

Interim Report January – September 2006

Key figures

CHF in millions, except where indicated	30.09.2006	30.09.2005
Swisscom Group		
Net revenue	7 196	7 298
Operating income before interest, taxes, depreciation and amortization (EBITDA)	2 855	3 272
As % of net revenue	% 39.7	44.8
Operating income (EBIT)	1 809	2 229
Income from continuing operations	1 443	1 847
Net income	1 475	1 906
Net income attributable to equity holders of Swisscom AG	1 229	1 650
Equity	4 597	6 895
Equity ratio ¹	% 38.0	50.0
Number of full-time equivalent employees at end of period ²	FTE 16 875	15 288
Average number of full-time equivalent employees ³	FTE 16 661	15 404
Revenue per employee	CHF in thousands 432	474
EBITDA per employee	CHF in thousands 171	212
Net cash provided by operating activities	2 363	2 907
Equity free cash flow ⁴	1 021	2 362
Capital expenditure	852	667
Net funds ⁵	333	2 669

¹ Equity as a percentage of total assets.

² Excludes 450 and 492 full-time equivalent employees of the employment company Worklink at September 30, 2006 and 2005, respectively.

³ Excludes 481 and 491 full-time equivalent employees of the employment company Worklink in the first nine months of 2006 and 2005, respectively.

⁴ Definition of equity free cash flow: net cash provided by operating activities, net proceeds from the sale and purchase of investments, less net capital expenditure on tangible and intangible assets, issuance and repayment of financial liabilities (excluding leasing liabilities) and dividend payments to minority interests.

⁵ Definition of net debt (net funds): total financial liabilities and liabilities from collecting activities, less cash and cash equivalents, current financial assets, receivables from collecting activities and financial assets from lease and leaseback transactions.

Financial Review

Summary

Business development in 2006 is strongly influenced by one-off items in the first half of the year. Price reductions for mobile termination rates and the creation of additional provisions for interconnection proceedings had a particularly negative effect on the result. Compared with the prior year Swisscom reported a decline in net revenue of 1.4% to CHF 7,196 million and a decline in operating income before interest, taxes, depreciation and amortization (EBITDA) of 12.7% to CHF 2,855 million. As a result net income fell by 22.6% to CHF 1,475 million. Equity free cash flow amounted to CHF 1,021 million, considerably lower than the previous year's figure of CHF 2,362 million since last year's figures included extraordinary proceeds from the sale of investments, EBITDA decreased and higher income tax payments were due.

Adjusted by one-off items, net revenue increased year-over-year by 0.6% and EBITDA declined by 4.9%. The decline is mainly attributable to a lower result at Swisscom Fixnet and Swisscom IT Services.

In view of keen competition, Swisscom expects net revenue of around CHF 9.5 billion for the 2006 financial year as a whole. The operating income (EBITDA) is expected to be approximately CHF 3.7 billion.

CHF in millions, except where indicated	30.09.2006	30.09.2005	Change
Net revenue	7 196	7 298	-1.4%
Other income	230	189	21.7%
Goods and services purchased	(1 346)	(1 372)	-1.9%
Personnel expenses	(1 691)	(1 595)	6.0%
Other operating expenses	(1 534)	(1 248)	22.9%
EBITDA	2 855	3 272	-12.7%
Depreciation and amortization	(1 046)	(1 043)	0.3%
EBIT	1 809	2 229	-18.8%
Net financial result	(33)	59	-
Equity in net income of affiliated companies	17	9	88.9%
Income before income taxes	1 793	2 297	-21.9%
Income tax expense	(350)	(450)	-22.2%
Income from continuing operations	1 443	1 847	-21.9%
Income from discontinuing operation (debitel)	32	59	-45.8%
Net income	1 475	1 906	-22.6%
Net income attributable to equity holders of Swisscom AG	1 229	1 650	-25.5%
Net income attributable to minority interests	246	256	-3.9%
Average number of shares outstanding (in thousands)	56 465	60 608	-6.8%
Earnings per share (in CHF)	21.77	27.22	-20.0%

Net revenue and operating income before interest, taxes, depreciation and amortization (EBITDA)

Net revenue declined year-over-year by CHF 102 million (-1.4%) to CHF 7,196 million. EBITDA declined by CHF 417 million (-12.7%) to CHF 2,855 million and EBITDA margin decreased from 44.8% to 39.7%.

The most important year-over-year changes in net revenue and EBITDA are presented in the table below.

CHF in millions	Net revenue	EBITDA
Interim financial statements as of September 30, 2006	7 196	2 855
Interim financial statements as of September 30, 2005	7 298	3 272
Change to the previous year	(102)	(417)
Analysis of change to the previous year		
Effect of provision for proceedings relating to interconnection	–	(180)
Effect of price reduction for mobile termination fees	(128)	(128)
Effect of transfer international carrier services activities to an affiliated company	(109)	–
Effect of retroactive price adjustments of roaming tariffs	(28)	12
Effect of acquisition of Antenna Hungária	119	33
Other changes excluding one-off items	44	(154)

Disregarding the afore-mentioned one-off items, net revenue increased year-over-year by CHF 44 million or 0.6%. The Fixnet segment contributed to this increase in the area of access revenue thanks to a higher number of ADSL subscribers. This was partially offset by a decrease in traffic revenue. Excluding the effect of price reductions for mobile termination rates, revenue at Mobile remained at last year's level, thanks to a higher number of subscribers and higher revenue from new data services. The decrease in revenue in the Solutions segment is a result of continuing keen competition and pressure on prices. The segment Other increased revenue, mainly as a result of higher revenue from Swisscom IT Services and the acquisition of Comit at the beginning of 2006.

The comparable EBITDA fell by 4.9% or CHF 154 million. The decline is mainly due to a lower result at Swisscom Fixnet and Swisscom IT Services.

Incoming orders at Swisscom IT Services and Swisscom Solutions have seen a healthy growth in 2006. In the first nine months long-term contracts with business customers led to a total order volume of CHF 349 million.

Other Income

Other income increased by CHF 41 million to CHF 230 million which is mainly attributable to the increase in capitalized costs and work-in-progress at Solutions and Swisscom IT Services. Capitalized costs increased primarily as a result of further developments in network infrastructure, especially the introduction of the new VDSL broadband technology at Fixnet. Other income also includes gains from the sale of real estate totaling CHF 18 million (previous year CHF 27 million).

Operating expenses

Expenditure on goods and services purchased decreased by CHF 26 million (-1.9%) to CHF 1,346 million year-over-year. This decline is due to the transfer of international carrier services activities and the reduction in international outbound roaming tariffs. On the other hand there was an increase in expenditure on goods and services purchased as a result of growth in the area of outsourcing and increased sales of mobile customer equipment.

