

2016

Interim Report
January–September



swisscom

Key Financial Figures

In CHF million, except where indicated

		1.1.–30.9.2016	1.1.–30.9.2015	Change
Net revenue and results				
Net revenue		8,643	8,651	-0.1%
Operating income before depreciation and amortisation (EBITDA) ¹		3,307	3,099	6.7%
EBITDA as % of net revenue	%	38.3	35.8	
Operating income (EBIT) ²		1,691	1,554	8.8%
Net income		1,197	1,058	13.1%
Share of net income attributable to equity holders of Swisscom Ltd		1,199	1,058	13.3%
Earnings per share	CHF	23.15	20.42	13.3%

Balance sheet and cash flows

Equity at end of period		4,553	4,963	-8.3%
Equity ratio at end of period ³	%	21.3	23.6	
Capital expenditure		1,768	1,737	1.8%
Operating free cash flow ⁴		1,404	1,429	-1.7%
Net debt at end of period ⁵		8,310	8,320	-0.1%

Operational data at end of period

Fixed access lines in Switzerland	in thousand	2,458	2,659	-7.6%
Broadband access lines retail in Switzerland	in thousand	1,985	1,937	2.5%
Swisscom TV access lines in Switzerland	in thousand	1,440	1,275	12.9%
Mobile access lines in Switzerland	in thousand	6,613	6,618	-0.1%
Revenue generating units (RGU) in Switzerland ⁶	in thousand	12,496	12,489	0.1%
Broadband access lines wholesale in Switzerland	in thousand	351	301	16.6%
Broadband access lines in Italy	in thousand	2,295	2,172	5.7%

Swisscom share at end of period

Number of issued shares	in mio.	51.802	51.802	-
Closing price	CHF	461.70	486.20	-5.0%
Market capitalisation ⁷		23,917	25,186	-5.0%

Full-time equivalent employees at end of period

Full-time equivalent employees	FTE	21,292	21,603	-1.4%
Full-time equivalent employees in Switzerland	FTE	18,551	18,936	-2.0%

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 other 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	1.1.–30.9.2016	1.1.–30.9.2015	Change
Net revenue	8,643	8,651	-0.1%
Operating income before depreciation and amortisation (EBITDA)	3,307	3,099	6.7%
EBITDA as % of net revenue	38.3	35.8	
Operating income (EBIT)	1,691	1,554	8.8%
Net income	1,197	1,058	13.1%
Earnings per share (in CHF)	23.15	20.42	13.3%
Capital expenditure	1,768	1,737	1.8%
Operating free cash flow	1,404	1,429	-1.7%
Net debt at end of period	8,310	8,320	-0.1%
Full-time equivalent employees at end of period	21,292	21,603	-1.4%

In the first nine months of 2016, Swisscom posted a slight decline in net revenue of CHF 8 million or 0.1% to CHF 8,643 million. Revenue in the Swiss core business decreased by CHF 46 million or 0.7% to CHF 6,973 million. While revenue from telecommunications services fell by CHF 99 million or 1.9% as a result of strong price pressure and increasing market saturation, revenue in the solutions business with corporate customers increased by CHF 38 million or 4.9%. The number of revenue-generating units (RGU) in the Swiss core business remained more or less at the previous year's level at 12.5 million as a result of market saturation. Towards the end of 2015, however, the number of RGUs fell by 47,000. As a result of customer growth, the revenue of the Italian subsidiary, Fastweb, was EUR 32 million or 2.5% higher at EUR 1,318 million. The number of subscribers to Fastweb's broadband business grew year-on-year by 123,000 or 5.7% to 2.3 million (+94,000 at the end of 2015).

Swisscom's operating income before depreciation and amortisation (EBITDA) increased by CHF 208 million or 6.7% to CHF 3,307 million due to non-recurring items. In the previous year, a provision was recognised in the Competition Commission proceedings regarding broadband services, reducing EBITDA by CHF 186 million. In the second quarter of 2016, Fastweb received compensation in the amount of EUR 55 million as a result of an out-of-court settlement following a legal dispute. Adjusted for non-recurring items and on the basis of constant exchange rates, EBITDA fell by CHF 55 million or 1.7%. The adjusted EBITDA in the Swiss core business declined by CHF 102 million or 3.5%, while at Fastweb it rose by EUR 30 million or 7.4%. Net income increased year-on-year by CHF 139 million or 13.1% to CHF 1,197 million. The increase in EBITDA was partly offset by higher depreciation and amortisation.

Swisscom's capital expenditure rose year-on-year by CHF 31 million or 1.8% to CHF 1,768 million; capital expenditure in Switzerland remained high at CHF 1,292 million (-0.8%). At the end of September 2016, around 2.4 million lines in Switzerland featured the latest fibre-optic technology. In total, Swisscom has connected around 3.4 million homes and offices with ultra-fast broadband (with speeds of more than 50 Mbps). At Fastweb, capital expenditure increased by EUR 27 million or 6.7% to EUR 430 million due to the continuing expansion of the broadband network.

Operating free cash flow declined by CHF 25 million or 1.7% to CHF 1,404 million. Net debt was virtually unchanged year-on-year at CHF 8,310 million (-0.1%).

Swisscom headcount decreased year-on-year by 311 FTEs or 1.4% to 21,292 FTEs. Excluding company acquisitions and due to efficiency measures, the number of staff fell by 350 FTEs, a decrease of 1.6%. In the Swiss core business, the adjusted number of FTEs fell by 470 or 2.7% year-on-year (-493 or -2.9% in by the end of 2015).

