

**2006 First Half-Year Report of the Swisscom Group**
**Stable core business – operating income negatively impacted by provisions for interconnection proceedings and at Swisscom IT Services**

	<b>1.1.-30.6.2005</b>	<b>1.1.-30.6.2006</b>	<b>Change</b>
Net revenue (in CHF millions)	4912	4773	-2.8%
EBITDA (in CHF millions)	2199	1814	-17.5%
EBIT (in CHF millions)	1496	1111	-25.7%
Net income* (in CHF millions)	1116	759	-32.0%
Net earnings per share (in CHF)	18.21	13.38	-26.5%
Fixed lines (at 30.6 in millions)	4.82	5.04	4.6%
Of which ADSL (at 30.6 in millions)	0.95	1.25	32.2%
Mobile customers (at 30.6 in millions)	4.04	4.47	10.5%
Number of full-time equivalent employees at 30.6	15,307	16,739**	9.4%

\* Net income after deduction of minority interests

\*\* Increase due primarily to the acquisition of Antenna Hungária

**In the first half of 2006 Swisscom recorded a sharp rise in mobile and ADSL customers. However, reduced mobile termination charges, additional provisions for interconnection proceedings, and the lower EBITDA recorded by Swisscom IT Services had a negative impact on the result. Net revenue posted by the Swisscom Group fell by 2.8% to CHF 4.77 billion in the first half of 2006, while operating income before interest, taxes, depreciation and amortization (EBITDA) dropped by 17.5% to CHF 1.81 billion. Adjusting for one-off items, revenue rose by 1%; the comparable EBITDA declined by 5.4%. Within the next few weeks Swisscom will be launching a share**

**buyback programme in the amount of up to CHF 2.25 billion. The company still expects to close fiscal 2006 with net revenue of around CHF 9.5 billion. Due to the above-mentioned effects Swisscom has lowered its operating result expectations from CHF 4.0 billion to CHF 3.7 billion.**

Net revenue dropped year-on-year by CHF 139 million or 2.8% to CHF 4,773 million while operating income before interest, taxes, depreciation and amortization (EBITDA) fell by CHF 385 million or 17.5% to CHF 1,814 million, largely due to additional provisions set aside for interconnection proceedings and the reduction in mobile termination charges. On a like-for-like basis, net revenue for ordinary activities rose by CHF 46 million or 1% while EBITDA fell by CHF 112 million or 5.4%.

Net income of the Swisscom Group after deduction of minority interests decreased by 32% to CHF 759 million due primarily to lower operating income and a reduced net financial result. As a result of last year's share buyback programme and the subsequent drop in the number of shares, earnings per share saw a more modest decrease than net income, falling 26.5% to CHF 13.38.

### **Sustained growth in ADSL – rise in Mobile customers**

In the Fixnet segment, growth in broadband access lines remains strong: In the first half of 2006 the number of customers rose by 32.2% to 1.25 million, of which 846,000 were customers of Bluewin and 407,000 customers of other providers. Due to intense infrastructure competition with cable companies and the increased popularity of new mobile technologies, the number of analogue and digital lines dropped by 2.1% to 3.79 million. Measures to expand broadband (VDSL) technology resulted in a 13.8% increase in capital expenditure to CHF 239 million.

The Mobile segment also registered a rise in customer numbers, up by 425,000 or 10.5% to 4.47 million, due primarily to new price models (e.g. Liberty hourly rate of CHF 0.50) and the launch of M-Budget Mobile. As of the end of June, some 1.2 million customers were already using products belonging to the Liberty family, while the prepaid product M-Budget Mobile boasted 206,000 customers. These new price models led to an increase in usage, with the average number of minutes per user and month (AMPU) up from 116 to 122. Lower prices and the high proportion of prepaid users caused the average revenue per customer to fall from CHF 78 to CHF 65.

In the corporate customer business, Swisscom Solutions and Swisscom IT Services succeeded in acquiring new customers and renewing existing long term contracts worth around CHF 192 million. Revenue at Swisscom Solutions was down as a result of competition and price pressure.

Swisscom IT Services, a strategically important growth area for the Swisscom Group, posted a 36.7% increase in revenue from external customers to CHF 164 million. While increased expenditure for new

market development, coupled with provisions of CHF 49 million for contract risks in the project business, negatively impacted the EBITDA of Swisscom IT Services, Swisscom IT Services expects to close fiscal 2006 with a positive operating result. These expenses and contract risks are related to a limited number of projects which were acquired in recent years during the company's strong growth phase. These negative effects are non-recurring by nature, and the requisite corrective measures have already been taken in the form of adjustments to the management structure and processes. Moreover, these provisions and expenses have no effect on Swisscom IT Services' core business in the financial sector: this business continues to perform well with several projects accomplished successfully..

### **Share buyback in the amount of up to CHF 2.25 billion**

Within the next few weeks Swisscom will be launching a share buyback programme in the amount of up to CHF 2.25 billion. The shares will be repurchased on the basis of a put-option structure, allowing the company to return non-used liquidity to shareholders and ensure earnings accretion. After the share buyback, Swisscom will continue to have the requisite financial flexibility. The exact date of the buyback as well as the terms and conditions of the transaction have yet to be determined.

### **EBITDA expectations reduced for 2006**

Swisscom still expects to close fiscal 2006 with revenue of around CHF 9.5 billion despite intensive competition and price reductions at Mobile and Fixnet, but anticipates a lower operating result (EBITDA) of CHF 3.7 billion (down from CHF 4.0 billion) on account of additional provisions worth CHF 180 million for the interconnection proceedings as well as the lower operating result at Swisscom IT Services. Capital expenditure at the Swisscom Group will be in the region of CHF 1.3 billion for 2006.

### **Link to interim report:**

<http://www.swisscom.com/halfyearreport-2006>

### **Link to shareholders' letter:**

<http://www.swisscom.com/halfyearreport-2006>

Berne, 9 August 2006

### **Cautionary statement regarding forward-looking statements**

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 behavior of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom's past and future filings and reports filed with the SWX Swiss Exchange and the U.S. Securities and Exchange Commission and posted on our 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.