Personnel expenditure rose by CHF 96 million (6.0%) to CHF 1,691 million, mainly as a result of an increase in headcount. Year-over-year headcount increased by 1,587 full-time equivalent employees or 10.4% to 16,875, primarily as a result of acquisitions. 1,500 new full-time equivalent employees were taken on as a result of these acquisitions (especially Antenna Hungária, Comit and business fields taken over from Siemens). 900 of these new employees can be attributed to the takeover of Antenna Hungária. The headcount at Antenna Hungária has declined by around 100 full-time equivalent employees since the takeover. In the Fixnet and Mobile segments net headcount was reduced by around 200 full-time equivalent employees. At Swisscom IT Services and other group companies on the other hand about 400 new jobs were created.

Other operating expenses rose year-over-year by CHF 286 million (22.9%) to CHF 1,534 million. The main reason is the creation of additional provisions of CHF 180 million in June 2006 for interconnection proceedings as a result of a Federal Court decision. Swisscom IT Services also created provisions in the second quarter of 2006 for contractual risks. The various acquisitions account for the remaining part of the increase.

Net financial result

Net financial result fell by CHF 92 million year-over-year because the net interest result decreased by CHF 19 million and the foreign exchange result was CHF 30 million lower compared with the previous year. The previous year also includes the reversal of provisions from crossborder tax lease agreements of CHF 24 million.

Income tax expense

Income tax expense amounted to CHF 350 million (previous year: CHF 450 million), which corresponds to an effective income tax rate of 19.5% (previous year: 19.6%). Invoices from the tax authorities related to other periods led to an increase in income tax payments to CHF 429 million (previous year CHF 275 million).

Discontinued operation (debitel)

In 2004 Swisscom sold its stake in debitel. The early repayment of loans granted to the buyers in connection with the sale led to a gain of CHF 59 million last year. In the first six months of 2006, CHF 32 million of the provisions of CHF 50 million created for guarantees in the previous year could be reversed.

Net income and earnings per share

Net income decreased year-over-year by CHF 431 million (-22.6%) to CHF 1,475 million. The decline in EBITDA and lower net financial result led to a lower income tax expense. Earnings per share fell by 20.0% to CHF 21.77.

Contingent liabilities

In April 2006 the Federal Court partially approved the price reductions ordered by the communications commission (ComCom) in the interconnection proceedings initiated in 2000. ComCom concluded that Swisscom had charged excessive prices for certain interconnection services in comparison with other Telecom service providers in the years 2000 to 2003. As a result of the Federal Court's decision Swisscom increased its provisions by CHF 180 million in the second quarter of 2006. This increase is recorded under other operating expenses. In addition, provisions were increased by the respective interest impact. On September 30, 2006 provisions amounted to CHF 554 million.

In the proceedings initiated against Swisscom Mobile by the Competition Commission (WEKO) in connection with mobile termination fees, the Secretariat of the WEKO has provided Swisscom Mobile with its draft decision for the imposition of sanctions with a request for comment. The draft decision proposes sanctions of CHF 489 million for the period April 1, 2004 to May 31, 2005. Swisscom refutes the claims in the draft decision. Should the Competition Commission issue its decision in the form proposed by its Secretariat, Swisscom Mobile would appeal to the Appeals Commission for Competition Matters and, if necessary, in the final event to the Federal Court. In view of its legal assessment Swisscom is of the opinion that it is unlikely that sanctions will be imposed and has therefore not recognized any provisions as at September 30, 2006.

Review of the Segments

The development of the individual segments is presented in the following table:

CHF in millions	Net revenue ¹			EBITDA		
	30.09.2006	30.09.2005	Change	30.09.2006	30.09.2005	Change
Fixnet	3 753	4 012	-6.5%	1 337	1 593	-16.1%
Mobile	2 992	3 158	-5.3%	1 372	1 446	-5.1%
Solutions	888	940	-5.5%	54	72	-25.0%
Other	967	750	28.9%	81	134	-39.6%
Corporate	488	512	-4.7%	30	33	-9.1%
Intercompany	(1 892)	(2 074)	-8.8%	(19)	(6)	-
Total	7 196	7 298	-1.4%	2 855	3 272	-12.7%

¹ Includes intersegment revenue.

Fixnet

The Fixnet segment comprises primarily access services to residential and business customers, national and international telephony for residential customers, use of fixed retail telephony traffic by other telecommunication providers, payphone services, operator services and prepaid calling cards. Fixnet also provides leased lines, sells customer equipment and operates a directories database.

On July 1, 2005 Fixnet brought its international carrier business into an affiliated company with Belgacom in which Belgacom holds 72% and Swisscom 28%. Swisscom Fixnet will still present revenue from incoming traffic since not all contracts could be transferred to the joint venture by July 2005. The transfer of the remaining contracts is scheduled for 2007.

The development of Fixnet is presented in the following table:

	30.09.2006	30.09.2005	Change
CHF in millions			
Local and long-distance traffic	277	294	-5.8%
Fixed-to-mobile traffic	269	317	-15.1%
Internet traffic	38	58	-34.5%
International traffic	150	158	-5.1%
Total retail traffic	734	827	-11.2%
Wholesale traffic	274	388	-29.4%
Other traffic	80	99	-19.2%
Access	1 551	1 483	4.6%
Other revenue	487	468	4.1%
Revenue from external customers	3 126	3 265	-4.3%
Intersegment revenue	627	747	-16.1%
Net revenue	3 753	4 012	-6.5%
Segment expenses (incl. intercompany)	(2 416)	(2 419)	-0.1%
EBITDA	1 337	1 593	-16.1%
<i>Margin as % of net revenue</i>	35.6	39.7	
Depreciation and amortization	(566)	(602)	-6.0%
EBIT	771	991	-22.2%
Number of lines in thousands			
PSTN lines	2 892	2 930	-1.3%
ISDN lines	867	911	-4.8%
Total number of lines PSTN / ISDN	3 759	3 841	-2.1%
ADSL retail lines	886	645	37.4%
ADSL wholesale lines	419	365	14.8%
Total number of ADSL lines	1 305	1 010	29.2%
Retail traffic volume in millions of minutes			
Local and long-distance traffic	4 727	4 957	-4.6%
Fixed-to-mobile traffic	694	695	-0.1%
Internet traffic	1 172	1 750	-33.0%
Total national traffic	6 593	7 402	-10.9%
International traffic	674	692	-2.6%
Total retail traffic	7 267	8 094	-10.2%
Wholesale traffic volume in millions of minutes			
National traffic	12 253	13 206	-7.2%
International traffic	-	755	-
Total wholesale traffic	12 253	13 961	-12.2%
CHF in millions or number			
Capital expenditure	396	333	18.9%
Number of full-time equivalent employees at end of period	7 110	7 198	-1.2%

Revenue from Fixnet with external customers decreased by 4.3% to CHF 3,126 million compared with the previous year. The decrease in revenue from traffic as a result of keen competition and the loss of revenue following the transfer of the international carrier services activities could only partially be offset by the increase in access revenue resulting from strong growth in ADSL. The decrease in revenue was largely compensated for by cost savings. EBITDA of CHF 1,337 million, however, was CHF 256 million or 16.1% down on last year, due to the creation of additional provisions for interconnection proceedings of CHF 180 million. The increase in capital expenditure is mainly due to the development of the network infrastructure for VDSL technology.