The financial outlook for 2016 remains unchanged. Swisscom expects net revenue of more than CHF 11.6 billion, EBITDA of around CHF 4.25 billion and capital expenditure of around CHF 2.4 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	3 rd quarter 2016	3 rd quarter 2015	Change	1.1.– 30.9.2016	1.1.– 30.9.2015	Change
Net revenue						
Residential Customers	1,287	1,303	-1.2%	3,846	3,877	-0.8%
Small and Medium-Sized Enterprises	341	353	-3.4%	1,020	1,020	-
Enterprise Customers	627	643	-2.5%	1,935	1,950	-0.8%
Wholesale	269	250	7.6%	738	714	3.4%
IT, Network & Innovation	37	32	15.6%	98	97	1.0%
Intersegment elimination	(221)	(206)	7.3%	(615)	(586)	4.9%
Swisscom Switzerland	2,340	2,375	-1.5%	7,022	7,072	-0.7%
Fastweb	476	457	4.2%	1,441	1,378	4.6%
Other Operating Segments	149	149	-	424	449	-5.6%
Group Headquarters	-	-	-	1	1	-
Intersegment elimination	(91)	(88)	3.4%	(245)	(249)	-1.6%
Net revenue	2,874	2,893	-0.7%	8,643	8,651	-0.1%
Operating income before depreciation and amortisation (EBITDA)						
Residential Customers	710	756	-6.1%	2,194	2,228	-1.5%
Small and Medium-Sized Enterprises	225	239	-5.9%	677	688	-1.6%
Enterprise Customers	209	237	-11.8%	626	682	-8.2%
Wholesale	105	(86)		298	107	178.5%
IT, Network & Innovation	(313)	(312)	0.3%	(947)	(947)	-
Intersegment elimination	-	(1)	-100.0%	-	(1)	-100.0%
Swisscom Switzerland	936	833	12.4%	2,848	2,757	3.3%
Fastweb	169	156	8.3%	536	434	23.5%
Other Operating Segments	27	24	12.5%	76	59	28.8%
Group Headquarters	(27)	(22)	22.7%	(84)	(80)	5.0%
Intersegment elimination	(5)	(7)	-28.6%	(14)	(17)	-17.6%
Reconciliation to pension cost ¹	(20)	(18)	11.1%	(55)	(54)	1.9%
Operating income before depreciation and amortisation (EBITDA)	1,080	966	11.8%	3,307	3,099	6.7%

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.

Swisscom's financial reporting focuses on 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 intersegmental services are cross-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 segments Residential Customers, Small & Medium-Sized Enterprises, Enterprise Customers and Wholesale correspond to a contribution margin before network costs.

Segment expense includes the costs of goods and services purchased, personnel expense and other operating costs less capitalised costs 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	3 rd quarter 2016	3 rd quarter 2015	Change	1.1.– 30.9.2016	1.1.– 30.9.2015	Change
Net revenue and results						
Mobile single subscriptions	661	702	-5.8%	1,959	2,064	-5.1%
Fixed-line single subscriptions	356	428	-16.8%	1,135	1,315	-13.7%
Bundles	633	569	11.2%	1,846	1,646	12.2%
Solution business	262	253	3.6%	812	774	4.9%
Wholesale	149	145	2.8%	436	433	0.7%
Other	262	261	0.4%	785	787	-0.3%
Revenue from external customers	2,323	2,358	-1.5%	6,973	7,019	-0.7%
Intersegment revenue	17	17	-	49	53	-7.5%
Net revenue	2,340	2,375	-1.5%	7,022	7,072	-0.7%
Direct costs	(508)	(462)	10.0%	(1,460)	(1,406)	3.8%
Indirect costs	(896)	(1,080)	-17.0%	(2,714)	(2,909)	-6.7%
Segment expenses	(1,404)	(1,542)	-8.9%	(4,174)	(4,315)	-3.3%
Segment result before depreciation and amortisation (EBITDA)	936	833	12.4%	2,848	2,757	3.3%
Margin as % of net revenue	40.0	35.1		40.6	39.0	
Depreciation, amortisation and impairment losses	(368)	(344)	7.0%	(1,112)	(1,018)	9.2%
Segment result	568	489	16.2%	1,736	1,739	-0.2%
Operational data at the balance sheet date in thousand						
Fixed access lines				2,458	2,659	-7.6%
Broadband access lines retail				1,985	1,937	2.5%
Swisscom TV access lines				1,440	1,275	12.9%
Mobile access lines				6,613	6,618	-0.1%
Revenue generating units (RGU)				12,496	12,489	0.1%
Bundles				1,588	1,356	17.1%
Unbundled fixed access lines				128	139	-7.9%
Broadband access lines wholesale				351	301	16.6%
Capital expenditure and headcount						
Capital expenditure in property, plant and equipment and other intangible assets	409	459	-10.9%	1,281	1,300	-1.5%
Full-time equivalent employees at end of year				16,767	17,176	-2.4%

Revenue generated by Swisscom Switzerland with external customers fell by CHF 46 million or 0.7% to CHF 6,973 million (-1.5% in the third quarter). Compared to the previous year, revenue from telecommunications services fell by CHF 99 million or 1.9% to CHF 4,986 million, while the solutions business grew by CHF 38 million or 4.9% to CHF 812 million. The decline in revenue for telecommunications services was due to high pressure on prices and increasing market saturation. Unlike in the previous year, this trend could not be offset through new services and customer growth. As a result of market saturation, the number of revenue-generating units (RGU) in the Swiss core business remained more or less at the previous year's level at 12.5 million (+0.1%). However, a fall of 47,000 RGUs was recorded compared to the end of 2015, 23,000 of which were in the third quarter of 2016. In the Residential Customers and Small and Medium-Sized Enterprises (SME) units, third-party revenue fell by 0.5% to CHF 4,738 million (-1.4% in the third quarter). The CHF 48 million decline in telecommunications services as a result of lower roaming prices and an increasing number of people choosing not to have fixed line phone connections was partially offset by higher revenues from the takeover of search.ch in July 2015. In the Enterprise Customers unit, third-party revenue fell by 1.3% to CHF 1,776 million (-3.4% in the third quarter). The price-related decline in revenue for telecommunications services was partially offset by higher revenue in the solutions business, albeit it with a lower margin. Incoming orders in the corporate business fell by 10.9% to CHF 1,531 million as a result of strong competition.

The huge demand for bundled offerings with flat-rate tariffs continues. By the end of September 2016, 1.59 million customers were using a bundled offering, which corresponds to an increase year-on-year of 232,000 or 17.1% (+73,000 in the third quarter). Revenue from bundled contracts rose year-on-year by CHF 200 million or 12.2% to CHF 1,846 million (+11.2% in the third quarter).

In the saturated Swiss mobile communications market, Swisscom is holding its ground with stable market shares. The number of mobile access lines totalled 6.6 million, remaining more or less at the previous year's level (–10,000 in the third quarter). However, the number of postpaid lines including bundled offerings rose by 35,000 (+17,000 in the third quarter), while the number of prepaid lines declined by 40,000 (–27,000 in the third quarter). In the roaming business, a reduction in roaming fees and the inclusion of roaming in the Natel infinity 2.0 subscription packages has driven roaming volumes up at a faster pace. The associated price reduction in 2016 is around CHF 100 million. In the first nine months of 2016, data traffic rose by a factor of 2.2 year-on-year, while voice traffic rose by 12%. 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 September 2016, 842,000 customers had opted for the new infinity subscriptions. The number of customers for all Natel infinity subscriptions is 2.35 million, which equates to 70% of postpaid lines (excluding corporate customers).

