+20,000 in the first half of the year). As a result, the growth in TV and broadband connections in the fixed network business more than offset the reduction in the number of fixed-line phone connections of 179,000 (–111,000 in the first half of the year). The decrease in the number of fixed-line phone connections is mainly the result of customers switching from fixed to mobile telephony. Segment expense fell by CHF 3 million or 0.1% to CHF 2,770 million (+1.3% in the second quarter) with direct costs increasing and indirect costs decreasing versus the prior year. The CHF 8 million or 0.8% rise in direct costs to CHF 952 million (+4.8% in the second quarter) mainly reflects higher expenditures for roaming and international traffic as well as higher costs for customer acquisition and retention. The CHF 11 million or 0.6% drop in indirect costs to CHF 1,818 million (–0.4% in the second quarter) is mainly attributable to cost savings as a result of efficiency improvement measures and lower expenses for maintenance. Headcount fell year-on-year by 93 FTEs or 0.5% to 16,969. On a like-for-like basis, the decrease corresponded to 214 FTEs or 1.3% (–291 or –1.4% in the first half of the year), which came as a result of efficiency measures. The cost savings partially offset the lower revenue from telecommunications services. The segment result before depreciation and amortisation (EBITDA) was CHF 12 million or 0.6% lower at CHF 1,912 million (–2.4% in the second quarter), while the profit margin fell 0.2 percentage points to 40.8%.

Compared to the previous year, depreciation and amortisation rose by CHF 70 million or 10.4% to CHF 744 million (+9.9% in the second quarter) as a result of the high capital expenditure. The segment result declined accordingly by CHF 82 million or 6.6% to CHF 1,168 million (–9.1% in the second quarter). At CHF 872 million, capital expenditure was CHF 31 million or 3.7% higher (–1.3% in the second quarter), mainly on account of increased investments in broadband networks.

Fastweb

In EUR million, except where indicated	2. quarter 2016	2. quarter 2015	Change	1 st half-year 2016	1 st half-year 2015	Change
Residential Customers	227	219	3.7%	450	435	3.4%
Corporate Business	177	177	–	348	345	0.9%
Wholesale	35	36	–2.8%	79	80	–1.3%
Revenue from external customers	439	432	1.6%	877	860	2.0%
Intersegment revenue	2	1	100.0%	4	2	100.0%
Net revenue	441	433	1.8%	881	862	2.2%
Segment expenses	(237)	(293)	–19.1%	(546)	(602)	–9.3%
Segment result before depreciation and amortisation (EBITDA)	204	140	45.7%	335	260	28.8%
Margin as % of net revenue	46.3	32.3		38.0	30.2	
Capital expenditure	132	132	–	286	279	2.5%
Full-time equivalent employees at end of period				2,422	2,377	1.9%
Broadband access lines at end of period in thousand				2,257	2,157	4.6%

Fastweb's net revenue rose year-on-year by EUR 19 million or 2.2% to EUR 881 million (+1.8% in the second quarter). Despite a difficult market environment, Fastweb's broadband customer base grew year-on-year by 100,000 or 4.6% to 2.26 million (+56,000 in the first six months of the year). Fierce competition reduced average revenue per residential broadband customer by around 3% versus the prior-year period. Nevertheless, this decline was outweighed by customer growth. Revenue from residential customers rose accordingly by EUR 15 million or 3.4% to EUR 450 million in comparison with the previous year (+3.7% in the second quarter). Thanks to a strong market position in the market for business customers, revenue from business customers grew by EUR 3 million or 0.9% to EUR 348 million (unchanged in the second quarter). Revenue in the wholesale business remained stable at EUR 79 million.

The segment result before depreciation and amortisation (EBITDA) at Fastweb rose by EUR 75 million or 28.8% to EUR 335 million. This includes compensation from Telecom Italia in the amount of EUR 55 million as a result of an out-of-court settlement following a legal dispute. Adjusted for this one-off effect, EBITDA rose by EUR 20 million or 7.7% (+6.4% in the second quarter) and the profit margin by 1.6 percentage points to 31.8%. Spending on the continuing expansion of the broadband network resulted in a rise in capital expenditure of EUR 7 million or 2.5% to EUR 286 million. In July 2016, Fastweb and Telecom Italia announced plans to cooperate on the rollout of Fibre to the Home (FTTH). The aim is for 13 million or half of homes and businesses in Italy to be connected to the ultra-fast broadband network by 2020.

Other Operating Segments

In CHF million, except where indicated

	2. quarter 2016	2. quarter 2015	Change	1 st half-year 2016	1 st half-year 2015	Change
Revenue from external customers	81	87	-6.9%	157	177	-11.3%
Intersegment revenue	65	69	-5.8%	118	123	-4.1%
Net revenue	146	156	-6.4%	275	300	-8.3%
Segment expenses	(119)	(137)	-13.1%	(226)	(265)	-14.7%
Segment result before depreciation and amortisation (EBITDA)	27	19	42.1%	49	35	40.0%
Margin as % of net revenue	18.5	12.2		17.8	11.7	
Capital expenditure	11	6	83.3%	17	12	41.7%
Full-time equivalent employees at end of period				1,743	1,722	1.2%

The development of the Other Operating Segments is mainly affected by the sale of companies in the previous year. In the first half of 2015, Swisscom sold Alphapay Ltd and the Swisscom Hospitality division. This is the main reason for the decline in revenue and segment expense.

The net revenue of Other Operating Segments fell year-on-year by CHF 25 million or 8.3% to CHF 275 million (-6.4% in the second quarter). Adjusted for the sale of companies, net revenue rose by CHF 4 million or 1.4%, mainly as a result of higher revenue for construction services at cablex. The segment result before depreciation and amortisation increased by CHF 14 million or 40.0% to CHF 49 million (+42.1% in the second quarter), mainly as a result of higher revenue as well as one-off charges at cablex in the prior year. The profit margin improved by 6.1 percentage points to 17.8%. Headcount increased year-on-year by 21 FTEs or 1.2% to 1,743 FTEs.

Group Headquarters and reconciliation of pension cost

Operating income before depreciation and amortisation improved year-on-year by CHF 1 million or 1.7% to CHF -57 million. Headcount fell year-on-year by 4.9% to 309 FTEs.

An expense of CHF 35 million (prior year: CHF 36 million) is recognised as a pension cost reconciliation item under IAS 19 for the first six months of 2016.