Revenue from retail traffic fell by 11.2% to a total of CHF 734 million. The decline in local and long-distance traffic and Internet traffic is, above all, attributable to the pressure of competition with cable network companies and the continuing migration of Internet traffic to ADSL. Revenue in fix-to-mobile declined mainly as a result of price reductions in connection with lower termination prices.

Revenue from wholesale traffic in the first nine months of 2006 amounted to CHF 274 million (previous year: CHF 388 million). The decrease is mainly due to the transfer of international carrier services activities with weak margins as well as price reductions in regulated national interconnection tariffs.

Access revenue rose by 4.6% to CHF 1,551 million. On the one hand there was an increase in the number of ADSL lines and on the other a decrease in the number of analogue and digital access lines (PSTN/ISDN). The number of ADSL lines increased year-over-year by 29.2% to 1,305,000 lines. This business included 886,000 lines subscribed to by retail customers and 419,000 by the customers of other providers. The number of analogue and digital access lines (PSTN/ISDN) decreased by 2.1% to 3,759,000, mainly as a result of the market entry of cable network companies and substitution through mobile telephony.

The decrease in intersegment revenue is due to reduced revenue with Mobile and Solutions.

Fixnet's total segment expenses remained stable year-over-year at CHF 2,416 million. Decreases in expenses as a result of the transfer of international carrier services activities and the reduction in termination prices at Mobile are offset by the creation of additional provisions of CHF 180 million for the interconnection proceedings.

EBITDA decreased year-over-year by 16.1% to CHF 1,337 million. This is mainly attributable to the increase in provisions for interconnection proceedings. Adjusted to take into account this one-off item of CHF 180 million the decline in operating result was only CHF 76 million (-4.8%).

For 2006 as a whole Fixnet expects a decline in revenue as a result of the transfer of international carrier services activities and continuing keen competition and price pressure. EBITDA will in addition be negatively affected by the creation of additional provisions for interconnection proceedings.

Mobile

“Mobile” consists principally of mobile telephony, which includes domestic and international traffic for calls made in Switzerland or abroad by Swisscom’s customers and roaming by foreign operators whose customers use Swisscom’s networks. It also consists of value-added services numbers, data traffic as well as the sale of mobile handsets.

The development of Mobile is presented in the following table:

	30.09.2006	30.09.2005	Change
CHF in millions			
Connectivity voice	1 532	1 684	-9.0%
Connectivity data and value added services	495	447	10.7%
Base fees	480	510	-5.9%
Other revenue	127	113	12.4%
Revenue from external customers	2 634	2 754	-4.4%
Intersegment revenue	358	404	-11.4%
Net revenue	2 992	3 158	-5.3%
Segment expenses (incl. intercompany)	(1 620)	(1 712)	-5.4%
EBITDA	1 372	1 446	-5.1%
<i>Margin as % of net revenue</i>	<i>45.9</i>	<i>45.8</i>	
Depreciation and amortization	(281)	(282)	-0.4%
EBIT	1 091	1 164	-6.3%
Number of subscribers in thousands			Change
Postpaid	2 752	2 603	5.7%
Prepaid	1 811	1 571	15.3%
Total	4 563	4 174	9.3%
In CHF, minutes or millions			Change
ARPU in CHF	65	76	-14.5%
AMPU in minutes	124	119	4.2%
Number of SMS messages in millions	1 558	1 472	5.8%
CHF in millions or number			Change
Capital expenditure	187	192	-2.6%
Number of full-time equivalent employees at end of period	2 404	2 440	-1.5%

Mobile’s revenue with external customers fell year-over-year by 4.4% to CHF 2,634 million. The decline in revenue due to price reductions for termination and roaming could not be completely offset by a higher number of subscribers and increased revenue from new data services. EBITDA fell by 5.1% to CHF 1,372 million. EBITDA margin was 45.9% (previous year: 45.8%).

With effect from June 1, 2005 Swisscom Mobile reduced the price for termination on its network by 40%. These price reductions for termination affected revenue and operating result (EBITDA) in the result as per September 30, 2006 by an amount of CHF 128 million. In the first nine months of 2006 new roaming agreements were concluded with a number of foreign mobile phone providers. These new agreements include a reduction in prices for international roaming traffic among the network providers, effective retrospectively as of April 2005. These price adjustments led to a decline in revenue from incoming roaming traffic and a decline in expenditure on outgoing roaming traffic compared with the prior year and have an overall positive impact on Swisscom Mobile's operating income. The retrospective price adjustments to the contracts for the year 2005 have a one-off effect of CHF 28 million on revenue and CHF 40 million on operating expenses.

The number of subscribers increased year-over-year by a net total of 389,000 (9.3%) to 4,563,000. The increase is largely due to the churn management and the good market position of Mobile resulting from the launch of new products and tariff plans. At the end of September 2006 the Liberty family had 1,407,000 subscribers and M-Budget Mobile, a pre-paid product launched in the third quarter of 2005, 255,000 subscribers.

Revenue from Connectivity Voice declined by 9.0% to CHF 1,532 million. The decline is due to price adjustments for termination and the retroactive reduction in prices for incoming roaming traffic. The average minutes per user per month (AMPU) increased due to the launch of new products and tariffs from 119 minutes to 124 minutes. Due to lower prices and a higher share of prepaid subscribers, average revenue per subscriber per month (ARPU) fell from CHF 76 to CHF 65.

Revenue from Connectivity Data and Value Added Services rose year-over-year by 10.7% to CHF 495 million as a result of increased use and the launch of new data services. The number of SMS messages sent increased by 5.8% compared with the previous year, reflecting the increased number of subscribers.