Despite stiffer competition, the number of Swisscom TV connections increased year-on-year by 165,000 or 12.9% to 1.44 million (+40,000 in the third quarter), of which basic package subscriptions accounted for 1.16 million. Four fifths of customers use the cloud-based Swisscom TV 2.0 service. Broadband lines with end customers grew year-on-year by 48,000 or 2.5% to 1.99 million (+7,000 in the third quarter). As a result, the growth in TV and broadband connections in the fixed network business was no longer able to offset the reduction in the number of fixed-line access lines of 201,000 (–60,000 in the third quarter). The decrease in the number of fixed-line access lines is mainly the result of customers switching from fixed to mobile telephony.

Segment expense fell by CHF 141 million or 3.3% to CHF 4,174 million (–8.9% in the third quarter). Adjusted for the provision in the Competition Commission proceedings, company acquisitions and gains from the sale of real estate, segment expense increased by CHF 33 million or 0.8%, with direct costs increasing and indirect costs decreasing versus the prior year. The CHF 54 million or 3.8% increase in direct costs to CHF 1,460 million (+10.0% in the third quarter) mainly reflects higher expenditures for roaming and international traffic as well as higher costs for subscriber acquisition and retention. The adjusted decrease in indirect costs of CHF 19 million or 0.7% is primarily the result of active cost management. Headcount fell year-on-year by 409 FTEs or 2.4% to 16,767. On a like-for-like basis, the decrease corresponded to 470 FTEs or 2.7% (–493 or –2.9% at the end of the year 2015), which came about as a result of efficiency measures. The segment result before depreciation and amortisation (EBITDA) increased by CHF 91 million or 3.3% to CHF 2,848 million. Adjusted EBITDA reduced by CHF 102 million or 3.5%. The cost savings with indirect costs partially offset the lower revenues for telecommunications services and the higher direct costs.

Compared to the previous year, depreciation and amortisation rose by CHF 94 million or 9.2% to CHF 1,112 million (+7.0% in the third quarter) as a result of the high capital expenditure. The segment result declined accordingly by CHF 3 million or 0.2% to CHF 1,736 million. Capital expenditure of CHF 1,281 million remained at a high level as a result of the expansion of broadband networks.

Fastweb

In EUR million, except where indicated	3 rd quarter 2016	3 rd quarter 2015	Change	1.1.– 30.9.2016	1.1.– 30.9.2015	Change
Residential Customers	225	218	3.2%	675	653	3.4%
Corporate Business	169	171	-1.2%	517	516	0.2%
Wholesale	40	34	17.6%	119	114	4.4%
Revenue from external customers	434	423	2.6%	1,311	1,283	2.2%
Intersegment revenue	3	1	200.0%	7	3	133.3%
Net revenue	437	424	3.1%	1,318	1,286	2.5%
Segment expenses	(282)	(279)	1.1%	(828)	(881)	-6.0%
Segment result before depreciation and amortisation (EBITDA)	155	145	6.9%	490	405	21.0%
Margin as % of net revenue	35.5	34.2		37.2	31.5	
Capital expenditure in property, plant and equipment and other intangible assets	144	124	16.1%	430	403	6.7%
Full-time equivalent employees at end of period				2,457	2,381	3.2%
Broadband access lines at end of year in thousand				2,295	2,172	5.7%

Fastweb performed very well in a difficult market environment. Fastweb's net revenue increased by EUR 32 million or 2.5% to EUR 1,318 million (+3.1% in the third quarter) as a result of customer growth. Fastweb's broadband customer base grew year-on-year by 123,000 or 5.7% to 2.3 million (+94,000 in the first nine months). 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 22 million or 3.4% to EUR 675 million in comparison with the previous year (+3.2% in the third quarter). Revenue from business customers rose slightly by EUR 1 million or 0.2% to EUR 517 million (-1.2% in the third quarter). Revenue from the wholesale business increased by EUR 5 million or 4.4% to EUR 119 million (+17.6% in the third quarter).

The segment result before depreciation and amortisation (EBITDA) at Fastweb rose by EUR 85 million or 21.0% to EUR 490 million. This includes compensation to the amount of EUR 55 million as a result of an out-of-court settlement following a legal dispute. Adjusted for this one-off item, EBITDA rose by EUR 30 million or 7.4% (+6.9% in the third quarter) and the profit margin by 1.5 percentage points to 33.0%. Capital expenditure rose by EUR 27 million or 6.7% to EUR 430 million due to broadband network expansion. The expansion of Italy's broadband network is continuing at full speed: Fastweb and Telecom Italia intend to cooperate on the rollout of Fibre to the Home (FTTH) The aim is for 13 million, i.e. half of homes and businesses in Italy to be connected to the ultra-fast broadband network by 2020. The headcount at Fastweb rose by 76 or 3.2% to 2,457 FTEs, driven primarily by the appointment of external employees in the technical areas.

Other Operating Segments

In CHF million, except where indicated	3 rd quarter 2016	3 rd quarter 2015	Change	1.1.– 30.9.2016	1.1.– 30.9.2015	Change
Revenue from external customers	78	80	-2.5%	235	257	-8.6%
Intersegment revenue	71	69	2.9%	189	192	-1.6%
Net revenue	149	149	-	424	449	-5.6%
Segment expenses	(122)	(125)	-2.4%	(348)	(390)	-10.8%
Segment result before depreciation and amortisation (EBITDA)	27	24	12.5%	76	59	28.8%
Margin as % of net revenue	18.1	16.1		17.9	13.1	
Capital expenditure in property, plant and equipment and other intangible assets				32	20	60.0%
Full-time equivalent employees at end of period				1,771	1,725	2.7%

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 the Other Operating Segments fell year-on-year by CHF 25 million or 5.6% to CHF 424 million (unchanged in the third quarter). Adjusted for the sale of companies, net revenue rose by CHF 4 million or 1.0%, mainly as a result of higher revenue for construction services at cablex. The segment result before depreciation and amortisation increased by CHF 17 million or 28.8% to CHF 76 million (+12.5% in the third 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 4.8 percentage points to 17.9%. The headcount of 1,771 FTEs represented an increase of 46 FTEs or 2.7% year-on-year, driven primarily by the appointment of external employees at cablex.

Group Headquarters and reconciliation of pension cost

Operating income before depreciation and amortisation declined year-on-year by CHF 4 million or 5.0% to CHF -84 million. Headcount fell year-on-year by 7.5% to 297 FTEs.

An expense of CHF 55 million (prior year: CHF 54 million) is recognised as a pension cost reconciliation item under IAS 19 for the first nine months of 2016.