Depreciation and amortisation, non-operating results

In CHF million, except where indicated

	2. quarter 2016	2. quarter 2015	Change	1 st half-year 2016	1 st half-year 2015	Change
Operating income before depreciation and amortisation (EBITDA)	1,146	1,082	5.9%	2,227	2,133	4.4%
Depreciation, amortisation and impairment losses	(546)	(521)	4.8%	(1,092)	(1,028)	6.2%
Operating income (EBIT)	600	561	7.0%	1,135	1,105	2.7%
Net interest expense	(42)	(49)	-14.3%	(81)	(96)	-15.6%
Other financial income and expense, net	(24)	16	–	(64)	(41)	56.1%
Share of results of associates	–	8	-100.0%	–	13	-100.0%
Income before income taxes	534	536	-0.4%	990	981	0.9%
Income tax expense	(110)	(103)	6.8%	(202)	(197)	2.5%
Net income	424	433	-2.1%	788	784	0.5%
Share of net income attributable to equity holders of Swisscom Ltd	424	433	-2.1%	789	784	0.6%
Share of net income attributable to non-controlling interests	–	–	–	(1)	–	–
Earnings per share (in CHF)	8.19	8.36	-2.1%	15.23	15.13	0.6%

Swisscom's depreciation and amortisation increased by CHF 64 million or 6.2% to CHF 1,092 million in comparison with the prior year, mainly reflecting an increase in depreciation and amortisation at Swisscom Switzerland because of the high capital expenditure level. Intangible assets resulting from company acquisitions were capitalised for purchase price allocation purposes. Depreciation and amortisation for the first half of 2016 includes scheduled amortisation of CHF 64 million (prior year: CHF 60 million) related to company acquisitions.

Net interest expense was CHF 15 million lower at CHF 81 million as a result of the lower average interest costs for financial debt. At CHF 64 million, other net financial expense rose by CHF 23 million compared to the previous year. The net financial expense for the first half of 2016 includes negative effects of CHF 42 million arising from the fair value adjustment of interest rate swaps (prior year: CHF 9 million) and foreign exchange gains of CHF 1 million (prior year: foreign exchange losses of CHF 34 million). The first half of the prior year also includes gains from the sale of subsidiaries in the amount of CHF 19 million.

Income tax expense amounted to CHF 202 million (prior year: CHF 197 million), corresponding to an effective income tax rate of 20.4% (prior year: 20.1%). Excluding non-recurring items, the long-term expectation continues to be that the income tax rate will be around 21%.

Swisscom's net income rose by CHF 4 million or 0.5% to CHF 788 million. The increase in EBITDA was largely offset by higher depreciation and amortisation and higher net financial expense. Earnings per share is calculated based on the share of net income attributable to equity holders of Swisscom Ltd and the average number of shares outstanding. Earnings per share rose from CHF 15.13 to CHF 15.23.

Cash flows

In CHF million	1 st half-year 2016	1 st half-year 2015	Change
Operating income before depreciation and amortisation (EBITDA)	2,227	2,133	94
Capital expenditure	(1,193)	(1,142) ¹	(51)
Proceeds from sale of tangible and other intangible assets	19	13	6
Change in defined benefit obligations	31	33	(2)
Change in net working capital and other cash flow from operating activities	(288)	(285)	(3)
Dividends paid to non-controlling interests	(8)	(7)	(1)
Operating free cash flow	788	745	43
Net interest paid	(18)	(24)	6
Income taxes paid	(257)	(257)	–
Free cash flow	513	464	49
Other cash flows from investing activities, net	–	6	(6)
Issuance and repayment of financial liabilities, net	730	624	106
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Other cash flows from financing activities	(33)	(37)	4
Net increase (net decrease) in cash and cash equivalents	70	(83)	153

¹ Excluding capital expenditure totalling CHF 10 million in real estate projects for which sales contracts were signed.

Free cash flow increased year-on-year by CHF 49 million or 10.6% to CHF 513 million, due to higher operating free cash flow. Operating free cash flow rose by CHF 43 million or 5.8% to CHF 788 million. The increase was mainly due to higher earnings before depreciation and amortisation (EBITDA), which was partly offset by higher capital expenditure. Net working capital increased by CHF 288 million compared to the end of 2015 (prior year: increase of CHF 285 million), mainly as a result of the payment of the Competition Commission penalty as part of the ongoing proceedings regarding broadband services. Swisscom does not consider the sanction justified and lodged an appeal with the Federal Court. Swisscom paid the penalty of CHF 186 million, as no suspensive effect was granted. Net working capital also increased as a result of higher accruals for prepaid expenses for financial year 2016. Capital expenditure increased year-on-year by CHF 51 million or 4.5% to CHF 1,193 million, mainly due to the ongoing expansion of the broadband networks in Switzerland and Italy.

In the first quarter of 2016, Swisscom issued a debenture bond with a nominal amount of CHF 200 million. It has a coupon of 0.375% and matures in 2028. The funds raised were used to repay existing debts. In addition, a private placement for CHF 150 million that fell due in the first quarter was extended by 15 years at a fixed interest rate of 0.56%. In addition, Swisscom took out short-term bank loans of around CHF 500 million in the first half of 2016, which were used to partly finance the dividend payment.

Balance sheet

In CHF million, except where indicated

	30.06.2016	31.12.2015	Change
Assets			
Cash and cash equivalents and current financial assets	474	409	15.9%
Trade and other receivables	2,538	2,535	0.1%
Property, plant and equipment	10,037	9,855	1.8%
Goodwill	5,163	5,161	0.0%
Other intangible assets	1,815	1,861	-2.5%
Investments in associates and non-current financial assets	499	461	8.2%
Income tax assets	381	375	1.6%
Other current and non-current assets	541	492	10.0%
Total assets	21,448	21,149	1.4%
Liabilities and equity			
Financial liabilities	9,470	8,593	10.2%
Trade and other payables	1,729	1,768	-2.2%
Defined benefit obligations	3,747	2,919	28.4%
Provisions	947	1,139	-16.9%
Income tax liabilities	230	436	-47.2%
Other current and non-current liabilities	1,062	1,052	1.0%
Total liabilities	17,185	15,907	8.0%
Share of equity attributable to equity holders of Swisscom Ltd	4,257	5,237	-18.7%
Share of equity attributable to non-controlling interests	6	5	20.0%
Total equity	4,263	5,242	-18.7%
Total liabilities and equity	21,448	21,149	1.4%
Equity ratio at end of period	19.9%	24.8%	
Net debt	8,856	8,042	10.1%

