



Interim Report January – September 2008

**Growth thanks to Fastweb – Stable core business with high customer growth
– Net income impacted by exceptional items**

	1.1-30.9. 2007	1.1-30.9. 2008	Change
Net revenue (in CHF millions)	8,082	9,085	12.4%
EBITDA (in CHF millions)	3,275	3,615	10.4%
EBIT (in CHF millions)	1,963	2,066	5.2%
Net income (in CHF millions)	1,633	1,316	-19.4%
Operating free cash flow (OpFCF) to shareholders of Swisscom Ltd ¹	1,602	2,124	32.6%
Swisscom fixed-line and broadband connections (at 30.9 in millions)	1.558	1.721	10.5%
Bluewin TV customers (at 30.9)	52,000	95,000	82.7%
Swisscom mobile lines (at 30.9 in millions)	4.894	5.284	8.0%
Fastweb customers (at 30.9 in millions) ²	1.201	1.441	20.0%
Capital expenditure (in CHF millions)	1,343	1,365	1.6%
Employees (FTEs at 30.9)	19,658	19,995	1.7%

¹ EBITDA - capital expenditure +/- changes in net working capital – dividend paid to minority shareholders

² Prior-year figure revised due to write down of 50,000 inactive customers in Q2 2008 following an agreement with Telecom Italia

Swisscom closed the first nine months of 2008 with net revenue up 12.4% to CHF 9,085 million and operating income (EBITDA) up 10.4% to CHF 3,615 million, primarily due to the acquisition of Italy-based Fastweb in May 2007. Fastweb contributed CHF 1,991 million to net income and CHF 644 million to EBITDA in the nine months to September 2008. Adjusted for Fastweb and subsidiaries divested in 2007, Swisscom increased net income by CHF 35 million (+0.4%), while EBITDA fell slightly to CHF 38 million (-1.2%) year-on-year as a result of stepped-up efforts to acquire new customers. The iPhone launch on 11 July 2008 generated 44% growth in new mobile subscribers in



the third quarter compared with the two previous quarters. The associated increase in customer acquisition costs led to an overall reduction in EBITDA of CHF 45 million. Largely as a result of the early termination of long-term leasing agreements initiated in the first half of 2008 and the gains recorded in 2007 from the disposal of Antenna Hungária, Group net income fell by CHF 317 million (-19.4%) to CHF 1,316 million. Operating free cash flow increased by 32.6% in the first nine months of 2008 to CHF 2,124 million.

End-of-year targets for 2008 remain unchanged. The prevailing currency trend may cause net revenue to fall slightly short of the CHF 12.3 billion target. Swisscom anticipates unchanged EBITDA of CHF 4.8 billion. Capital expenditure is expected to be in the lower range of CHF 2.1 billion to CHF 2.2 billion and operating free cash flow (as the basis for payouts to shareholders) in the upper range of CHF 2.4 billion to CHF 2.5 billion.

At CHF 9,085 million, cumulated **net revenue** is up 12.4%, or CHF 1,003 million, year-on-year, largely due to the acquisition of Fastweb. Factoring in Fastweb as of 22 May 2007 (CHF 1,124 million increase in revenue year-on-year) and the subsidiaries Antenna Hungária, Accarda and Infonet divested in 2007 (prior-year revenue CHF 156 million), net revenue increased by CHF 35 million (+0.4%) on a like-for-like basis.

Operating income (EBITDA) rose in the first nine months of 2008 by CHF 340 million (+10.4%) to CHF 3,615 million, with Fastweb accounting for CHF 409 million. On a like-for-like basis EBITDA fell by CHF 38 million (-1.2%). The adjusted fall in EBITDA is largely attributable to the successful launch of iPhone in the third quarter of 2008, with associated investments in future data traffic impacting EBITDA by a total of CHF 45 million.

Operating expenses increased by CHF 716 million (+14.1%) year-on-year to CHF 5,793 million. Adjusted for the acquisition of Fastweb (CHF 834 million) and the spun-off subsidiaries, operating expenses are up CHF 9 million (+0.2%) compared with the previous year.