Intersegment revenue fell by 11.4% to CHF 358 million as a result of the price reductions for termination.

Mobile segment expenses fell by 5.4% to CHF 1,620 million year-over-year. The decrease was mainly a result of price adjustments for outgoing roaming traffic and reduced personnel costs due to the lower headcount. Due to increased sales, however, expenditure on the purchase of mobile customer equipment rose slightly.

EBITDA declined as a result of these effects by 5.1% to CHF 1,372 million. EBITDA margin remained at last year's level.

For 2006 as a whole Mobile expects a fall in revenue and EBITDA. The effects of price reductions for termination cannot be completely offset by a higher number of subscribers and increased revenue from new data services.

Solutions

“Solutions” comprises primarily fixed-line domestic and international voice telephony services to business customers, networking which includes primarily leased lines, intranet services, management of communication infrastructures.

On February 28, 2006 Swisscom Solutions took over the business fields telephone equipment and IP-communication platforms for medium and larger business customers from Siemens Enterprise Networks Switzerland. Furthermore the businesses taken over include applications and services as well as the integration, operation and maintenance of data networks.

The development of Solutions is presented in the following table:

CHF in millions	30.09.2006	30.09.2005	Change
Local and long-distance traffic	56	67	-16.4%
Fixed-to-mobile traffic	57	76	-25.0%
International traffic	38	43	-11.6%
Total traffic	151	186	-18.8%
Leased lines	90	112	-19.6%
Intranet services	105	114	-7.9%
Other services from service business	169	181	-6.6%
Solution business	227	200	13.5%
Other revenue	33	42	-21.4%
Revenue from external customers	775	835	-7.2%
Intersegment revenue	113	105	7.6%
Net revenue	888	940	-5.5%
Segment expenses (incl. intercompany)	(834)	(868)	-3.9%
EBITDA	54	72	-25.0%
<i>Margin as % of net revenue</i>	<i>6.1</i>	<i>7.7</i>	
Depreciation and amortization	(23)	(29)	-20.7%
EBIT	31	43	-27.9%

Traffic volume in millions of minutes	30.09.2006	30.09.2005	Change
Local and long-distance traffic	1 166	1 265	-7.8%
Fixed-to-mobile traffic	185	195	-5.1%
Total national traffic	1 351	1 460	-7.5%
International traffic	258	270	-4.4%
Total national and international traffic	1 609	1 730	-7.0%

CHF in millions or number	30.09.2006	30.09.2005	Change
Capital expenditure	29	12	141.7%
Number of full-time equivalent employees at end of period	1 956	1 819	7.5%

Revenue from external customers dropped by 7.2% to CHF 775 million compared with the previous year as a result of keen competition and price pressure. EBITDA fell by 25.0% to CHF 54 million. The year-over-year increase in headcount by 137 full-time equivalent employees primarily stems from the acquisition of the business fields from Siemens Switzerland.

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Traffic revenue decreased by 18.8% to CHF 151 million, mainly as a result of continuing competitive pressure, downward market trends due to migration effects and changes in communication behavior and in the Fix-to-Mobile sector, as well as price reductions in connection with lower termination charges.

The drop in leased line revenue of 19.6% to CHF 90 million was mainly due to the migration of existing products to Internet (IP) based services with lower prices and optimization of customer networks.

The fall in revenue from Intranet Services of 7.9% is attributable to lower prices due to competitive pressure.

The increase in revenue in the Solution Business segment of CHF 27 million was a result of increased revenue in the business fields outsourcing and system integration, partly as a result of the acquisition of Siemens Switzerland.

The decrease in other revenue of 21.4% to CHF 33 million stems principally from lower revenue due to the declining number of rental agreements for private branch exchanges.

Segment expense decreased in comparison with the previous year by 3.9% to CHF 834 million, mainly due to revenue-related lower purchasing volumes from other segments.

For 2006 as a whole Solutions expects a decline in revenue and EBITDA compared with the previous year as a result of keen competition and price pressure.

Other

The segment Other comprises the Group companies Swisscom IT Services, Swisscom Broadcast, Antenna Hungária, the Accarda Group and the Hospitality Services Group (formerly Swisscom Eurospot).

After the acquisition of a 75% stake in Antenna Hungária in October 2005 and the successful conclusion of the public tender in the first quarter of 2006, Swisscom was able to acquire the outstanding shares. Antenna Hungária was delisted on the Hungarian Stock Exchange in February 2006 and is now a 100% subsidiary of Swisscom.

On January 4, 2006 Swisscom IT Services acquired a 100% stake in the banking and IT specialist Comit AG. Comit is included in the consolidated accounts since this date and is disclosed under Swisscom IT Services.

The development of the segment Other is presented in the following table:

CHF in millions	30.09.2006	30.09.2005	Change
Swisscom IT Services	248	181	37.0%
Swisscom Broadcast	112	111	0.9%
Antenna Hungária	120	–	–
Accarda Group	86	82	4.9%
Hospitality Services (former Swisscom Eurospot)	41	21	95.2%
Other revenue	2	–	–
Revenue from external customers	609	395	54.2%
Intersegment revenue	358	355	0.8%
Net revenue	967	750	28.9%
Segment expenses (incl. intercompany)	(886)	(616)	43.8%
EBITDA	81	134	–39.6%
<i>Margin as % of net revenue</i>	8.4	17.9	
Depreciation and amortization	(141)	(100)	41.0%
EBIT	(60)	34	–

CHF in millions or number	30.09.2006	30.09.2005	Change
Capital expenditure	134	84	59.5%
Number of full-time equivalent employees at end of period	4 498	2 931	53.5%

Revenue with external customers rose year-over-year by 54.2% to CHF 609 million, mainly as a result of higher revenue from Swisscom IT Services due to the acquisition of Comit and the acquisition of Antenna Hungária at the end of October 2005. EBITDA fell by 39.6% to CHF 81 million. This is mainly attributable to a decline in EBITDA at Swisscom IT Services. EBITDA decreased by CHF 97 million as a result of costs for expanding into new markets. This also includes provisions for contractual risks for project related businesses. These costs and contractual risks relate to a limited number of projects which have been acquired by Swisscom IT Services during the strong growth-phase in the last few years. The requisite measures have been addressed and have already been implemented, with alterations to management and processes. In the third quarter of 2006 Swisscom IT Services achieved an EBITDA margin of around 10%. The afore mentioned costs and provisions are not related to the core business of Swisscom IT Services, such as the financial services industry. The development in this business field is promising and several projects have been accomplished successfully.

Headcount in the segment Other increased, mainly as a result of the acquisition of Antenna Hungária and Comit and growth-related increase in headcount at Swisscom IT Services.