Total assets at 30 June 2016 amounted to CHF 21,448 million, which equates to an increase of CHF 299 million or 1.4% versus the end of 2015. The increase in assets is mainly due to the higher volume of property, plant and equipment as a result of investment activity. Compared to the end of 2015, defined benefit obligations recognised under IAS 19 were CHF 828 million higher at CHF 3,747 million. This increase is mainly due to the lower discount rate, which fell from 0.94% to 0.41%. The main reason for the decline in provisions by CHF 192 million to CHF 947 million is the payment of the Competition Commission sanction as part of the ongoing proceedings regarding broadband services in the amount of CHF 186 million. Swisscom does not consider the sanction justified and lodged an appeal with the Federal Court. Equity fell by CHF 979 million or 18.7% to CHF 4,263 million, which corresponds to an equity ratio of 19.9% (24.8% as at 31 December 2015). Net income of CHF 788 million was offset by the dividend of CHF 1,140 million and the other net loss of CHF 620 million recognised in equity. This includes actuarial losses of CHF 783 million from pension plans arising mainly from interest rate changes. At the end of June 2016, the cumulative currency translation losses included in equity remain unchanged at about CHF 1.7 billion.

Net debt comprises financial liabilities less cash and cash equivalents, current financial assets and non-current, fixed-interest-bearing deposits. Swisscom's goal is to achieve a maximum net debt/EBITDA ratio (on an annual basis) of 2.1. This value may be exceeded temporarily. Financial leeway exists if the target is not reached.

Outlook

In view of the compensation from Telecom Italia and higher capital expenditure in the broadband network in Switzerland, Swisscom is adjusting the financial outlook for the 2016 financial year. Swisscom continues to expect net revenue of more than CHF 11.6 billion and now anticipates EBITDA of around CHF 4.25 billion (previously, about CHF 4.2 billion) and capital expenditure of around CHF 2.4 billion (previously, more than CHF 2.3 billion). A CHF/EUR exchange rate of 1.10 is assumed for the 2016 financial outlook.

Excluding Fastweb, a slight decline in Swisscom revenue is anticipated. Growing competition and price pressure in both the residential and corporate customer segments for conventional communication services will provoke the expected decline in revenue. Growth in the number of subscribers to broadband connections, TV and mobile services will not be able to offset this decline due to growing market saturation. A slight increase in revenue is expected for Fastweb, based on growth in the customer base.

EBITDA in 2015 was around CHF 4.1 billion and was negatively affected by a number of non-recurring items, in particular provisions of CHF 186 million for legal proceedings on broadband services and CHF 70 million for headcount reductions. EBITDA in 2016 for Swisscom without Fastweb is expected to be CHF 200 million lower than EBITDA in 2015, adjusted for these two non-recurring items. In addition to the price-related decline in revenue, the costs for roaming are expected to increase. Organisational changes, efficiency gains and a lower headcount will result in cost savings of around CHF 50 million in 2016. In addition to the compensation from Telecom Italia in the amount of EUR 55 million, a higher EBITDA is expected for Fastweb.

Swisscom expects capital expenditure for 2016 of around CHF 2.4 billion. In Switzerland, it anticipates capital expenditure of around CHF 1.8 billion or about the same amount as the prior year. Capital expenditure at Fastweb will remain stable.

If the targets are met, Swisscom will propose to the Annual General Meeting of Shareholders payment of an unchanged dividend of CHF 22 per share for the 2016 financial year.

Consolidated interim financial statements (condensed and unaudited)

Consolidated income statement (condensed and unaudited)

In CHF million, except where indicated

	Note	2. quarter 2016	2. quarter 2015	1 st half-year 2016	1 st half-year 2015
Net revenue	2	2,884	2,865	5,769	5,758
Goods and services purchased		(558)	(553)	(1,102)	(1,121)
Personnel expense		(743)	(757)	(1,508)	(1,513)
Other operating expense		(600)	(577)	(1,197)	(1,186)
Capitalised self-constructed assets and other income	6	163	104	265	195
Operating income before depreciation and amortisation (EBITDA)		1,146	1,082	2,227	2,133
Depreciation, amortisation and impairment losses		(546)	(521)	(1,092)	(1,028)
Operating income (EBIT)	2	600	561	1,135	1,105
Financial income and financial expense, net	3	(66)	(33)	(145)	(137)
Share of results of associates		–	8	–	13
Income before income taxes		534	536	990	981
Income tax expense		(110)	(103)	(202)	(197)
Net income		424	433	788	784
Share of net income attributable to equity holders of Swisscom Ltd		424	433	789	784
Share of net income attributable to non-controlling interests		–	–	(1)	–
Basic and diluted earnings per share (in CHF)		8.19	8.36	15.23	15.13

Consolidated statement of comprehensive income (unaudited)

In CHF million	2. quarter 2016	2. quarter 2015	1 st half-year 2016	1 st half-year 2015
Net income	424	433	788	784
Other comprehensive income				
Actuarial gains and losses from defined benefit pension plans	81	549	(783)	57
Income tax expense	(16)	(114)	163	(12)
Items that will not be reclassified to income statement, net of tax	65	435	(620)	45
Foreign currency translation adjustments of foreign subsidiaries	(11)	(11)	3	(260)
Gains and losses from available-for-sale financial assets transferred to income statement	–	–	(4)	–
Change in fair value of cash flow hedges	4	3	1	(23)
Fair value losses of cash flow hedges transferred to income statement	–	–	1	(3)
Income tax expense	1	2	(1)	63
Items that are or may be reclassified subsequently to income statement, net of tax	(6)	(6)	–	(223)
Other comprehensive income	59	429	(620)	(178)
Comprehensive income	483	862	168	606
Share of comprehensive income attributable to equity holders of Swisscom Ltd	483	862	169	606
Share of comprehensive income attributable to non-controlling interests	–	–	(1)	–

Consolidated balance sheet (condensed and unaudited)

