



Interim Report January – March 2008

**Growth in revenue, operating income and cash flow thanks to Fastweb.
Net income down slightly year-on-year**

	1.1-31.3.2007	1.1-31.3.2008	Change
Net revenue (in CHF millions)	2376	2933	23.4%
EBITDA (in CHF millions)	968	1161	19.9%
EBIT (in CHF millions)	619	654	5.7%
Net income (in CHF millions) ¹	461	428	-7.2%
Operating free cash flow (OpFCF) to shareholders of Swisscom Ltd ²	443	751	69.5%
Swisscom fixed lines (at 31.3, in millions)	5.16	5.32	3.1%
Of which DSL (at 31.3, in millions)	1.43	1.66	15.4%
Mobile lines (at 31.3, in millions)	4.71	5.10	8.3%
Fastweb customers (at 31.3, in millions)	1.15	1.39	20.7%
Capital expenditure (in CHF millions)	315	420	33.3%
Employees (FTEs at 31.3)	17157	19718	14.9%

¹ After deducting minority interests

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

In the first three months of 2008, Swisscom increased revenue by 23.4% to CHF 2,933 million and operating income (EBITDA) by 19.9% to CHF 1,161 million. While Swiss business showed a slight upward trend overall, the acquisition of Fastweb in May 2007 considerably increased Group revenue and EBITDA. In Q1 2008 Fastweb contributed CHF 618 million to net revenue and CHF 179 million to EBITDA. Fastweb’s operating free cash flow amounted to CHF 93 million. On a like-for-like basis, Group net revenue increased by CHF 5 million (+0.3%) and operating income (EBITDA) by CHF 29 million (+3.0%). The decline in net income after deducting minority interests of 7.2% to CHF 428 million is largely due to high financing costs associated with the Fastweb takeover and factors with a non-cash impact, such as depreciation and the hedging of future payments in foreign currencies. Customers are benefiting from



strong competition in the Swiss telecoms market with continued lower prices. For the 2008 financial year Swisscom expects to post revenue of around CHF 12.3 billion and operating income (EBITDA) of around CHF 4.8 billion. Capital expenditure will be in the range of CHF 2.1 billion to CHF 2.2 billion.

Mainly as a result of the acquisition of Fastweb (CHF 618 million), cumulative revenue for Q1 2008 at CHF 2,933 million has increased year-on-year by 23.4% or CHF 557 million. On a like-for-like basis, net revenue increased by CHF 5 million (+0.3%) year-on-year. Declining revenues in the traditional fixed-line business were offset by continued customer growth in mobile telephony and broadband connections, as well as growth in the new business segments.

Operating income (EBITDA) rose by CHF 193 million (+19.9%) to CHF 1,161 million, of which Fastweb accounted for CHF 179 million. In July 2007 the Group companies Antenna Hungária and Accardia were sold. In the first three months of 2007, these two Group companies contributed CHF 15 million to EBITDA. Stripped of these effects, EBITDA has increased by CHF 29 million (+3.0%). The increase can largely be attributed to positive development of the Swisscom IT Services project and outsourcing business, growth in holdings abroad and cost-savings. The operating business segments of Swisscom Switzerland have maintained their position year-on-year in an increasingly dynamic market environment.

Net operating expenses down compared to the previous year

The Group's operating expenses have increased by CHF 371 million (+25.1%) compared to the previous year. Adjusted to take into account the acquisition of Fastweb (CHF 464 million) and the Group companies that were sold, operating expenses are CHF 51 million down compared to the previous year. The lower wholesale prices for international roaming and the volume-dependent decrease in costs have had a more significant impact than the increase in the procurement of material and services due to growth in the areas of outsourcing and system integration, and volume growth in mobile traffic. In addition, lower costs for Bluewin TV and the discontinuation of Betty TV, as well as Group-wide cost-savings have impacted positively on the cost trend.

The increase in depreciation and amortisation of CHF 158 million (+45.3%) to CHF 507 million is largely a consequence of the Fastweb takeover (CHF 207 million). In accordance with the International Financial Reporting Standards (IFRS), a part of the acquisition costs for Fastweb must be capitalised and depreciated according to plan and booked as intangible assets. In Q1 2008 the corresponding depreciation from this purchase price allocation (PPA) amounted to CHF 49 million. As a consequence of a decision made by the Federal Communications Commission (ComCom), the useful life for channels and ducts was reviewed and adjusted from 20 to 40 years. The effect on depreciation for Q1 2008 was CHF 29 million. The change in useful life will reduce depreciation for the full year 2008 by around CHF 120 million.