Depreciation and amortisation, non-operating results

In CHF million, except where indicated

	3 rd quarter 2016	3 rd quarter 2015	Change	1.1.– 30.9.2016	1.1.– 30.9.2015	Change
Operating income before depreciation and amortisation (EBITDA)	1,080	966	11.8%	3,307	3,099	6.7%
Depreciation, amortisation and impairment losses	(524)	(517)	1.4%	(1,616)	(1,545)	4.6%
Operating income (EBIT)	556	449	23.8%	1,691	1,554	8.8%
Net interest expense	(31)	(51)	-39.2%	(112)	(147)	-23.8%
Other financial income and expense, net	(5)	(6)	-16.7%	(69)	(47)	46.8%
Share of results of associates	1	5	-80.0%	1	18	-94.4%
Income before income taxes	521	397	31.2%	1,511	1,378	9.7%
Income tax expense	(112)	(123)	-8.9%	(314)	(320)	-1.9%
Net income	409	274	49.3%	1,197	1,058	13.1%
Share of net income attributable to equity holders of Swisscom Ltd	410	274	49.6%	1,199	1,058	13.3%
Share of net income attributable to non-controlling interests	(1)	–	100.0%	(2)	–	100.0%
Earnings per share (in CHF)	7.92	5.29	49.6%	23.15	20.42	13.3%

Swisscom's depreciation and amortisation increased by CHF 71 million or 4.6% to CHF 1,616 million year-on-year, mainly reflecting an increase in depreciation and amortisation at Swisscom Switzerland because of the high level of capital expenditure. Intangible assets resulting from company acquisitions were capitalised for purchase price allocation purposes. Depreciation and amortisation for the first nine months of 2016 includes scheduled amortisation relating to company takeovers amounting to CHF 85 million (prior year: CHF 90 million).

Net interest expense was CHF 35 million lower at CHF 112 million as a result of the lower average interest costs for financial debt. At CHF 69 million, other net financial expense rose by CHF 22 million compared to the previous year. The net financial expense in the first nine months of 2016 includes negative effects of CHF 39 million arising from the fair value adjustment of interest rate swaps (prior year: CHF 10 million) and foreign exchange gains of CHF 2 million (prior year: foreign exchange losses of CHF 34 million). The first nine months of the prior year also include gains from the sale of subsidiaries in the amount of CHF 19 million.

Income tax expense amounted to CHF 314 million (prior year: CHF 320 million), corresponding to an effective income tax rate of 20.8% (prior year: 23.2%). Excluding non-recurring items, the long-term expectation continues to be that the income tax rate will remain at a level of around 21%.

Swisscom's net income rose by CHF 139 million or 13.1% to CHF 1,197 million. The increase in EBITDA was partly offset by higher depreciation and amortisation. Earnings per share is calculated based on net income attributable to equity holders of Swisscom Ltd and average number of shares outstanding. Earnings per share rose from CHF 20.42 to CHF 23.15.

Cash flows

In CHF million	1.1.–30.9.2016	1.1.–30.9.2015	Change
Operating income before depreciation and amortisation (EBITDA)	3,307	3,099	208
Capital expenditure	(1,768)	(1,737) ¹	(31)
Proceeds from sale of property, plant and equipment and other intangible assets	25	18	7
Change in defined benefit obligations	50	51	(1)
Change in net working capital and other cash flow from operating activities	(202)	5	(207)
Dividends paid to non-controlling interests	(8)	(7)	(1)
Operating free cash flow	1,404	1,429	(25)
Net interest paid	(128)	(151)	23
Income taxes paid	(281)	(286)	5
Free cash flow	995	992	3
Acquisition of subsidiaries and non-controlling interests	(26)	(58)	32
Other cash flows from investing activities, net	(12)	167	(179)
Issuance and repayment of financial liabilities, net	137	(58)	195
Dividends paid to equity holders of Swisscom Ltd	(1,140)	(1,140)	–
Other cash flows from financing activities	(5)	(4)	(1)
Net decrease in cash and cash equivalents	(51)	(101)	50

¹ Excluding capital expenditure totalling CHF 15 million in real estate projects for which sales contracts were signed.

Free cash flow increased by CHF 3 million or 0.3% to CHF 995 million. Operating free cash flow declined by CHF 25 million or 1.7% to CHF 1,404 million. One of the causes behind the decline was the increase in capital expenditure of CHF 31 million or 1.8% to CHF 1,768 million compared with the previous year. The operating income before depreciation and amortisation (EBITDA) and the change in net working capital of the prior year includes the recognition of a provision of CHF 186 million for the Competition Commission proceedings regarding broadband services. Swisscom does not consider the sanction justified and has lodged an appeal with the Federal Court. Swisscom paid the penalty of CHF 186 million at the start of 2016, as no suspensive effect was granted.

In the first nine months of 2016, Swisscom issued two debenture bonds with a nominal amount of CHF 500 million: CHF 200 million with a coupon of 0.375% and maturity in 2028, and CHF 300 million with a coupon of 0.125% and maturity in 2032. 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 of 2016 was extended by 15 years at a fixed interest rate of 0.56%.

Balance sheet

In CHF million, except where indicated	30.09.2016	31.12.2015	Change
Assets			
Cash and cash equivalents and current financial assets	364	409	-11.0%
Trade and other receivables	2,570	2,535	1.4%
Property, plant and equipment	10,135	9,855	2.8%
Goodwill	5,164	5,161	0.1%
Other intangible assets	1,765	1,861	-5.2%
Investments in associates and non-current financial assets	479	461	3.9%
Tax assets	357	375	-4.8%
Other current and non-current assets	537	492	9.1%
Total assets	21,371	21,149	1.0%
Liabilities and equity			
Financial liabilities	8,798	8,593	2.4%
Trade and other payables	1,852	1,768	4.8%
Defined benefit obligations	3,919	2,919	34.3%
Provisions	944	1,139	-17.1%
Tax liabilities	294	436	-32.6%
Other current and non-current liabilities	1,011	1,052	-3.9%
Total liabilities	16,818	15,907	5.7%
Share of equity attributable to equity holders of Swisscom Ltd	4,547	5,237	-13.2%
Share of equity attributable to non-controlling interests	6	5	20.0%
Total equity	4,553	5,242	-13.1%
Total liabilities and equity	21,371	21,149	1.0%
Equity ratio at end of period	21.3%	24.8%	
Net debt	8,310	8,042	3.3%

Total assets at 30 September 2016 amounted to CHF 21,371 million, which equates to an increase of CHF 222 million or 1.0% 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 1,000 million higher at CHF 3,919 million. This increase is mainly due to the lower discount rate, which fell from 0.94% to 0.30%. The main reason for the decline in provisions by CHF 195 million to CHF 944 million is the payment of the Competition Commission penalty as part of the ongoing proceedings regarding broadband services in the amount of CHF 186 million. Swisscom does not consider the sanction justified and has lodged an appeal with the Federal Court. Equity fell by CHF 689 million or 13.1% to CHF 4,553 million, which corresponds to an equity ratio of 21.3% (24.8% as at 31 December 2015). Net income of CHF 1,197 million was offset by the dividend of CHF 1,140 million and the other net loss of CHF 734 million recognised in equity. This includes actuarial losses of CHF 736 million from pension plans after tax arising mainly from interest rate changes. At the end of 2015, the cumulative currency translation losses included in equity remain unchanged at around 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