In CHF million	Note	30.06.2016	31.12.2015
Assets			
Cash and cash equivalents		394	324
Trade and other receivables		2,538	2,535
Other financial assets		80	85
Other assets		481	433
Total current assets		3,493	3,377
Property, plant and equipment		10,037	9,855
Goodwill and other intangible assets		6,978	7,022
Investments in associates		205	223
Other financial assets		294	238
Other assets		441	434
Total non-current assets		17,955	17,772
Total assets		21,448	21,149
Liabilities and equity			
Financial liabilities	4	1,619	1,195
Trade and other payables		1,729	1,768
Current income tax liabilities		79	146
Provisions	5	156	351
Other liabilities		723	693
Total current liabilities		4,306	4,153
Financial liabilities	4	7,851	7,398
Defined benefit obligations		3,747	2,919
Provisions	5	791	788
Deferred tax liabilities		151	290
Other liabilities		339	359
Total non-current liabilities		12,879	11,754
Total liabilities		17,185	15,907
Share of equity attributable to equity holders of Swisscom Ltd		4,257	5,237
Share of equity attributable to non-controlling interests		6	5
Total equity		4,263	5,242
Total liabilities and equity		21,448	21,149

Consolidated statement of cash flows (condensed and unaudited)

In CHF million	Note	1 st half-year 2016	1 st half-year 2015
Net income		788	784
Adjustment for non-cash items		1,427	1,343
Change in operating assets and liabilities		(244)	(236)
Income taxes paid		(257)	(257)
Cash flow provided by operating activities		1,714	1,634
Capital expenditure		(1,193)	(1,152)
Acquisition of subsidiaries, net of cash and cash equivalents acquired		(27)	(61)
Proceeds from sale of subsidiaries, net of cash and cash equivalents sold		–	28
Other cash flows from investing activities, net		27	28
Cash flow used in investing activities		(1,193)	(1,157)
Issuance and repayment of financial liabilities, net	4	730	624
Dividends paid to equity holders of Swisscom Ltd	7	(1,140)	(1,140)
Dividends paid to non-controlling interests		(8)	(7)
Other cash flows from financing activities, net		(33)	(37)
Cash flow used in financing activities		(451)	(560)
Net increase (net decrease) in cash and cash equivalents		70	(83)
Cash and cash equivalents at beginning of period		324	302
Foreign currency translation adjustments in respect of cash and cash equivalents		–	1
Cash and cash equivalents at end of period		394	220

Consolidated statement of changes in equity (unaudited)

In CHF million	Share capital	Capital reserves	Retained earnings	Treasury shares	Other reserves	Attributable to equity holders of Swisscom	Attributable to non-controlling interests	Total equity
Balance at 31 December 2014	52	136	6,856	–	(1,590)	5,454	3	5,457
Net income	–	–	784	–	–	784	–	784
Other comprehensive income	–	–	45	–	(223)	(178)	–	(178)
Comprehensive income	–	–	829	–	(223)	606	–	606
Dividends paid	–	–	(1,140)	–	–	(1,140)	(7)	(1,147)
Transactions with non-controlling interests	–	–	–	–	–	–	1	1
Acquisition of treasury shares for share-based payments	–	–	–	(2)	–	(2)	–	(2)
Allocation of treasury shares for share-based payments	–	–	–	2	–	2	–	2
Balance at 30 June 2015	52	136	6,545	–	(1,813)	4,920	(3)	4,917
Balance at 31 December 2015	52	136	6,783	–	(1,734)	5,237	5	5,242
Net income	–	–	789	–	–	789	(1)	788
Other comprehensive income	–	–	(620)	–	–	(620)	–	(620)
Comprehensive income	–	–	169	–	–	169	(1)	168
Dividends paid	–	–	(1,140)	–	–	(1,140)	(8)	(1,148)
Transactions with non-controlling interests	–	–	(8)	–	–	(8)	10	2
Acquisition of treasury shares for share-based payments	–	–	–	(4)	–	(4)	–	(4)
Allocation of treasury shares for share-based payments	–	–	–	3	–	3	–	3
Balance at 30 June 2016	52	136	5,804	(1)	(1,734)	4,257	6	4,263

Notes to the interim financial statements (condensed and unaudited)

1 Accounting policies

Basis of preparation

These unaudited consolidated financial statements include Swisscom Ltd and all subsidiaries directly or indirectly controlled by it via a voting majority or in any other way (hereinafter referred to as Swisscom). The consolidated interim financial statements for the six months to 30 June 2016 were prepared in accordance with International Accounting Standard “IAS 34 Interim Financial Reporting” and should be read in conjunction with the consolidated financial statements for the financial year ended 31 December 2015. The consolidated interim financial statements were prepared in accordance with the accounting policies described in the consolidated financial statements 2015 and the revised accounting principles adopted on 1 January 2016.

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

Swisscom operates in business areas where the provision of services is not subject to any major seasonal or cyclical fluctuations during the financial year. Income taxes are calculated on the basis of an estimate of the expected income tax rate for the full year. For the consolidated interim financial statements, a CHF/EUR exchange rate of 1.087 was used as the end-of-period rate (31 December 2015: CHF/EUR 1.084) and 1.096 as the average rate for the period (prior year: CHF/EUR 1.069).

Changes in accounting principles

As of 1 January 2016, Swisscom adopted various amendments to existing International Financial Reporting Standards (IFRS) and Interpretations, none of which have a material impact on the consolidated financial statements of Swisscom.

2 Segment information

Reportable operating segments are determined on the basis of a management approach. Accordingly, external segment reporting reflects the Group's internal financial reporting to the Chief Operating Decision Maker. Reporting is divided into the segments "Residential Customers", "Small & Medium-Sized Enterprises", "Enterprise Customers", "Wholesale", and "IT, Network & Innovation", which are grouped under Swisscom Switzerland, as well as "Fastweb", and "Other Operating Segments". "Group Headquarters", which includes non-allocated costs, is reported separately.

Group Headquarters does not charge any management fees to other segments for its financial management services, nor does the IT, Network & Innovation segment charge any network costs to other segments. Other intersegment services are charged at market rates. The results of the Residential Customers, Small & Medium-Sized Enterprises, Enterprise Customers and Wholesale segments are reported as a contribution margin before network costs. The results of the IT, Network & Innovation segment consist of operating expenses and depreciation and amortisation less the revenue from the rental and administration of buildings and capitalised self-constructed assets and other income. The sum of the segment results of Swisscom Switzerland corresponds in aggregate to the operating result (EBIT) of Swisscom Switzerland. The segment results of Fastweb and Other Operating Segments correspond to the operating result (EBIT) of these units. The latter reflects the net revenues from external customers and other segments less segment expense and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets. Segment expense includes the costs of goods and services purchased, personnel expense and other operating costs less capitalised self-constructed assets and other income.