At CHF 113 million, net financial expense is up CHF 72 million compared to the previous year. The increase is on the one hand due to the higher net interest expense of CHF 45 million, a consequence of financing the Fastweb takeover. On the other hand, foreign exchange losses amounting to CHF 36 million have been incurred, which comprise unrealised losses from the hedging of future payments in foreign currencies for purchases.

Net income before deduction of minority interests fell by CHF 42 million (-9.0%) to CHF 425 million. This reduction is chiefly due to the scheduled depreciation of the acquisition costs for Fastweb, capitalised as intangible assets, as well as foreign exchange losses.

Additional PPA amortisation for Fastweb booked in the consolidated financial statement but with no cash impact, together with foreign exchange losses totalled CHF 85 million before tax, and explain why free cash flow has developed more positively than net income. Swisscom expects this trend to continue over the next few years. For this reason, the company has linked its dividend policy to operating free cash flow (OpFCF). OpFCF increased by CHF 308 million, or 70%, compared to the previous year, with Fastweb



accounting for CHF 93 million of this amount. The rest of this growth can be mainly attributed to lower investments and lower payments for supplier invoices compared to the previous year.

Continued customer growth at Swisscom Switzerland – lower prices for comparable service

Swisscom Switzerland's revenue with external customers remained more or less stable with a slight decrease of 0.3% to CHF 2,098 million, while operating income (EBITDA) fell by 1.3% to CHF 953 million. The business is marked by continued customer growth with a fall in analogue and digital connections (PSTN/ISDN), and lower traffic revenues due to price reductions and competition mainly with cable network operators. Furthermore, lower traffic and subscription prices thanks to new tariff models, coupled with reduced termination prices for mobile communications have led to a fall in revenues. As a consequence of price reductions, Swisscom Switzerland's revenue has fallen by around CHF 100 million. For the full year 2008, the effect on price reductions is estimated to be around CHF 400 million as in previous years. These declines in revenue have been largely offset by growth in customer numbers and data services for mobile communications, as well as growth in broadband connections and the TV service offering.

Broadband communications recorded strong growth year-on-year: the number of fixed-line broadband connections rose by 221,000, or 15.4%, to 1.66 million. Regarding the IPTV service offering, Swisscom can report updated figures: as at the end of March 2008 "Bluewin TV" was used by 64,000 paying customers. Net growth in Q1 amounted to around 5,000 customers. The average one-time cost per new customer, including installation, devices, etc was reduced to under CHF 1,000. At the end of February, Swisscom added four channels in high-definition quality (HDTV) to its channel line-up, and at the same time launched an offering for first-time users, without a hard-disk recorder. Marketing activities were stepped up in April.

The number of mobile customers grew by 393,000 (+8.3%) net to 5.1 million. Revenue generated by new mobile data services (excluding SMS) increased by 42% to CHF 85 million in the space of a year. Average monthly revenue per customer dropped by 8.9% to CHF 51, while the average number of minutes rose by 3.7% to 112.

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 fixed to mobile phone calls, and 4.4% less for calling to abroad compared to a year ago. In the field of mobile communications, prices for outgoing 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%.

Fastweb has been included in the consolidated Swisscom results since completion of the acquisition on 22 May 2007. In Q1 2008, Fastweb recorded continued revenue, EBITDA and customer growth. Net revenue increased year-on-year by 12.1% to EUR 389 million (CHF 618 million). This increase can be attributed to Fastweb's strong operational growth. The number of customers also increased by 20.7% year-on-year to 1.388 million. Operating expenses have risen proportionally less due to Fastweb's strict cost controls. EBITDA therefore increased year-on-year by 31.4% to EUR 113 million (CHF 179 million). Despite high depreciation, Q1 2008 resulted in positive pre-tax income of EUR 12 million. Investments in property, plant and equipment and other intangible assets dropped versus the previous year by EUR 135 million to EUR 101 million, mainly as a result of investment activities occurring at different times. OpFCF for Fastweb amounted to CHF 93 million.



Other operating segments: Revenue from external customers fell year-on-year by CHF 54 million (-19.9%) to CHF 217 million. The sale of the Group company Antenna Hungária and the Accarda card business in the previous year resulted in a decline in revenue of CHF 57 million. By contrast, Swisscom IT Services increased revenue from external customers by CHF 9 million (+8.9%) in the areas of Financial Service and Outsourcing.

Detailed interim report:

<http://www.swisscom.com/q1-report-2008>

Berne, 7 May 2008

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