The financial outlook for 2016 remains unchanged. Swisscom expects net revenue of more than CHF 11.6 billion, EBITDA of around CHF 4.25 billion and capital expenditure of around CHF 2.4 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 of EUR 55 million as a result of an out-of-court settlement following a legal dispute, 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 for per share amounts

	Note	3 rd quarter 2016	3 rd quarter 2015	1.1.–30.9.2016	1.1.–30.9.2015
Net revenue	2	2,874	2,893	8,643	8,651
Goods and services purchased		(580)	(533)	(1,682)	(1,654)
Personnel expense		(695)	(703)	(2,203)	(2,216)
Other operating expense		(613)	(785)	(1,810)	(1,971)
Capitalised self-constructed assets and other income		94	94	359	289
Operating income before depreciation and amortisation (EBITDA)		1,080	966	3,307	3,099
Depreciation, amortisation and impairment losses		(524)	(517)	(1,616)	(1,545)
Operating income (EBIT)	2	556	449	1,691	1,554
Financial income and financial expense, net	3	(36)	(57)	(181)	(194)
Share of results of associates		1	5	1	18
Income before income taxes		521	397	1,511	1,378
Income tax expense		(112)	(123)	(314)	(320)
Net income		409	274	1,197	1,058
Share of net income attributable to equity holders of Swisscom Ltd		410	274	1,199	1,058
Share of net income attributable to non-controlling interests		(1)	–	(2)	–
Basic and diluted earnings per share (in CHF)		7.92	5.29	23.15	20.42

Consolidated statement of comprehensive income (unaudited)

In CHF million	3 rd quarter 2016	3 rd quarter 2015	1.1.–30.9.2016	1.1.–30.9.2015
Net income	409	274	1,197	1,058
Other comprehensive income				
Actuarial gains and losses from defined benefit pension plans	(146)	(421)	(929)	(364)
Income tax expense	30	87	193	75
Items that will not be reclassified to income statement, net of tax	(116)	(334)	(736)	(289)
Foreign currency translation adjustments of foreign operations	2	81	5	(179)
Gains and losses from available-for-sale financial assets transferred to income statement	(2)	(2)	(6)	(2)
Change in fair value of cash flow hedges	2	24	3	1
Fair value losses of cash flow hedges transferred to income statement	–	(5)	1	(8)
Income tax expense	–	(16)	(1)	47
Items that are or may be reclassified subsequently to income statement, net of tax	2	82	2	(141)
Other comprehensive income	(114)	(252)	(734)	(430)
Comprehensive income	295	22	463	628
Share of comprehensive income attributable to equity holders of Swisscom Ltd	296	22	465	628
Share of comprehensive income attributable to non-controlling interests	(1)	–	(2)	–

Consolidated balance sheet (condensed and unaudited)

In CHF million	Note	30.09.2016	31.12.2015
Assets			
Cash and cash equivalents		273	324
Trade and other receivables		2,570	2,535
Other financial assets		91	85
Non-current assets held for sale	4	41	–
Other assets		437	433
Total current assets		3,412	3,377
Property, plant and equipment		10,135	9,855
Goodwill and other intangible assets		6,929	7,022
Investments in associates		181	223
Other financial assets		298	238
Other assets		416	434
Total non-current assets		17,959	17,772
Total assets		21,371	21,149
Liabilities and equity			
Financial liabilities	5	1,099	1,195
Trade and other payables		1,852	1,768
Current income tax liabilities		175	146
Provisions	6	144	351
Other liabilities		677	693
Total current liabilities		3,947	4,153
Financial liabilities	5	7,699	7,398
Defined benefit obligations		3,919	2,919
Provisions	6	800	788
Deferred tax liabilities		119	290
Other liabilities		334	359
Total non-current liabilities		12,871	11,754
Total liabilities		16,818	15,907
Share of equity attributable to equity holders of Swisscom Ltd		4,547	5,237
Share of equity attributable to non-controlling interests		6	5
Total equity		4,553	5,242
Total liabilities and equity		21,371	21,149

Consolidated statement of cash flows (condensed and unaudited)

In CHF million	Note	1.1.–30.9.2016	1.1.–30.9.2015
Net income		1,197	1,058
Adjustment for non-cash items		2,095	2,033
Change in operating assets and liabilities		(137)	79
Income taxes paid		(281)	(286)
Cash flow provided by operating activities		2,874	2,884
Capital expenditure for tangible and intangible assets		(1,768)	(1,752)
Acquisition of subsidiaries, net of cash and cash equivalents		(26)	(49)
Proceeds from sale of subsidiaries, net of cash and cash equivalents sold		–	32
Other cash flows from investing activities, net		25	159
Cash flow used in investing activities		(1,769)	(1,610)
Issuance and repayment of financial liabilities, net	5	137	(58)
Dividends paid to equity holders of Swisscom Ltd	8	(1,140)	(1,140)
Dividends paid to non-controlling interests		(8)	(7)
Acquisition of non-controlling interests		1	(5)
Other cash flows from financing activities, net		(146)	(165)
Cash flow used in financing activities		(1,156)	(1,375)
Net decrease in cash and cash equivalents		(51)	(101)
Cash and cash equivalents at beginning of period		324	302
Foreign currency translation adjustments in respect of cash and cash equivalents		–	(5)
Cash and cash equivalents at end of period		273	196

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	6,885	–	(1,590)	5,483	3	5,486
Net income	–	–	1,058	–	–	1,058	–	1,058
Other comprehensive income	–	–	(289)	–	(141)	(430)	–	(430)
Comprehensive income	–	–	769	–	(141)	628	–	628
Dividends paid	–	–	(1,140)	–	–	(1,140)	(7)	(1,147)
Transactions with non-controlling interests	–	–	(5)	–	–	(5)	1	(4)
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 September 2015	52	136	6,509	–	(1,731)	4,966	(3)	4,963
Balance at 31 December 2015	52	136	6,783	–	(1,734)	5,237	5	5,242
Net income	–	–	1,199	–	–	1,199	(2)	1,197
Other comprehensive income	–	–	(736)	–	2	(734)	–	(734)
Comprehensive income	–	–	463	–	2	465	(2)	463
Dividends paid	–	–	(1,140)	–	–	(1,140)	(8)	(1,148)
Transactions with non-controlling interests	–	–	(14)	–	–	(14)	11	(3)
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 September 2016	52	136	6,092	(1)	(1,732)	4,547	6	4,553

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 nine months to 30 September 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 2015 consolidated financial statements 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 1.088 was applied as the end-of-period rate (31 December 2015 CHF/EUR 1.084) and 1.094 as the average rate for the period (prior year CHF/EUR 1.072).