Segment expense contains the ordinary employer contributions as pension costs. The difference between the ordinary employer contributions and the retirement benefit expense as provided for under IAS 19 is reported in the column "Elimination". For the first half of 2016, an expense of CHF 35 million is disclosed under "Elimination" as a pension cost reconciliation item in accordance with IAS 19 (CHF 36 million in the first half of 2015).

Unrealised gains and losses may arise as a result of recharging services and sales of assets between the segments. These are eliminated and are reported in the segment information in the column "Elimination".

Net revenue and segment results of the individual segments for the first half of 2016 are presented below:

1 st half-year 2016, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head- quarters	Elimi- nation	Total
Net revenue from external customers	4,650	961	157	1	–	5,769
Net revenue with other segments	32	4	118	–	(154)	–
Net revenue	4,682	965	275	1	(154)	5,769
Segment result	1,168	49	15	(57)	(40)	1,135
Financial income and financial expense, net						(145)
Share of results of associates						–
Income before income taxes						990
Income tax expense						(202)
Net income						788

1 st half-year 2016, in CHF million	Residential Customers	Small and Medium- Sized Enterprises	Enterprise Customers	Wholesale	IT, Network & Innovation	Elimi- nation	Swisscom Switzerland
Net revenue from external customers	2,488	662	1,202	287	11	–	4,650
Net revenue with other segments	71	17	106	182	50	(394)	32
Net revenue	2,559	679	1,308	469	61	(394)	4,682
Segment result	1,408	428	364	193	(1,224)	(1)	1,168

Net revenue and segment results of the individual segments for the first half of 2015 are presented below:

1 st half-year 2015, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head- quarters	Elimi- nation	Total
Net revenue from external customers	4,661	920	177	–	–	5,758
Net revenue with other segments	36	1	123	1	(161)	–
Net revenue	4,697	921	300	1	(161)	5,758
Segment result	1,250	(46)	1	(58)	(42)	1,105
Financial income and financial expense, net						(137)
Share of results of associates						13
Income before income taxes						981
Income tax expense						(197)
Net income						784

1 st half-year 2015, in CHF million	Residential Customers	Small and Medium- Sized Enterprises	Enterprise Customers	Wholesale	IT, Network & Innovation	Elimi- nation	Swisscom Switzerland
Net revenue from external customers	2,499	652	1,205	288	17	–	4,661
Net revenue with other segments	75	15	102	176	65	(397)	36
Net revenue	2,574	667	1,307	464	82	(397)	4,697
Segment result	1,405	429	401	193	(1,178)	–	1,250

3 Financial income and financial expense

In CHF million	1 st half-year 2016	1 st half-year 2015
Interest income	8	5
Interest expense	(89)	(101)
Net interest expense on financial assets and financial liabilities	(81)	(96)
Foreign exchange gains (foreign exchange losses)	1	(34)
Change in fair value of interest rate swaps	(42)	(9)
Gains from sale of subsidiaries	–	19
Other financial income and expense, net	(23)	(17)
Financial income and financial expense, net	(145)	(137)

4 Financial liabilities

In CHF million	30.06.2016	31.12.2015
Bank loans	1,269	746
Debenture bonds	107	45
Private placements	202	350
Finance lease liabilities	15	16
Other financial liabilities	26	38
Total current financial liabilities	1,619	1,195
Bank loans	580	610
Debenture bonds	5,636	5,385
Private placements	734	581
Finance lease liabilities	512	510
Other financial liabilities	389	312
Total non-current financial liabilities	7,851	7,398
Total financial liabilities	9,470	8,593

In the first quarter of 2016, Swisscom issued a debenture bond with a nominal amount of CHF 200 million. It has a coupon of 0.375% and matures in 2028. The funds raised were used to repay existing debts. In addition, a private placement for CHF 150 million that fell due in the first quarter was extended by 15 years at a fixed interest rate of 0.56%. In addition, Swisscom took out short-term bank loans of around CHF 500 million in the first half of 2016, which were used to partly finance the dividend payment.

5 Provisions

In CHF million	Dismantlement and restoration costs	Regulatory and competition law proceedings	Other	Total
Balance at 31 December 2015	593	310	236	1,139
Additions of provisions	1	2	13	16
Present-value adjustments	101	1	1	103
Release of unused provisions	(105)	–	(3)	(108)
Use of provisions	(1)	(186)	(16)	(203)
Balance at 30 June 2016	589	127	231	947
Thereof current provisions	–	9	147	156
Thereof non-current provisions	589	118	84	791

Provisions for dismantling and restoration costs

The provisions for dismantling and restoration costs relate to the dismantling of mobile base stations and transmitter stations of Swisscom Broadcast and the restoration to its original state of the land owned by third parties on which the stations are located. The provisions are computed by reference to estimates of future dismantling costs and are discounted using an average interest rate of 0.81%. The decrease in the discount rate had an effect of CHF 97 million in the first half of 2016. Furthermore, the cost index for the calculation of the dismantling costs fell in the first half of 2016, which had an effect of CHF 105 million. Adjustments as a result of reassessments in the net amount of CHF 4 million were recognised under property, plant and equipment in the first half of 2016. The non-current portion of the provisions is expected to be settled after 2020.

Provisions for regulatory and competition-law proceedings

In accordance with the revised Telecommunications Act, Swisscom provides interconnection services and other access services to other telecommunication service providers in Switzerland. In previous years, several telecommunication service providers demanded from the Federal Communications Commission (ComCom) a reduction in the prices charged to them by Swisscom. Based on legal assessments, Swisscom raised provisions in prior years. The provisions recognised in the consolidated financial statements 2015 have not changed materially during the current financial year.

In 2009, the Competition Commission (ComCom) sanctioned Swisscom for abuse of a market-dominant position in the case of ADSL services in the period up to the end of 2007 and levied a fine of CHF 220 million. Swisscom appealed the ruling to the Federal Administrative Court. In October 2015, the Federal Administrative Court confirmed in principle the Competition Commission's decision and reduced the penalty imposed by the Competition Commission from CHF 220 million to CHF 186 million. As a result of this decision, Swisscom recognised a provision of CHF 186 million in the third quarter of 2015. Swisscom does not consider the sanction justified and has lodged an appeal with the Federal Court. At the beginning of 2016 Swisscom paid the penalty of CHF 186 million, as no suspensive effect was granted.