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The increase in revenue at Swisscom IT Services of 37.0% to CHF 248 million can be attributed mainly to higher revenue from IT outsourcing and the acquisition of Comit. The increase in revenue at Hospitality Services (formerly Swisscom Eurospot) of CHF 21 million to CHF 41 million is primarily attributable to the increase in use of Internet connection services in hotels and conference centers by business customers.

Segment expenses rose in comparison with the previous year by 43.8% to CHF 886 million, primarily revenue-related and due to the acquisition of Antenna Hungária and Comit.

For 2006 as a whole segment Other expects an increase in revenue due to the acquisitions mentioned above. As a result of the additional costs for expanding into new markets and provisions for contractual risks at Swisscom IT Services, Swisscom expects a slight decrease in EBITDA. For 2006 as a whole Swisscom IT Services expects a positive EBITDA.

Corporate

The Corporate segment includes Group Headquarter divisions, shared services for Group companies, the real estate company Swisscom Immobilien AG and the employment company Worklink AG.

The development of the segment Corporate is presented in the following table:

CHF in millions	30.09.2006	30.09.2005	Change
Revenue from external customers	52	49	6.1%
Intersegment revenue	436	463	-5.8%
Net revenue	488	512	-4.7%
Segment expenses (incl. intercompany)	(458)	(479)	-4.4%
EBITDA	30	33	-9.1%
Margin as % of net revenue	6.1	6.4	
Depreciation and amortization	(39)	(32)	21.9%
EBIT	(9)	1	-

CHF in millions or number	30.09.2006	30.09.2005	Change
Capital expenditure	113	48	135.4%
Number of full-time equivalent employees at end of period	907	900	0.8%

Net revenue decreased by 4.7% to CHF 488 million as a result of lower charges between Group Headquarter divisions and the Swisscom-group companies. EBITDA decreased by CHF 3 million to CHF 30 million. On the one hand there were cost savings and on the other hand a decline in gains from the sale of real estate by Swisscom Immobilien AG and an increase in expenditure on workforce reduction measures. The increase in capital expenditure stems from a group-wide project run by Swisscom Immobilien AG to optimize the use of buildings and design modern office workplaces.

Intersegment revenue fell by 5.8% to CHF 436 million and is attributable to a decrease in services which Group Headquarter divisions charged to other group companies.

Segment expenses decreased by 4.4% to CHF 458 million. This includes costs for workforce reduction measures of CHF 64 million (previous year: CHF 32 million), including expenditure on the employment company Worklink AG.

For 2006 as a whole the segment Corporate expects revenue and EBITDA to remain at last year's level.

Equity Free Cash Flow

Swisscom's return policy is to pay out the equity free cash flow to shareholders. The equity free cash flow results from net cash provided by operating activities, net proceeds from the sale and purchase of investments, less net capital expenditure on tangible and intangible assets, issuance and repayment of financial liabilities (excluding leasing liabilities) and dividend payments to minority interests.

Equity free cash flow includes the following components:

CHF in millions	30.09.2006	30.09.2005	Change
EBITDA	2 855	3 272	(417)
Changes in operating assets and liabilities and other payments or receipts from operating activities	(48)	(94)	46
Net interest	(15)	4	(19)
Income taxes paid	(429)	(275)	(154)
Net cash provided by operating activities	2 363	2 907	(544)
Capital expenditure	(852)	(667)	(185)
Acquisition of subsidiaries and affiliated companies	(211)	(115)	(96)
Proceeds from the sale of affiliated companies	3	-	3
Repayment of vendor loan notes from the sale of debitel	-	351	(351)
Net investments in non-current financial assets	(1)	230	(231)
Dividends paid to minority interests	(297)	(367)	70
Other cash flow from investing and financing activities, net	16	23	(7)
Equity free cash flow	1 021	2 362	(1 341)
Net investments in current financial assets	1 534	(804)	2 338
Other changes of financial liabilities	(43)	(162)	119
Dividends paid	(907)	(861)	(46)
Share buy-back	(1 576)	(1 230)	(346)
Net increase (decrease) in cash and cash equivalents	29	(695)	724

In the first nine months of 2006, equity free cash flow amounted to CHF 1,021 million, CHF 1,341 million lower than the previous year. Equity free cash flow decreased as a result of lower net cash provided by operating activities, increased capital expenditure on fixed and intangible assets and higher expenditure for acquisitions as well as no proceeds from the sale of investments. Net cash provided by operating activities decreased primarily as a result of lower EBITDA and higher income tax payments. The increase in provisions in connection with interconnection proceedings of CHF 180 million does not affect net cash provided by operating activities as at September 30, 2006 because the potential cash outflow will not be effected until a later date. Acquisition of subsidiaries and affiliated companies includes the payment for the acquisition of the remaining 25% share in Antenna Hungária as well as payments for the acquisition of Comit, Cybernet, Medgate, Core Communications, Swapcom, Betty and a business field taken over from Siemens.

As at December 31, 2005 and December 31, 2004 withholding tax of CHF 136 million and CHF 119 million respectively was due to the tax authorities in connection with the share buy-back programs in 2005 and 2004. In each case this was paid to the tax authorities in the first quarter of the following year. The payments were presented under share buy-back in the cash flow statement.

Financial Review

Net debt (net funds)

CHF in millions	30.09.2006	31.12.2005	Change
Financial liability from cross-border tax lease arrangements	1 478	1 474	0.3%
Finance lease obligation	641	681	-5.9%
Other financial liabilities	166	148	12.2%
Liabilities from collecting activities	104	154	-32.5%
Total	2 389	2 457	-2.8%
Cash and cash equivalents	(1 052)	(1 023)	2.8%
Current financial assets	(146)	(1 684)	-91.3%
Receivables from collecting activities	(393)	(390)	0.8%
Financial assts from lease and leaseback transactions	(1 131)	(1 125)	0.5%
Net funds	(333)	(1 765)	-81.1%

Net debt (net funds) consists of total financial liabilities and liabilities from collection activities less cash and cash equivalents, current financial assets, receivables from collection activities and financial assets from crossborder tax lease agreements. On September 30, 2006, net funds amounted to CHF 333 million.

Current financial assets include term deposits and money market investments with a term of less than one year as well as securities and derivative financial instruments. The derivative financial instruments are mainly used to hedge currency risks in connection with lease obligations. Financial liabilities consist primarily of finance lease obligations and sale and leaseback obligations relating to buildings. The financial liabilities from lease obligations reported are covered by non-current financial assets to an extent of CHF 1,131 million.

