



Interim Report January – June 2008

Growth thanks to Fastweb – Swiss core business stable – Withdrawal from leasing agreements reduces net income by 10%

	1.1-30.6. 2007	1.1-30.6. 2008	Change
Net revenue (in CHF millions)	5,094	5,991	17.6%
EBITDA (in CHF millions)	2,042	2,427	18.9%
EBIT (in CHF millions)	1,228	1,397	13.8%
Net income (in CHF millions) ¹	936	840	-10.3%
Operating free cash flow (OpFCF) to shareholders of Swisscom Ltd ²	978	1,359	39.0%
Swisscom fixed-line and broadband connections (at 30.6 in millions)	1.51	1.70	12.8%
Bluewin TV customers (at 30.6)	40,000	80,000	100%
Mobile lines (at 30.6, in millions)	4.8	5.2	8.5%
Fastweb customers (at 30.6, in millions)	1.15	1.40	22.0%
Capital expenditure (in CHF millions)	818	923	12.8%
Employees (FTEs at 30.6)	20,498	19,795	-3.4%

¹ After deducting minority interests

² EBITDA - capital expenditure +/- changes in net working capital – dividend paid to minority shareholders

³ Prior-year figure revised due to write down of 50,000 inactive customers in Q2 2008 following an agreement with Telecom Italia

Thanks largely to the acquisition of the Italian company Fastweb in spring 2007, Swisscom posted a 17.6% increase in revenue to CHF 5,991 million and an 18.9% increase in operating income (EBITDA) to CHF 2,427 million for the first half of 2008. Despite a fiercely competitive market and massive price reductions, Swisscom reported stable revenue and operating income (EBITDA) in its Swiss operations. The early termination of around 75% of the long-term leasing agreements which is already underway reduced net income by CHF 99 million to CHF 840 million. However, operating



free cash flow available to Swisscom shareholders saw an increase of 39.0% to CHF 1,359 million in the first half of 2008. For the 2008 financial year, Swisscom expects to post net revenue of around CHF 12.3 billion and operating income (EBITDA) of around CHF 4.8 billion, while capital expenditure will be in the range of CHF 2.1 billion to CHF 2.2 billion. Swisscom is also confident that operating free cash flow as a basis for payouts to shareholders will be at the upper end of the CHF 2.4 to CHF 2.5 billion originally communicated.

Compared with the same period last year, cumulated **net revenue** for the first half of 2008 rose by 17.6% or CHF 897 million to CHF 5,991 million. The primary reason for this is the acquisition of Fastweb. Excluding the acquisition of Fastweb on 22 May 2007 (revenue increase CHF 1,023 million) and the subsidiaries sold in 2007 (revenue previous year CHF 136 million), net revenue increased by CHF 10 million (+0.2%) on a like-for-like basis.

Operating income (EBITDA) increased by CHF 385 million (+18.9%) to CHF 2,427 million in the first half of 2008, with Fastweb contributing CHF 360 million to the increase (and CHF 439 million to absolute EBITDA). On a like-for-like basis, EBITDA rose by CHF 53 million (+2.6%). The adjusted increase in EBITDA is mainly due to the absence of costs for the interactive Betty remote control business activity, which was discontinued at the end of 2007.

Operating expenses rose by CHF 582 million (+18.1%) to CHF 3,805 million compared to the first half of 2007. Adjusted for Fastweb (CHF 775 million) and divested Group companies, operating expenses are down CHF 83 million (-2.9%) year-on-year. In addition to the absence of costs for Betty, this is mainly attributable to lower wholesale costs for international roaming and the volume-dependent decrease in costs in wholesale traffic. Significantly lower costs for Bluewin TV also impacted positively on the cost trend.

The increase in **depreciation and amortisation** of CHF 216 million to CHF 1,030 million in the first half of 2008 is also largely a consequence of the Fastweb takeover (CHF 339 million). Part of the acquisition costs for Fastweb were capitalised as intangible assets (for example, customer relationships and brand value) and will be amortised over the estimated useful life of between 7 and 11 years. By contrast, an adjustment of the useful lives for channels and ducts following a decision by the Federal Communications Commission (ComCom), already communicated earlier this year brought a cumulative effect of CHF 60 million for the first half of 2008.