Other provisions

Other provisions mainly include provisions for workforce reductions and environmental, contractual and tax risks. The other provisions recognised in the consolidated financial statements 2015 have not changed materially during the current financial year.

6 Contingent liabilities and contingent assets

Regulatory and competition-law proceedings

In April 2013, the Competition Commission opened an investigation under the Federal Cartel Act against Swisscom concerning the broadcasting of live sport on pay TV. In July 2015, the Secretariat of the Competition Commission submitted its draft decree to Swisscom. It proposed to the Competition Commission a sanction in the amount of CHF 143 million against Swisscom due to alleged prohibited marketing of sports content via pay TV. In May 2016, the Competition Commission decided on a penalty of CHF 72 million in the proceedings. Swisscom denies the allegations and believes that it acted lawfully in its marketing of sports content. Swisscom has appealed the decision to the Federal Administrative Court and it now believes that it is unlikely that a court of final appeal will levy sanctions. It has therefore still not recognised a provision in its consolidated financial statements as at 30 June 2016.

With regard to the other contingent liabilities reported in the consolidated financial statements 2015 in connection with regulatory and antitrust proceedings, Swisscom is of the opinion that an outflow of resources is unlikely and, as before, has therefore not recognised any provision for this in the consolidated financial statements as at 30 June 2016.

Contingent assets from litigation

In 2015, the Italian competition authorities (AGCOM) condemned Telecom Italia for unlawful conduct as a market-dominant company and imposed a penalty of EUR 104 million. Related to the same matter, Fastweb has claimed damages from Telecom Italia and initiated legal action in connection therewith. In the fourth quarter of 2015, Fastweb and Telecom Italia concluded an out-of-court settlement. The latter also encompasses additional contested receivables of both parties from each other. In the second quarter of 2016, Telecom Italia made a payment of EUR 55 million (CHF 60 million). As at 30 June 2016, there still resulted from the settlement for Fastweb an uncertain receivable to which conditions are attached. Disclosure of the amount of the receivable is waived for contractual and procedural reasons.

7 Dividend payment

On 6 April 2016, the Annual General Meeting of Swisscom Ltd approved the payment of a gross dividend of CHF 22 per share. A total dividend amount of CHF 1,140 million was paid out on 12 April 2016.

8 Financial instruments

Fair value of financial instruments

The carrying amounts and the fair values of financial assets and financial liabilities with the corresponding valuation categories can be found in the following table. The table does not include cash and cash equivalents, accounts receivable and payable or other receivables and liabilities whose carrying amount corresponds to an adequate estimate of the fair value. The fair value hierarchy encompasses the following three levels:

- > **Level 1:** stock-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.

In CHF million	Carrying amount				Fair Value		
	Loans and receivables	Available-for-sale	At fair value through profit or loss	Financial liabilities	Level 1	Level 2	Level 3
30 June 2016							
Derivative financial instruments	–	–	58	–	–	58	–
Other assets valued at fair value	–	–	61	–	61	–	–
Available-for-sale financial assets	–	8	–	–	–	–	8
Financial assets measured at fair value	–	8	119	–	61	58	8
Other loans and receivables	209	–	–	–	–	237	–
Financial assets not measured at fair value	209	–	–	–	–	237	–
Derivative financial instruments	–	–	99	–	–	99	–
Financial liabilities measured at fair value	–	–	99	–	–	99	–
Bank loans	–	–	–	1,849	–	1,892	–
Debenture bonds	–	–	–	5,743	6,247	–	–
Private placements	–	–	–	936	–	977	–
Finance lease liabilities	–	–	–	527	–	1,163	–
Other interest-bearing financial liabilities	–	–	–	36	–	36	–
Other non-interest-bearing financial liabilities	–	–	–	280	–	280	–
Financial liabilities not measured at fair value	–	–	–	9,371	6,247	4,348	–

In addition, available-for-sale financial assets as of 30 June 2016 with a carrying amount of CHF 38 million are measured at acquisition cost. Level-3 financial instruments performed as follows in the first six months of 2016:

In CHF million	Available-for-sale financial assets
Balance at 31 December 2015	15
Disposals	(7)
Balance at 30 June 2016	8

Level-3 assets consist of investments in various investment funds. The fair value was calculated using a valuation model. In the first half of 2016, there were no reclassifications between the various levels.

9 Related parties

Transactions between Swisscom and various related parties in the first half of 2016 are similar to those described in the consolidated financial statements for 2015.

10 Events after the balance sheet date

Approval of the interim report

The Board of Directors of Swisscom Ltd approved the release of this interim report on 17 August 2016.

Sale of participation in Metroweb S.p.A.

At the beginning of August 2016, Swisscom signed a contract to sell its participation of 10.6% in Metroweb S.p.A. Metroweb operates the largest fibre-optic network in Milan and Lombardy. The purchase price is around EUR 80 million (CHF 87 million). The completion of the sale is expected by the end of 2016 and depends on the approval of the Italian competition authority. The sale is expected to result in a gain of about CHF 40 million, which will be recognised as other financial income when the transaction is completed.

Further information

Share information

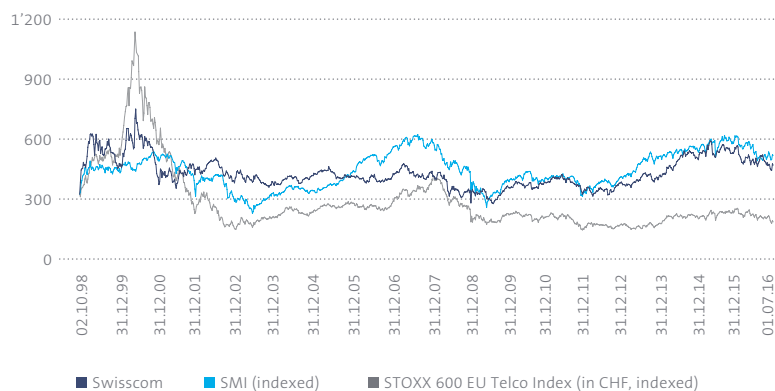
Swisscom share performance indicators

31.12.2015–30.06.2016	SIX Swiss Exchange
Closing price at 31 December 2015 in CHF ¹	503.00
Closing price at 30 June 2016 in CHF ¹	482.70
Change in %	(4.0)
Year high in CHF ¹	528.50
Year low in CHF ¹	445.00
Total volume of traded shares	18,522,335
Total turnover in CHF million	8,991
Daily average of traded shares	148,179
Daily average in CHF million	72

Source: Bloomberg
¹ paid prices

Share performance since IPO

Share performance 1998–2016 in CHF



Share information

On 30 June 2016, the share capital consisted of 51,801,943 registered shares, the majority of which are held by the Swiss Confederation in accordance with the Telecommunications Enterprise Act (TEA). Par value per registered share is CHF 1.