Outlook

Swisscom expects net revenue in the 2006 financial year of around CHF 9.5 billion as a result of keen competition. The operating income (EBITDA) is expected to be CHF 3.7 billion. Capital expenditure in 2006 in the Swisscom group will amount to around CHF 1.3 billion.

Consolidated income statement (condensed)

CHF in millions, except per share amount	Note	unaudited			
		1.7.–30.9.2006	1.7.–30.9.2005	1.1.–30.9.2006	1.1.–30.9.2005
Net revenue		2 423	2 386	7 196	7 298
Other income		76	91	230	189
Total		2 499	2 477	7 426	7 487
Goods and services purchased		471	479	1 346	1 372
Personnel expenses		542	504	1 691	1 595
Other operating expenses		445	421	1 534	1 248
Depreciation and amortization		343	340	1 046	1 043
Total operating expenses		1 801	1 744	5 617	5 258
Operating income		698	733	1 809	2 229
Net financial result	3	(11)	28	(33)	59
Equity in net income of affiliated companies		4	3	17	9
Income before income taxes		691	764	1 793	2 297
Income tax expense		(137)	(155)	(350)	(450)
Income from continuing operations		554	609	1 443	1 847
Income from discontinued operation (debitel)	10	–	–	32	59
Net income		554	609	1 475	1 906
Net income attributable to equity holders of Swisscom AG		470	534	1 229	1 650
Net income attributable to minority interests		84	75	246	256
Basic and diluted earnings per share (in CHF)					
- from continuing operations		8.40	9.00	21.20	26.25
- from discontinued operation (debitel)		–	–	0.57	0.97
- net income		8.40	9.00	21.77	27.22

Consolidated balance sheet (condensed)

CHF in millions	Note	unaudited	
		30.09.2006	31.12.2005
Assets			
Current assets			
Cash and cash equivalents		1 052	1 023
Current financial assets		146	1 684
Other current assets		2 764	2 537
Non-current assets held for sale	7	14	5
Total current assets		3 976	5 249
Non-current assets			
Property, plant and equipment		5 732	6 000
Goodwill and other intangible assets	6	922	722
Investments in affiliated companies		210	191
Non-current financial assets		1 166	1 163
Deferred tax assets		95	84
Total non-current assets		8 125	8 160
Total assets		12 101	13 409
Liabilities and equity			
Current liabilities			
Short-term debt	4	192	173
Current tax liabilities		178	229
Other current liabilities		3 278	2 333
Total current liabilities		3 648	2 735
Long-term liabilities			
Long-term debt	4	2 093	2 130
Accrued pension cost		750	805
Deferred tax liabilities		348	361
Other long-term liabilities		665	754
Total long-term liabilities		3 856	4 050
Total liabilities		7 504	6 785
Equity attributable to equity holders of Swisscom AG		4 025	6 001
Equity attributable to minority interests		572	623
Total equity		4 597	6 624
Total liabilities and equity		12 101	13 409

Consolidated cash flow statement (condensed)

CHF in millions	Note	unaudited	
		30.09.2006	30.09.2005
Cash flows from operating activities			
Operating income before interest, taxes, depreciation and amortization (EBITDA)		2 855	3 272
Change in operating assets and liabilities and other payments or receipts from operating activities		(48)	(94)
Net interest		(15)	4
Income taxes paid		(429)	(275)
Net cash provided by operating activities		2 363	2 907
Cash flows from investing activities			
Capital expenditure		(852)	(667)
Proceeds from sale of fixed assets		33	36
Acquisition of subsidiaries, less cash and cash equivalents acquired	6	(199)	(14)
Proceeds from the sale of affiliated companies		3	–
Acquisition of affiliated companies		(12)	(101)
Repayment of vendor loan notes from the sale of debitel		–	351
Purchase and sale of current and non-current financial assets, net		1 533	(572)
Net cash provided by (used in) investing activities		506	(967)
Cash flows from financing activities			
Repayment of financial liabilities		(43)	(162)
Purchase of treasury stock for stock based compensation	5	(17)	(15)
Share buy-back	5	(1 576)	(1 230)
Dividends paid		(907)	(861)
Dividends paid to minority interests		(297)	(367)
Net cash used in financing activities		(2 840)	(2 635)
Net increase (decrease) in cash and cash equivalents		29	(695)
Cash and cash equivalents at beginning of year		1 023	2 387
Effect of exchange rate changes on cash and cash equivalents		–	3
Cash and cash equivalents at end of the period		1 052	1 695

Consolidated statement of equity (condensed)

CHF in millions	unaudited							Equity Total
	Share capital	Capital reserves	Retained earnings	Treasury stock	Other reserves	Equity attributable to equity holders of Swisscom	Equity attributable to minority interests	
Balance at December 31, 2004	66	572	8 139	(2 002)	16	6 791	663	7 454
Translation adjustments	-	-	-	-	10	10	-	10
Fair value adjustments	-	-	-	-	19	19	-	19
Gains and losses directly recognized in equity, net	-	-	-	-	29	29	-	29
Net income	-	-	1 650	-	-	1 650	256	1 906
Total recognized income and expense for the period	-	-	1 650	-	29	1 679	256	1 935
Dividends paid	-	-	(861)	-	-	(861)	(367)	(1 228)
Purchase and sale of treasury stock, net	-	-	-	(1)	-	(1)	-	(1)
Capital reduction	(5)	(180)	(1 816)	2 001	-	-	-	-
Share buy-back	-	-	-	(1 265)	-	(1 265)	-	(1 265)
Balance at September 30, 2005	61	392	7 112	(1 267)	45	6 343	552	6 895
Balance at December 31, 2005	61	392	7 483	(2 002)	67	6 001	623	6 624
Translation adjustments	-	-	-	-	(20)	(20)	-	(20)
Fair value adjustments	-	-	-	-	(66)	(66)	-	(66)
Gains and losses directly recognized in equity, net	-	-	-	-	(86)	(86)	-	(86)
Net income	-	-	1 229	-	-	1 229	246	1 475
Total recognized income and expense for the period	-	-	1 229	-	(86)	1 143	246	1 389
Dividends paid	-	-	(907)	-	-	(907)	(297)	(1 204)
Purchase and sale of treasury stock, net	-	-	-	1	-	1	-	1
Capital reduction	(5)	(21)	(1 975)	2 001	-	-	-	-
Share buy-back	-	-	-	(2 213)	-	(2 213)	-	(2 213)
Balance at September 30, 2006	56	371	5 830	(2 213)	(19)	4 025	572	4 597

Notes to the Consolidated Interim Financial Statements (condensed)

1 Accounting principles

Consolidation and valuation principles

These unaudited consolidated interim financial statements comprise Swisscom AG and all subsidiaries controlled directly or indirectly by majority votes or otherwise. The consolidated interim financial statements were drawn up in compliance with the International Accounting Standard (IAS) 34 "Interim Financial Reporting" and are to be read in conjunction with the consolidated annual financial statements for the financial year 2005 drawn up as at December 31, 2005. With the exception of those principles that entered into force on January 1, 2006, the consolidated interim financial statements were drawn up in compliance with the accounting principles described in the consolidated annual financial statements.