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 "Network & IT" which are grouped under Swisscom Switzerland, "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 intersegmental services are cross-charged at market rates. The results of the segments Residential Customers, Small & Medium-Sized Enterprises, Enterprise Customers and Wholesale correspond to 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 costs 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 costs and other income.

Segment expense contains the ordinary employer contributions as pension costs. The difference between the statutory employer contributions and the pension cost in accordance with IAS 19 is disclosed in the column "Elimination". For the first nine months of 2016, an expense of CHF 55 million is disclosed under "Elimination" as a pension cost reconciliation item in accordance with IAS 19 (CHF 54 million in the first nine months 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 the results of the individual segments for the first nine months of 2016 are as shown below:

1.1.–30.9.2016, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Headquarters	Elimination	Total
Net revenue from external customers	6,973	1,435	235	–	–	8,643
Net revenue with other segments	49	6	189	1	(245)	–
Net revenue	7,022	1,441	424	1	(245)	8,643
Segment result	1,736	76	26	(84)	(63)	1,691
Financial income and financial expense, net						(181)
Share of results of associates						1
Income before income taxes						1,511
Income tax expense						(314)
Net income						1,197

1.1.–30.9.2016, in CHF million	Residential Customers	Small and Medium-Sized Enterprises	Enterprise Customers	Wholesale	IT, Network & Innovation	Elimination	Swisscom Switzerland
Net revenue from external customers	3,742	996	1,776	436	23	–	6,973
Net revenue with other segments	104	24	159	302	75	(615)	49
Net revenue	3,846	1,020	1,935	738	98	(615)	7,022
Segment result	2,096	642	543	298	(1,842)	(1)	1,736

Net revenue and the results of the individual segments for the first nine months of 2015 are as shown below:

1.1.–30.9.2015, in CHF million	Swisscom Switzerland	Fastweb	Other Operating Segments	Group Head- quarters	Elimi- nation	Total
Net revenue from external customers	7,019	1,375	257	–	–	8,651
Net revenue with other segments	53	3	192	1	(249)	–
Net revenue	7,072	1,378	449	1	(249)	8,651
Segment result	1,739	(47)	8	(80)	(66)	1,554
Financial income and financial expense, net						(194)
Share of results of associates						18
Income before income taxes						1,378
Income tax expense						(320)
Net income						1,058

1.1.–30.9.2015, 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	3,766	996	1,799	433	25	–	7,019
Net revenue with other segments	111	24	151	281	72	(586)	53
Net revenue	3,877	1,020	1,950	714	97	(586)	7,072
Segment result	2,127	659	615	107	(1,769)	–	1,739

3 Financial income and financial expense

In CHF million	1.1.–30.9.2016	1.1.–30.9.2015
Interest income	11	7
Interest expense	(123)	(154)
Net interest expense on financial assets and financial liabilities	(112)	(147)
Foreign exchange gains (foreign exchange losses)	2	(34)
Change in fair value of interest rate swaps	(39)	(10)
Income from early repayment of financial liabilities	3	6
Gain from sale of subsidiaries	–	19
Other financial income and expense, net	(35)	(28)
Financial income and financial expense, net	(181)	(194)

4 Non-current assets held for sale

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.

5 Financial liabilities

In CHF million	30.09.2016	31.12.2015
Bank loans	230	746
Debenture bonds	630	45
Private placements	202	350
Finance lease liabilities	17	16
Other financial liabilities	20	38
Total current financial liabilities	1,099	1,195
Bank loans	547	610
Debenture bonds	5,341	5,385
Private placements	911	581
Finance lease liabilities	496	510
Other financial liabilities	404	312
Total non-current financial liabilities	7,699	7,398
Total financial liabilities	8,798	8,593

In the first nine months of 2016, Swisscom issued two debenture bonds with a nominal amount of CHF 500 million: CHF 200 million with a coupon of 0.375% and maturity in 2028, and CHF 300 million with a coupon of 0.125% and maturity in 2032. 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%.

6 Provisions

In CHF million	Dismantlement and restoration costs	Regulatory and ComCo proceedings	Other	Total
Balance at 31 December 2015	593	310	236	1,139
Additions of provisions	2	5	21	28
Present-value adjustments	107	–	2	109
Release of unused provisions	(105)	–	(9)	(114)
Use of provisions	(2)	(187)	(29)	(218)
Balance at 30 September 2016	595	128	221	944
Thereof current provisions	–	10	134	144
Thereof non-current provisions	595	118	87	800

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 0.80%. The decrease in the discount rate resulted in an effect of CHF 101 million in the first nine months 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 2 million were recognised under property, plant and equipment in the first nine months of 2016. The non-current portion of the provisions will most likely be settled subsequent to 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. Swisscom paid the penalty of CHF 186 million at the start of 2016, 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.

7 Contingent liabilities and contingent claims

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 injunction petition to Swisscom. It proposed a sanction in the amount of CHF 143 million against Swisscom to the Competition Commission 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 this regard. 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 September 2016.

With regard to the other contingent liabilities reported in the 2015 consolidated financial statements 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 September 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. Fastweb has claimed damages from Telecom Italia in this regard and initiated the relevant legal action. Fastweb and Telecom Italia concluded an out-of-court settlement in the fourth quarter of 2015. The latter also encompasses additional contested claims made by both parties in respect of the other. In the second quarter of 2016, Telecom Italia made a payment of EUR 55 million (CHF 60 million). The agreement meant that at 30 September 2016, Fastweb still had an uncertain outstanding claim subject to certain conditions. Disclosure of the amount of the amount is waived for contractual and procedural reasons.

8 Dividend payment

On 6 April 2016 the Annual General Meeting of Swisscom Ltd 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.