At the end of June 2016, Swisscom had 75,000 registered shareholders and around 14% unregistered shares (dispo shares).

At the Annual General Meeting on 6 April 2016, shareholders approved a gross dividend of CHF 22 per share. A total dividend amount of CHF 1,140 million was paid out on 12 April 2016.

Each share entitles the holder to one vote. Voting rights can only be exercised if the shareholder is entered in the share register of Swisscom Ltd with voting rights. The Board of Directors may refuse to enter a shareholder with voting rights if such voting rights exceed 5% of the company's share capital.

Financial calendar

- | | |
|-------------------|----------------------------------|
| > 3 November 2016 | 2016 Third-Quarter Results |
| > 8 February 2017 | 2016 Annual Result |
| > 3 April 2017 | Annual General Meeting in Zurich |
| > 3 May 2017 | 2017 First-Quarter Results |
| > 17 August 2017 | 2017 Second-Quarter Results |
| > 2 November 2017 | 2017 Third-Quarter Results |

Stock exchanges

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

Quarterly review 2015 and 2016

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2015	1. quarter	2. quarter	3. quarter	4. quarter	2016
Income statement										
Net revenue	2,893	2,865	2,893	3,027	11,678	2,885	2,884			5,769
Goods and services purchased	(568)	(553)	(533)	(688)	(2,342)	(544)	(558)			(1,102)
Personnel expense	(756)	(757)	(703)	(803)	(3,019)	(765)	(743)			(1,508)
Other operating expense	(609)	(577)	(785)	(726)	(2,697)	(597)	(600)			(1,197)
Capitalised self-constructed assets and other income	91	104	94	189	478	102	163			265
Operating income (EBITDA)	1,051	1,082	966	999	4,098	1,081	1,146			2,227
Depreciation and amortisation	(507)	(521)	(517)	(541)	(2,086)	(546)	(546)			(1,092)
Operating income (EBIT)	544	561	449	458	2,012	535	600			1,135
Net interest expense	(47)	(49)	(51)	(42)	(189)	(39)	(42)			(81)
Other financial result	(57)	16	(6)	(36)	(83)	(40)	(24)			(64)
Result of associates	5	8	5	5	23	–	–			–
Income before income taxes	445	536	397	385	1,763	456	534			990
Income tax expense	(94)	(103)	(123)	(81)	(401)	(92)	(110)			(202)
Net income	351	433	274	304	1,362	364	424			788
Attributable to equity holders of Swisscom Ltd	351	433	274	303	1,361	365	424			789
Attributable to non-controlling interests	–	–	–	1	1	(1)	–			(1)
Earnings per share (in CHF)	6.78	8.35	5.29	5.85	26.27	7.05	8.36			15.23
Net revenue										
Swisscom Switzerland	2,355	2,342	2,375	2,473	9,545	2,345	2,337			4,682
Fastweb	468	453	457	489	1,867	482	483			965
Other Operating Segments	144	156	149	154	603	129	146			275
Group Headquarters	–	1	–	1	2	–	1			1
Intersegment elimination	(74)	(87)	(88)	(90)	(339)	(71)	(83)			(154)
Total net revenue	2,893	2,865	2,893	3,027	11,678	2,885	2,884			5,769
Segment result before depreciation and amortisation (EBITDA)										
Swisscom Switzerland	955	969	833	844	3,601	966	946			1,912
Fastweb	130	148	156	185	619	144	223			367
Other Operating Segments	16	19	24	10	69	22	27			49
Group Headquarters	(29)	(29)	(22)	(37)	(117)	(30)	(27)			(57)
Intersegment elimination	(4)	(6)	(7)	3	(14)	(3)	(6)			(9)
Reconciliation pension cost	(17)	(19)	(18)	(6)	(60)	(18)	(17)			(35)
Total segment result (EBITDA)	1,051	1,082	966	999	4,098	1,081	1,146			2,227
Capital expenditure in property, plant and equipment and other intangible assets										
Swisscom Switzerland	388	453	459	499	1,799	425	447			872
Fastweb	160	138	133	150	581	169	145			314
Other Operating Segments	6	6	8	28	48	6	11			17
Intersegment elimination	(5)	(4)	(5)	(5)	(19)	(4)	(6)			(10)
Total capital expenditure	549	593	595	672	2,409	596	597			1,193
Full-time equivalent employees at end of period										
Swisscom Switzerland	16,964	17,062	17,176	17,199	17,199	17,155	16,969			16,969
Fastweb	2,373	2,377	2,381	2,401	2,401	2,407	2,422			2,422
Other Operating Segments	1,940	1,722	1,725	1,723	1,723	1,769	1,743			1,743
Group Headquarters	322	325	321	314	314	314	309			309
Total full-time equivalent employees	21,599	21,486	21,603	21,637	21,637	21,645	21,443			21,443
Operating free cash flow	344	401	684	415	1,844	184	604			788
Net debt	7,895	8,760	8,320	8,042	8,042	8,108	8,856			8,856