When compiling the consolidated interim financial statements, management is required to make estimates and assumptions. Any alterations to these estimates and assumptions are adjusted in the reporting period in which the estimates and assumptions are changed.

Income taxes are calculated based on an estimate of the income tax rate expected for the whole year.

New and amendments to accounting principles

Various new and revised International Financial Reporting Standards (IFRS) and interpretations have entered into force since January 1, 2006. The following changes are relevant for Swisscom:

IAS 19 (revised) "Employee benefits": Swisscom recognizes actuarial gains and losses in accordance with IAS 19 unchanged from the previously applied method.

IAS 39 (revised) "Financial Instruments: Recognition and Measurement, including the amendment to the fair value option".

IFRIC 4 "Determining whether an arrangement contains a lease".

2 Segment reporting

Intersegment revenue is based on internal transfer prices which were re-determined as at January 1, 2006.

The financial review reports on the following segments

- **Fixnet**
- **Mobile**
- **Solutions**
- **Other**, comprising mainly Swisscom IT Services, where the most important companies are Swisscom IT Services AG and Comit AG, Swisscom Broadcast, Antenna Hungária, the Accarda Group, including Billag AG, Accarda AG, Medipa AG, and Hospitality Services (formerly Swisscom Eurospot).
- **Corporate**, comprising divisions at Group Headquarters, shared services for group companies, the real estate company Swisscom Immobilien AG and the employment company Worklink AG.

Notes to the Consolidated Interim Financial Statements (condensed)

Net revenue and operating results of the individual segments in the first nine months of 2006 and 2005 are presented in the following table:

30.09.2006 CHF in millions	unaudited						Total
	Fixnet	Mobile	Solutions	Other	Corporate	Elimi- nation	
Net revenue from external customers	3 126	2 634	775	609	52	–	7 196
Intersegment net revenue	627	358	113	358	436	(1 892)	–
Net revenue	3 753	2 992	888	967	488	(1 892)	7 196
Segment expenses	(2 416)	(1 620)	(834)	(886)	(458)	1 873	(4 341)
Operating income before depreciation and amortization (EBITDA)	1 337	1 372	54	81	30	(19)	2 855
<i>Margin in %</i>	<i>35.6</i>	<i>45.9</i>	<i>6.1</i>	<i>8.4</i>	<i>6.1</i>		<i>39.7</i>
Depreciation and amortization	(566)	(281)	(23)	(141)	(39)	4	(1 046)
Operating income (EBIT)	771	1 091	31	(60)	(9)	(15)	1 809

30.09.2005 CHF in millions	unaudited						Total
	Fixnet	Mobile	Solutions	Other	Corporate	Elimi- nation	
Net revenue from external customers	3 265	2 754	835	395	49	–	7 298
Intersegment net revenue	747	404	105	355	463	(2 074)	–
Net revenue	4 012	3 158	940	750	512	(2 074)	7 298
Segment expenses	(2 419)	(1 712)	(868)	(616)	(479)	2 068	(4 026)
Operating income before depreciation and amortization (EBITDA)	1 593	1 446	72	134	33	(6)	3 272
<i>Margin in %</i>	<i>39.7</i>	<i>45.8</i>	<i>7.7</i>	<i>17.9</i>	<i>6.4</i>		<i>44.8</i>
Depreciation and amortization	(602)	(282)	(29)	(100)	(32)	2	(1 043)
Operating income (EBIT)	991	1 164	43	34	1	(4)	2 229

3 Net financial result

CHF in millions	unaudited	
	30.09.2006	30.09.2005
Interest income	90	109
Interest expense	(105)	(105)
Net interest (expense) income	(15)	4
Foreign exchange gain (loss)	(9)	21
Other financial income and expense, net	(9)	34
Net financial result	(33)	59

4 Financial liabilities

CHF in millions	unaudited	
	30.09.2006	31.12.2005
Finance lease obligation	29	29
Derivative financial instruments	151	142
Other short-term financial liabilities	12	2
Total short-term financial liabilities	192	173
Financial liability from cross-border tax lease arrangements	1 478	1 474
Finance lease obligation	612	652
Other long-term financial liabilities	3	4
Total long-term financial liabilities	2 093	2 130
Total financial liabilities	2 285	2 303

5 Share capital and treasury stock

In September 2006 Swisscom acquired 4,916,618 of its own shares or 8% as part of a share buy-back scheme for an amount of CHF 2.2 billion. Put options were assigned to shareholders free of charge for each share held. 23 put options entitled the bearer to sell two registered shares for CHF 450 gross or CHF 292.85 net per registered share less 35% federal withholding tax. CHF 1,440 million has been paid to shareholders. The withholding tax of CHF 773 million will be paid in the fourth quarter of 2006. Swisscom intends to propose the General Meeting of Shareholders on 24 April 2007 a capital reduction in the amount of the buyback volume achieved. The majority shareholder, the Swiss Confederation, participated in the buy-back scheme to an extent of CHF 2.18 billion and now holds 58.4% of registered shares.

In May 2005 Swisscom AG launched a share buy-back scheme in the amount of CHF 2 billion. By September 30, 2005 shares had been bought back for a total of CHF 1,265 million. The withholding tax of CHF 154 million was paid back in the fourth quarter of 2005. The General Meeting of Shareholders on April 25, 2006 resolved a capital reduction in the amount of the shares acquired as part of this scheme. The capital reduction to 56,718,561 shares took place in the third quarter of 2006.

In the first nine months of 2006 shares with a market value totaling CHF 45 million (previous year CHF 46 million) were bought and then sold at reduced prices as part of share-based remuneration plans to Swisscom non-management employees, management, members of the Executive Board and Board of Directors. Expenses on share-based remuneration was CHF 17 million (previous year: CHF 15 million).

Notes to the Consolidated Interim Financial Statements (condensed)

6 Acquisition of subsidiaries and affiliated companies

In the first nine months of 2006 Swisscom acquired stakes for a total of CHF 211 million. CHF 199 million was paid for the acquisition of subsidiaries and CHF 12 million on stakes in affiliated companies. This amount included CHF 96 million for the acquisition of the outstanding shares in Antenna Hungária.