9 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 September 2016							
Derivative financial instruments	–	–	65	–	–	65	–
Other assets valued at fair value	–	–	60	–	60	–	–
Available-for-sale financial assets	–	15	–	–	–	–	15
Financial assets measured at fair value	–	15	125	–	60	65	15
Other loans and receivables	196	–	–	–	–	230	–
Financial assets not measured at fair value	196	–	–	–	–	230	–
Derivative financial instruments	–	–	92	–	–	92	–
Financial liabilities measured at fair value	–	–	92	–	–	92	–
Bank loans	–	–	–	777	–	819	–
Debenture bonds	–	–	–	5,971	6,444	–	–
Private placements	–	–	–	1,113	–	975	–
Finance lease liabilities	–	–	–	513	–	1,158	–
Other interest-bearing financial liabilities	–	–	–	66	–	66	–
Other non-interest-bearing financial liabilities	–	–	–	266	–	266	–
Financial liabilities not measured at fair value	–	–	–	8,706	6,444	3,284	–

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

In CHF million	Available-for-sale financial assets
Balance at 31 December 2015	15
Additions	3
Disposals	(3)
Balance at 30 September 2016	15

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

10 Related parties

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

11 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 2 November 2016.

Further information

Share information

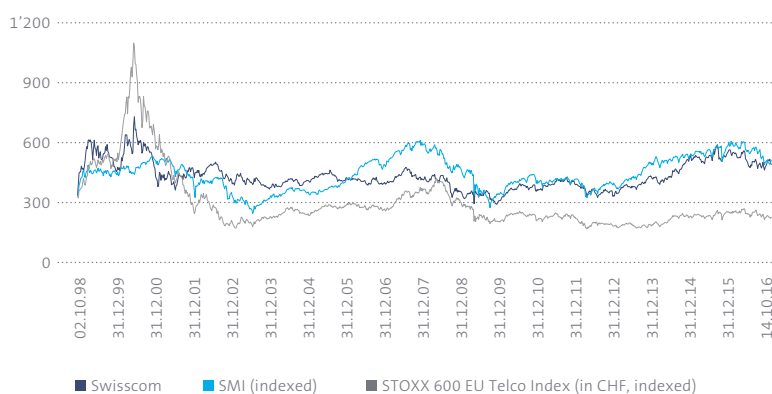
Swisscom share performance indicators

31.12.2015–30.09.2016	SIX Swiss Exchange
Closing price at 31 December 2015 in CHF ¹	503.00
Closing price at 30 September 2016 in CHF ¹	461.70
Change in %	(8.2)
Year high in CHF ¹	528.50
Year low in CHF ¹	445.00
Total volume of traded shares	24,878,302
Total turnover in CHF million	12,001
Daily average of traded shares	130,938
Daily average in CHF million	63

Source: Bloomberg
¹ paid prices

Share performance since IPO

Share performance 1998–2016 in CHF



Share information

On 30 September 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 September 2016 Swisscom had 56,000 registered shareholders and around 21% 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

- > 03 November 2016 2016 Third-Quarter Results
- > 08 February 2017 2016 Annual Result
- > 03 April 2017 Annual General Meeting in Zurich
- > 03 May 2017 2017 First-Quarter Results
- > 17 August 2017 2017 Second-Quarter Results
- > 02 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	2,874		8,643
Goods and services purchased	(568)	(553)	(533)	(688)	(2,342)	(544)	(558)	(580)		(1,682)
Personnel expense	(756)	(757)	(703)	(803)	(3,019)	(765)	(743)	(695)		(2,203)
Other operating expense	(609)	(577)	(785)	(726)	(2,697)	(597)	(600)	(613)		(1,810)
Capitalised self-constructed assets and other income	91	104	94	189	478	102	163	94		359
Operating income (EBITDA)	1,051	1,082	966	999	4,098	1,081	1,146	1,080		3,307
Depreciation and amortisation	(507)	(521)	(517)	(541)	(2,086)	(546)	(546)	(524)		(1,616)
Operating income (EBIT)	544	561	449	458	2,012	535	600	556		1,691
Net interest expense	(47)	(49)	(51)	(42)	(189)	(39)	(42)	(31)		(112)
Other financial result	(57)	16	(6)	(36)	(83)	(40)	(24)	(5)		(69)
Result of associates	5	8	5	5	23	–	–	1		1
Income before income taxes	445	536	397	385	1,763	456	534	521		1,511
Income tax expense	(94)	(103)	(123)	(81)	(401)	(92)	(110)	(112)		(314)
Net income	351	433	274	304	1,362	364	424	409		1,197
Attributable to equity holders of Swisscom Ltd	351	433	274	303	1,361	365	424	410		1,199
Attributable to non-controlling interests	–	–	–	1	1	(1)	–	(1)		(2)
Earnings per share (in CHF)	6.78	8.35	5.29	5.85	26.27	7.05	8.36	7.90		23.15
Net revenue										
Swisscom Switzerland	2,355	2,342	2,375	2,473	9,545	2,345	2,337	2,340		7,022
Fastweb	468	453	457	489	1,867	482	483	476		1,441
Other Operating Segments	144	156	149	154	603	129	146	149		424
Group Headquarters	–	1	–	1	2	–	1	–		1
Intersegment elimination	(74)	(87)	(88)	(90)	(339)	(71)	(83)	(91)		(245)
Total net revenue	2,893	2,865	2,893	3,027	11,678	2,885	2,884	2,874		8,643
Segment result before depreciation and amortisation (EBITDA)										
Swisscom Switzerland	955	969	833	844	3,601	966	946	936		2,848
Fastweb	130	148	156	185	619	144	223	169		536
Other Operating Segments	16	19	24	10	69	22	27	27		76
Group Headquarters	(29)	(29)	(22)	(37)	(117)	(30)	(27)	(27)		(84)
Intersegment elimination	(4)	(6)	(7)	3	(14)	(3)	(6)	(5)		(14)
Reconciliation pension cost	(17)	(19)	(18)	(6)	(60)	(18)	(17)	(20)		(55)
Total segment result (EBITDA)	1,051	1,082	966	999	4,098	1,081	1,146	1,080		3,307
Capital expenditure in property, plant and equipment and other intangible assets										
Swisscom Switzerland	388	453	459	499	1,799	425	447	409		1,281
Fastweb	160	138	133	150	581	169	145	156		470
Other Operating Segments	6	6	8	28	48	6	11	15		32
Intersegment elimination	(5)	(4)	(5)	(5)	(19)	(4)	(6)	(5)		(15)
Total capital expenditure	549	593	595	672	2,409	596	597	575		1,768
Full-time equivalent employees at end of period										
Swisscom Switzerland	16,964	17,062	17,176	17,199	17,199	17,155	16,969	16,767		16,767
Fastweb	2,373	2,377	2,381	2,401	2,401	2,407	2,422	2,457		2,457
Other Operating Segments	1,940	1,722	1,725	1,723	1,723	1,769	1,743	1,771		1,771
Group Headquarters	322	325	321	314	314	314	309	297		297
Total full-time equivalent employees	21,599	21,486	21,603	21,637	21,637	21,645	21,443	21,292		21,292
Operating free cash flow	344	401	684	415	1,844	184	604	616		1,404
Net debt	7,895	8,760	8,320	8,042	8,042	8,108	8,856	8,310		8,310

