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Press Release

Difficult economic situation in Italy and lower future growth lead to an impairment of Fastweb – Swisscom's net income reduced by CHF 1.2 billion

The difficult economic situation and increasing interest rates have lead to reduced prospects for growth and higher cost of capital in Italy. As a result, the business plan of the Italian subsidiary Fastweb has been adapted and the book value impaired, which will reduce Swisscom's net income in the 2011 annual financial statements by CHF 1.2 billion. Cash flow and dividends to shareholders will not be adversely affected by this impairment. At the upcoming Annual General Meeting, an increase in dividends by CHF 1.00 to CHF 22.00 per share is being proposed. The impairment will also have no impact on the level of capital expenditures in Switzerland.

Swisscom acquired Fastweb in spring 2007 to profit from the growth in the Italian broadband market through that company's modern fibre optic infrastructure, and thus to allow it compensate for the expected erosion in revenues and earnings in the Swiss business. Fastweb developed positively since the acquisition: in 2010, the company's revenues increased by roughly 50% to EUR 1.9 billion; during the same period, EBITDA adjusted for one-off items rose by more than 50% to approximately EUR 490 million.

Fastweb has a strong market position in the large and medium enterprise segment: With a market share of approximately 20%, Fastweb is the clear No. 2 in the segment devoted to corporate customers and is growing steadily thanks to its own infrastructure and very high customer satisfaction. Since its acquisition by Swisscom, the company has been able to double its market share in this segment and continues to grow.

In the private customer segment, on the other hand, following an initial growth phase Fastweb has come under pressure in the last few quarters. This development has been triggered by the difficult economic environment in Italy due to the financial and sovereign debt crisis, an increasing saturation of the broadband market and very intensive price competition since the market entry of new providers. In the private customer segment, this has been reflected in a larger than expected decline in average revenues per user. Customers' willingness to switch providers has increased, and the share of growth in net new subscribers has also been lower than originally planned. Furthermore, Fastweb is burdened with high bad debt losses.

Lower future growth and worsening economic outlook in Italy with increasing interest rates reduce corporate value

In the wake of the sovereign debt crisis, Italy's economic situation has worsened in the last few months. Yields on government bonds have increased significantly, as have the spreads over the low-risk interest rates of the euro. High sovereign debt, weak economic growth, increasing unemployment and political uncertainty are risk factors which have impaired future growth and thus the company's value. In an impairment test for Fastweb, Italy's increased country risk premium was therefore accounted for through a supplement to the cost of capital and the company's growth outlook reduced.

Swisscom invested a total of EUR 4.6 billion to purchase Fastweb. The impairment test has now shown that, taking into account the higher capital costs and lower growth, Fastweb's corporate

value at the end of 2011 is approximately EUR 1.3 billion below the book value of net assets including goodwill. Thus, in its 2011 consolidated financial statements, Swisscom will charge to income an exceptional impairment in the same amount. When including ordinary annual amortization, this results in a net book value of EUR 2.9 billion. Compared to the total investment, this corresponds to a value decrease of approximately 35% since acquisition. After deducting tax effects, Swisscom's net income for 2011 will be burdened by CHF 1.2 billion. In 2010, net income amounted to approximately CHF 1.8 billion.

The purchase price for Fastweb in 2007 was appropriate given the situation at that time. Since then, however, economic conditions in Italy have deteriorated considerably. Other telecom companies active in the Italian market such as Vodafone and Telecom Italia have likewise made exceptional impairments in 2011. In total, company valuations have suffered greatly due to the clearly deteriorating economic outlook. Since the announcement of the acquisition, the Italian MIB stock index has dropped by 63%, the European Stoxx 600 Telecom Index by 20% and the Swiss SMI by 37%.

Additional effects of the European currency crisis

The massive collapse of the euro has various additional financial implications on Swisscom. For instance, equity varies with the extent of the currency translation differences of its foreign subsidiaries. When the euro weakens, equity drops; when the Swiss franc weakens, equity increases. At the end of 2010, the reduction in equity amounted to approximately CHF 1.55 billion, and has remained virtually stable during 2011. These changes are recorded in the accounts and are not realised. They have no impact on Swisscom's net income.

Furthermore, a weak euro reduces the business results of Swisscom's foreign subsidiaries when converted into Swiss francs. On the other hand, when the euro weakens, the Group benefits when purchasing devices and equipment in euros. These effects, however, are more than offset by the price erosion on the Swiss telecom market.

New Fastweb business plan with reduced revenue growth

In order to achieve its mid-term goals, Fastweb is being put on a solid basis once again with a focussed strategy and an updated business plan. The new business plan – following reduced revenues in the first two years – anticipates average annual revenue growth of 2.5% (previous year 5.1%) measured over the entire five-year planning period. Revenue drivers are the partnership with Sky, the higher quality of the services and the expansion of the mobile communications services. Increased efficiency coupled with cost reductions amounting to EUR 120 million over the next two years and a further reduction in losses from bad debts should also lead to an improved EBITDA margin of 34% by 2016. The first successes have already been achieved, with an improved collection of receivables and an increased market share of new subscriber growth. The plan additionally anticipates that, in the same period, the ratio of capital expenditure to revenues will drop below 18%.

Impairment has no influence on dividend payments

The impairment at Fastweb will have no impact on dividend payments. At the upcoming Annual General Meeting, an increase in dividends by CHF 1.00 to CHF 22.00 per share is being proposed. In relation to Swisscom's current market capitalisation, this results in a dividend yield of

approximately 6.5%. There are also no direct impacts on EBITDA, cash flow or net debt. The tax payments will be lower as an indirect effect. Swisscom has solid financing with a relatively high credit rating and low financing costs.

The impairment will likewise have no effect on pricing and capital expenditure in Switzerland. For the coming years, Swisscom also expects an annual price erosion in the amount of several hundred million Swiss francs. Swisscom invests more than one billion francs annually in expanding the Swiss infrastructure. These investments were already CHF 200 million higher than the previous year in the first nine months of 2011. These investments will continue to remain high due to broadband expansion in the fixed and mobile networks.

Berne, December 14, 2011 / 07:30