The increase in EBITDA was offset by higher depreciation and amortisation and a CHF 288 million increase in net financial expense. **Net income** fell by CHF 98 million (-10.4%) to CHF 846 million in the first half of 2008.

The main reason for the decrease in net income is a provision of CHF 126 million recorded under financial expense in the second quarter of 2008 for the early termination of cross-border leasing agreements through which Swisscom sold or leased and leased back on a long-term basis parts of its fixed and mobile networks between 1996 and 2002. Swisscom has now concluded an agreement for the early termination of three quarters of the cross-border leasing volume. Completion of the termination agreements by the parties is dependent on final regulatory approvals. Costs of CHF 126 million before taxes (CHF 99 million after taxes) are expected as a consequence of the termination of the agreements, for which a provision was created at 30 June 2008. Profits arising from the completion of all cross-border leasing transactions totalling CHF 255 million after taxes were recorded as financial income at the time of completion of the transaction.



Swisscom Switzerland reports stable business performance

Swisscom Switzerland's revenue with external customers remained more or less stable in the first half of 2008, with a slight decrease of 0.5% to CHF 4,233 million. Higher customer numbers coupled with an increase in the use of new mobile data services and growth in the number of broadband connections and the TV offering almost fully offset a fall in revenue due to price reductions amounting to over CHF 200 million.

Broadband communications recorded sustained strong growth year-on-year: The number of fixed-line and broadband connections rose by 193,000 (+12.8%) to 1,699,000. As at the end of June 2008, Bluewin TV counted around 80,000 paying customers. Net growth compared to the previous year amounted to around 40,000 customers. The average one-time cost per new customer including devices, hardware, etc. was considerably reduced to under CHF 700, mainly through the introduction of self-installation (currently around two thirds of new customers).

The number of mobile customers grew by a net 405,000 (+8.5%) to 5.2 million. Revenue generated by new mobile data services (excluding SMS) increased by 32.8% to CHF 175 million in the space of a year. New devices, such as the iPhone 3G from Apple, are expected to ensure further growth in this area. Average revenue per user per month (ARPU) fell by 8.8% to CHF 52 as a result of price reductions, while the average number of minutes per user per month (AMPU) increased by 2.7% to 114.

Competition brings massive price reductions in the Swiss market

Swisscom customers are benefiting from lower prices for comparable service. For example, the average price per minute for a fixed-line call decreased by 3.1% in the space of a year. Customers currently pay 13.7% less for calls to mobile phones, and 4.4% less for calling abroad compared to a year ago. In the field of mobile communications, prices for outbound calls (excluding roaming) fell by 11.7%. For outbound roaming calls, customers are benefiting on average from 15.8% lower prices. Data traffic is increasingly penetrating the mass market and growing rapidly, and prices for comparable service are falling. For example, the price of transferring one megabyte of data over the fixed network dropped by 43.2% compared to the previous year, and over the mobile network (including roaming), it dropped by 55.2%.

Strong growth in customer numbers at Fastweb

Fastweb has been included in the consolidated results since completion of the acquisition on 22 May 2007. The company is Italy's second largest provider of broadband services and recorded continuing strong revenue, EBITDA and customer growth in the first half of 2008. Net revenue increased year-on-year by 14.0% to EUR 814 million (CHF 1,304 million). The number of customers saw year-on-year growth of 22.0% to 1,398,000 customers. Thanks to an agreement with Telecom Italia concerning unfair poaching of customers, Fastweb received a compensation payment of EUR 30 million (CHF 48 million), which was recorded as other income in the second quarter of 2008.

Operating expenses have continued to rise proportionally less thanks to Fastweb's strict cost controls. Operating income (EBITDA) increased by 22.3% cumulatively to EUR 274 million (CHF 439 million), compared to the previous year. For the full year 2008, Fastweb expects EBITDA of EUR 560 million (including the compensation payment from Telecom Italia).



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Press Release

Detailed Half-Year Report:

www.swisscom.ch/halfyearreport-2008

Berne, 13 August 2008

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