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	441		1,295
Small and Medium-Sized Enterprises	101	102	102	98	403	95	93	90		278
Enterprise Customers	132	140	140	134	546	128	128	130		386
Revenue mobile single subscription	671	691	702	665	2,729	649	649	661		1,959
Residential Customers	207	191	185	178	761	159	147	131		437
Small and Medium-Sized Enterprises	106	103	103	101	413	100	99	94		293
Enterprise Customers	139	141	140	137	557	138	136	131		405
Revenue fixed-line single subscription	452	435	428	416	1,731	397	382	356		1,135
Residential Customers	461	476	496	513	1,946	524	528	546		1,598
Small and Medium-Sized Enterprises	69	71	73	75	288	78	80	85		243
Enterprise Customers	–	–	–	–	–	1	2	2		5
Revenue bundles	530	547	569	588	2,234	603	610	633		1,846
Total revenue single subscription and bundles	1,653	1,673	1,699	1,669	6,694	1,649	1,641	1,650		4,940
Solution business	261	260	253	294	1,068	277	273	262		812
Hardware sold	148	128	124	202	602	136	123	125		384
Wholesale	148	140	145	146	579	139	148	149		436
Revenue other	126	124	137	145	532	128	136	137		401
Revenue from external customers	2,336	2,325	2,358	2,456	9,475	2,329	2,321	2,323		6,973
Residential Customers	1,252	1,247	1,267	1,309	5,075	1,252	1,236	1,254		3,742
Small and Medium-Sized Enterprises	320	332	344	343	1,339	328	334	334		996
Enterprise Customers	607	598	594	650	2,449	605	597	574		1,776
Wholesale	148	140	145	146	579	139	148	149		436
IT, Network & Innovation	9	8	8	8	33	5	6	12		23
Revenue from external customers	2,336	2,325	2,358	2,456	9,475	2,329	2,321	2,323		6,973
Segment result before depreciation and amortisation										
Residential Customers	730	742	756	705	2,933	755	729	710		2,194
Small and Medium-Sized Enterprises	217	232	239	219	907	224	228	225		677
Enterprise Customers	219	226	237	228	910	212	205	209		626
Wholesale	101	92	(86)	91	198	93	100	105		298
IT, Network & Innovation	(312)	(323)	(312)	(400)	(1,347)	(318)	(316)	(313)		(947)
Intersegment elimination	–	–	(1)	1	–	–	–	–		–
Segment result (EBITDA)	955	969	833	844	3,601	966	946	936		2,848
Margin as % of net revenue	40.6	41.4	35.1	34.1	37.7	41.2	40.5	40.0		40.6
Fastweb, in EUR million										
Residential Customers	216	219	218	225	878	223	227	225		675
Corporate Business	168	177	171	195	711	171	177	169		517
Wholesale hubbing	7	7	6	6	26	6	5	4		15
Wholesale other	37	29	28	23	117	38	30	36		104
Revenue from external customers	428	432	423	449	1,732	438	439	434		1,311
Segment result (EBITDA)	120	140	145	171	576	131	204	155		490
Margin as % of net revenue	28.0	32.4	34.2	38.0	33.2	29.9	46.3	35.5		37.2
Capital expenditure	147	132	124	138	541	154	132	144		430
Broadband access lines in thousand	2,124	2,157	2,172	2,201	2,201	2,241	2,257	2,295		2,295

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	1,303		1,303
Bundles	972	1,002	1,027	1,056	1,056	1,082	1,106	1,155		1,155
Fixed access lines	2,735	2,697	2,659	2,629	2,629	2,582	2,518	2,458		2,458
Single subscriptions	650	615	581	542	542	503	463	397		397
Bundles	1,258	1,307	1,356	1,416	1,416	1,465	1,515	1,588		1,588
Broadband access lines retail	1,908	1,922	1,937	1,958	1,958	1,968	1,978	1,985		1,985
Single subscriptions	200	182	165	148	148	127	111	98		98
Bundles	1,001	1,056	1,110	1,183	1,183	1,240	1,289	1,342		1,342
Swisscom TV access lines	1,201	1,238	1,275	1,331	1,331	1,367	1,400	1,440		1,440
Prepaid single subscriptions	2,149	2,131	2,125	2,124	2,124	2,123	2,112	2,085		2,085
Postpaid single subscriptions	3,888	3,910	3,920	3,905	3,905	3,877	3,882	3,854		3,854
Mobile access lines single subscriptions	6,037	6,041	6,045	6,029	6,029	6,000	5,994	5,939		5,939
Bundles	531	551	573	596	596	615	629	674		674
Mobile access lines	6,568	6,592	6,618	6,625	6,625	6,615	6,623	6,613		6,613
Revenue generating units (RGU)	12,412	12,449	12,489	12,543	12,543	12,532	12,519	12,496		12,496
Broadband access lines wholesale	278	291	301	315	315	329	342	351		351
Unbundled fixed access lines	162	150	139	128	128	120	125	128		128
Bundles										
2Play bundles	302	301	301	287	287	280	281	279		279
3Play bundles	680	712	741	790	790	826	856	889		889
4Play bundles	266	278	291	304	304	313	319	349		349
nPlay bundles	10	16	23	35	35	46	59	71		71
Total bundles	1,258	1,307	1,356	1,416	1,416	1,465	1,515	1,588		1,588
Swisscom Group										
Information by geographical regions										
Net revenue in Switzerland	2,407	2,395	2,431	2,531	9,764	2,398	2,396	2,393		7,187
Net revenue in other countries	486	470	462	496	1,914	487	488	481		1,456
Total net revenue	2,893	2,865	2,893	3,027	11,678	2,885	2,884	2,874		8,643
EBITDA in Switzerland	914	932	804	811	3,461	936	923	908		2,767
EBITDA in other countries	137	150	162	188	637	145	223	172		540
Total EBITDA	1,051	1,082	966	999	4,098	1,081	1,146	1,080		3,307
Capital expenditure in Switzerland	388	454	460	520	1,822	425	451	416		1,292
Capital expenditure in other countries	161	139	135	152	587	171	146	159		476
Total capital expenditure	549	593	595	672	2,409	596	597	575		1,768
Full-time equivalent employees in Switzerland	18,776	18,828	18,936	18,965	18,965	18,960	18,754	18,551		18,551
Full-time equivalent employees in other countries	2,823	2,658	2,667	2,672	2,672	2,685	2,689	2,741		2,741
Total full-time equivalent employees	21,599	21,486	21,603	21,637	21,637	21,645	21,443	21,292		21,292

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.