The CHF 237 million increase in **depreciation, amortisation and impairment** in the first nine months of 2008 to CHF 1,549 million (+18.1%) is largely attributable to the Fastweb takeover (CHF 384 million). By contrast, the adjusted useful lives for channels and ducts communicated in spring of this year resulted in a cumulative effect of CHF 90 million over the first nine months of 2008.

Net financial expenses for the first nine months of 2008 amount to CHF 395 million, up CHF 269 million compared with the same period last year. The increase is due to a combination of higher net interest expenses of CHF 71 million as a result of the acquisition of Fastweb and the recording of a CHF 126 million provision in the second quarter of 2008 for the early termination of cross-border leasing agreements. In addition, a net gain of CHF 72 million from currency hedges in connection with the Fastweb acquisition was recorded in the second quarter of 2007.

Net income for the first nine months of 2008 fell despite higher EBITDA by CHF 317 million (-19.4%) to CHF 1,316 million. The drop was mainly attributable to the CHF 72 million one-time foreign currency gain recorded the previous year, the CHF 126 million provision recorded in the second quarter of 2008 for the early termination of cross-border leasing agreements and the CHF 157 million gain on the divestment of Antenna Hungária recorded the previous year.

Robust business performance in Switzerland – iPhone a major success



Swisscom Switzerland's revenue with external customers was virtually stable in the first nine months of 2008, recording a slight drop of 0.1% to CHF 6,422 million (Q3 +0.7%). Adjusted for the sale of its subsidiary Infonet at the end of 2007, revenue increased by 0.3% (Q3 +1.1%).

Sales of iPhone got off to an excellent start in mid-July, with over 100,000 units sold within the space of two and half months. Revenue generated by iPhone sales played a key role in driving customer and revenue growth in the third quarter. Costs for handset subsidies and dealer commissions on the other hand rose. Thanks to a combination of sustained customer growth, greater utilisation of new mobile data services and growth in broadband connections and Swisscom's TV offering, the decline in revenue due to price reductions continues to be almost fully offset by a cumulative CHF 300 million.

Broadband communications recorded strong year-on-year growth, with fixed-line broadband connections increasing by 163,000 or +10.5% to 1.721 million (Q3 +22,000). At the end of September 2008 Bluewin TV counted 95,000 paying customers. Net growth since the end of 2007 stands at 36,000 (Q3 15,000).

The number of mobile subscribers increased year-on-year by 390,000 net (+8.0%) to 5.3 million (Q3 +103,000). The launch of iPhone generated higher-than-average growth in subscription customers in the third quarter. Revenue generated by new mobile data services (excluding SMS) increased by 33% to CHF 277 million in the space of a year. Average number of minutes per mobile subscriber per month (AMPU) rose in the same period by 2.7% to 114, while average revenue per mobile subscriber and month (ARPU) fell by 8.6% to CHF 53 as a result of price cuts.

Customers benefiting from massive price reduction in Swiss business

Swisscom customers are benefiting from lower prices with a comparable level of service. For example, the average price per minute for fixed-line calls fell by 2.7% within a year. In mobile communications, prices for outbound calls (excluding roaming) fell by 12.7%. For outbound roaming calls, customers are benefiting on average from 18.6% lower prices. Data traffic is increasingly penetrating the mass market and growing rapidly while prices for a comparable level of service are falling. For instance, the price for transferring one megabyte of data over the fixed network dropped by 25.3% compared to the previous year, and over the mobile network (including roaming) by 63.7%. The volume of mobile data traffic more than quadrupled year-on-year.

Strong customer growth at Fastweb

In the first nine months of 2008, Fastweb continued to post strong revenue, EBITDA and customer growth. Adjusted for the effect of a regulatory decision in December 2007 on interconnection prices, 2008 third-quarter net revenue rose year-on-year by 23.1% to EUR 427 million (18.4% in the first nine months). Fastweb posted a net quarterly gain of 43,000 customers (+240,000 compared with the previous year).

Adjusted EBITDA increased in the third quarter of 2008 year-on-year by 25.7% to EUR 127 million (21.2% in the first nine months). On a like-for-like basis EBITDA margin increased during the first nine months of 2008 from 29.2% to 29.9%. Accumulated capital expenditure fell due to lower investment demand by EUR 366 million to EUR 327 million (-10.7%).



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Press Release

Detailed interim report:

www.swisscom.ch/q3-report-2008

Berne, 5 November 2008

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