In CHF million, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2015	1. quarter	2. quarter	3. quarter	4. quarter	2016
Swisscom Switzerland										
Revenue and results										
Residential Customers	438	449	460	433	1,780	426	428			854
Small and Medium-Sized Enterprises	101	102	102	98	403	95	93			188
Enterprise Customers	132	140	140	134	546	128	128			256
Revenue mobile single subscription	671	691	702	665	2,729	649	649			1,298
Residential Customers	207	191	185	178	761	159	147			306
Small and Medium-Sized Enterprises	106	103	103	101	413	100	99			199
Enterprise Customers	139	141	140	137	557	138	136			274
Revenue fixed-line single subscription	452	435	428	416	1,731	397	382			779
Residential Customers	461	476	496	513	1,946	524	528			1,052
Small and Medium-Sized Enterprises	69	71	73	75	288	78	80			158
Enterprise Customers	–	–	–	–	–	1	2			3
Revenue bundles	530	547	569	588	2,234	603	610			1,213
Total revenue single subscription and bundles	1,653	1,673	1,699	1,669	6,694	1,649	1,641			3,290
Solution business	261	260	253	294	1,068	277	273			550
Hardware sold	148	128	124	202	602	136	123			259
Wholesale	148	140	145	146	579	139	148			287
Revenue other	126	124	137	145	532	128	136			264
Revenue from external customers	2,336	2,325	2,358	2,456	9,475	2,329	2,321			4,650
Residential Customers	1,252	1,247	1,267	1,309	5,075	1,252	1,236			2,488
Small and Medium-Sized Enterprises	320	332	344	343	1,339	328	334			662
Enterprise Customers	607	598	594	650	2,449	605	597			1,202
Wholesale	148	140	145	146	579	139	148			287
IT, Network & Innovation	9	8	8	8	33	5	6			11
Revenue from external customers	2,336	2,325	2,358	2,456	9,475	2,329	2,321			4,650
Segment result before depreciation and amortisation (EBITDA)										
Residential Customers	730	742	756	705	2,933	755	729			1,484
Small and Medium-Sized Enterprises	217	232	239	219	907	224	228			452
Enterprise Customers	219	226	237	228	910	212	205			417
Wholesale	101	92	(86)	91	198	93	100			193
IT, Network & Innovation	(312)	(323)	(312)	(400)	(1,347)	(318)	(316)			(634)
Intersegment elimination	–	–	(1)	1	–	–	–			–
Segment result (EBITDA)	955	969	833	844	3,601	966	946			1,912
Margin as % of net revenue	40.6	41.4	35.1	34.1	37.7	41.2	40.5			40.8
Fastweb, in EUR million										
Residential Customers	216	219	218	225	878	223	227			450
Corporate Business	168	177	171	195	711	171	177			348
Wholesale hubbing	7	7	6	6	26	6	5			11
Wholesale other	37	29	28	23	117	38	30			68
Revenue from external customers	428	432	423	449	1,732	438	439			877
Segment result (EBITDA)	120	140	145	171	576	131	204			335
Margin as % of net revenue	28.0	32.4	34.2	38.0	33.2	29.9	46.3			38.2
Capital expenditure	147	132	124	138	541	154	132			286
Broadband access lines in thousand	2,124	2,157	2,172	2,201	2,201	2,241	2,257			2,257

In thousand, except where indicated	1. quarter	2. quarter	3. quarter	4. quarter	2015	1. quarter	2. quarter	3. quarter	4. quarter	2016
Swisscom Switzerland										
Operational data										
Access lines										
Single subscriptions	1,763	1,695	1,632	1,573	1,573	1,500	1,412			1,412
Bundles	972	1,002	1,027	1,056	1,056	1,082	1,106			1,106
Fixed access lines	2,735	2,697	2,659	2,629	2,629	2,582	2,518			2,518
Single subscriptions	650	615	581	542	542	503	463			463
Bundles	1,258	1,307	1,356	1,416	1,416	1,465	1,515			1,515
Broadband access lines retail	1,908	1,922	1,937	1,958	1,958	1,968	1,978			1,978
Single subscriptions	200	182	165	148	148	127	111			111
Bundles	1,001	1,056	1,110	1,183	1,183	1,240	1,289			1,289
Swisscom TV access lines	1,201	1,238	1,275	1,331	1,331	1,367	1,400			1,400
Prepaid single subscriptions	2,149	2,131	2,125	2,124	2,124	2,123	2,112			2,112
Postpaid single subscriptions	3,888	3,910	3,920	3,905	3,905	3,877	3,882			3,882
Mobile access lines single subscriptions	6,037	6,041	6,045	6,029	6,029	6,000	5,994			5,994
Bundles	531	551	573	596	596	615	629			629
Mobile access lines	6,568	6,592	6,618	6,625	6,625	6,615	6,623			6,623
Revenue generating units (RGU)	12,412	12,449	12,489	12,543	12,543	12,532	12,519			12,519
Broadband access lines wholesale	278	291	301	315	315	329	342			342
Unbundled fixed access lines	162	150	139	128	128	120	125			125
Bundles										
2Play bundles	302	301	301	287	287	280	281			281
3Play bundles	680	712	741	790	790	826	856			856
4Play bundles	266	278	291	304	304	313	319			319
nPlay bundles	10	16	23	35	35	46	59			59
Total bundles	1,258	1,307	1,356	1,416	1,416	1,465	1,515			1,515
Swisscom Group										
Information by geographical regions										
Net revenue in Switzerland	2,407	2,395	2,431	2,531	9,764	2,398	2,396			4,794
Net revenue in other countries	486	470	462	496	1,914	487	488			975
Total net revenue	2,893	2,865	2,893	3,027	11,678	2,885	2,884			5,769
EBITDA in Switzerland	914	932	804	811	3,461	936	923			1,859
EBITDA in other countries	137	150	162	188	637	145	223			368
Total EBITDA	1,051	1,082	966	999	4,098	1,081	1,146			2,227
Capital expenditure in Switzerland	388	454	460	520	1,822	425	451			876
Capital expenditure in other countries	161	139	135	152	587	171	146			317
Total capital expenditure	549	593	595	672	2,409	596	597			1,193
Full-time equivalent employees in Switzerland	18,776	18,828	18,936	18,965	18,965	18,960	18,754			18,754
Full-time equivalent employees in other countries	2,823	2,658	2,667	2,672	2,672	2,685	2,689			2,689
Total full-time equivalent employees	21,599	21,486	21,603	21,637	21,637	21,645	21,443			21,443

Forward-looking statements

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

This communication contains statements that constitute “forward-looking statements”. In this communication, such forward-looking statements include, without limitation, statements relating to our financial condition, results of operations and business and certain of our strategic plans and objectives. Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors which are beyond Swisscom’s ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom’s and Fastweb’s past and future filings and reports, including those filed with the U.S. Securities and Exchange Commission and in past and future filings, press releases, reports and other information posted on Swisscom Group Companies’ websites. Readers are cautioned not to put undue reliance on forward-looking statements, which speak only of the date of this communication. Swisscom disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise.