The companies acquired will be included in the consolidated accounts from the date the transaction is completed. Until the purchase price has been finally allocated later in the year, the assets are to be considered as provisional. The impact of acquisitions on consolidated net revenue in the first nine months of 2006 was around 1%.

Acquisition of a 100% stake in Comit (Switzerland)

On January 4, 2006 Swisscom IT Services acquired a 100% stake in Comit AG, an IT service provider to banks. The purchase price was CHF 79 million.

The purchase price is provisionally allocated to Comit's net assets as presented below:

CHF in millions	unaudited		Carrying value upon acquisition
	Carrying value prior to acquisition	Adjustment	
Cash and cash equivalents	19	–	19
Other current assets	11	–	11
Property, plant and equipment and other intangible assets	2	–	2
Goodwill	–	77	77
Deferred tax assets	–	2	2
Short- and long-term liabilities	(21)	(11)	(32)
Purchase price			79
Less cash and cash equivalents acquired			(19)
Deferred payment of purchase price			(34)
Cash outflow			26

Acquisition of a 100% stake in Cybernet (Switzerland)

Swisscom Fixnet signed a contract for the takeover of a 100% stake of the Internet service provider Cybernet (Switzerland) AG on October 20, 2005. The takeover was completed with the approval of the Competition Commission on March 22, 2006 for a purchase price of CHF 15 million.

Acquisition of business fields from Siemens Switzerland

Swisscom Solutions AG concluded an agreement with Siemens Switzerland on the takeover of the business fields telephone equipment and IP-communication platforms for medium and larger business customers. Furthermore businesses taken over include applications and services as well as the integration, operation and maintenance of data networks. The takeover was completed on February 28, 2006 for a purchase price of CHF 24 million.

Acquisition of a 98% stake in Core Communications (USA)

On June 8, 2006 Swisscom Eurospot (now Hospitality Services) acquired a 98% stake in Core Communications Corp. Core Communications is an US American service provider of data communication and Internet solutions for the hotel industry. A purchase price of USD 11 million (CHF 13 million) was paid for the stake in the second quarter of 2006.

Acquisition of a 100% stake in Swapcom (France)

On August 3, 2006 Swisscom acquired a 100% stake in Swapcom (France). Swapcom is specialized in server-side mobile architecture and develops software solutions. The purchase price is made up of EUR 15 million (CHF 24 million) in cash and an additional maximum EUR 4 million (CHF 6 million) based on business development in 2006.

Acquisition of a 100% stake in Betty (Switzerland, Germany)

On September 27, 2006 Swisscom acquired a 100% stake in voting rights and 65% of share capital in Betty Holding AG for a purchase price of CHF 24 million. Betty Holding AG (Zurich) holds 100% of the shares in its subsidiaries Betty Technology AG (Zug), Betty TV AG (Munich) and Betty TV Entwicklungs- und Dienstleistungs GmbH (Munich). Betty produces a remote control for interactive television viewing. The sellers are entitled to sell their non-voting shares to Swisscom at a fixed price of CHF 8 million by the end of 2007. The obligations arising from this agreement are recorded as financial liabilities as at September 30, 2006.

With respect to the afore-mentioned acquisitions the purchase prices were provisionally allocated to the net assets as follows:

CHF in millions	unaudited		
	Carrying value prior to acquisition	Adjustment	Carrying value upon acquisition
Cash and cash equivalents	8	–	8
Other current assets	25	–	25
Property, plant and equipment and other intangible assets	16	22	38
Goodwill	–	78	78
Deferred tax assets	–	3	3
Short- and long-term liabilities	(41)	(11)	(52)
Purchase price			100
Less cash and cash equivalents acquired			(8)
Deferred payment of purchase price			(15)
Cash outflow			77

Acquisition of a 40% stake in the Medgate Group

On February 9, 2006 Swisscom acquired a 40% stake in Medgate Holding AG. Since its foundation Medgate has become the leading Swiss center in the field of tele-medicine. Medgate is classified as an affiliated company and is included in the consolidated accounts using the equity method.

Notes to the Consolidated Interim Financial Statements (condensed)

Transactions 2005

In the first nine months of 2005 Swisscom acquired stakes for a total of CHF 115 million. CHF 14 million thereof were used to acquire subsidiaries and CHF 101 million to acquire stakes in affiliated companies.

Acquisition of a 100% stake in Celeris (Switzerland)

On June 3, 2005 Swisscom acquired a 100% stake in Celeris AG for CHF 8 million. Celeris AG is a leading supplier of Managed Security Services for secure communications via the Internet.

Acquisition of a 92% stake in Medipa (Switzerland)

On July 1, 2005 Swisscom acquired a 92% stake in Medipa AG, a Swiss medical billing company.

Acquisition of a 49% stake in Cinetrade (Switzerland)

On April 8, Swisscom acquired a 49% stake in CT Cinetrade AG, a Swiss media company whose activities include a Pay TV channel, video and DVD film rights and cinema management.

Transfer of international carrier activities

On February 23, 2005 Belgacom and Swisscom signed an agreement to form an affiliated company in which Belgacom holds 72% and Swisscom 28%. On July 1, 2005 Fixnet brought its international carrier business into the newly found company in return for the 28% of the share capital. Swisscom Fixnet still recorded revenue from international incoming traffic after this transfer took place since not all contracts could be transferred to the joint venture by July 2005. The transfer of the remaining contracts is scheduled for 2007. A gain of CHF 4 million was made on the transaction and recorded in financial income.

7 Non-current assets held for sale

Non-current assets held for sale include the carrying amount of real estate of CHF 14 million which are scheduled to be sold in the next twelve months. The scheduled sale is part of Swisscom Immobilien AG's plan to optimize use of buildings.

8 Contingent liabilities

Proceedings relating to interconnections

Swisscom provides interconnection services to other telecommunications service providers in Switzerland. Interconnection regulates the joint switching of Swisscom's networks and those of other telecommunication providers. Since 2000 Swisscom has calculated its interconnection prices according to the statutory method for calculating long run incremental costs (LRIC).

In 2000 two telecommunications service providers filed petitions with the Federal Communications Commission (ComCom) demanding that the interconnection prices charged by Swisscom be reduced.

On November 6, 2003, ComCom issued decisions, requiring Swisscom to lower interconnection prices for these two telecommunications service providers with retroactive effect for the years 2000 to 2003 by 25% to 35%, depending on the product. Swisscom lodged an appeal against the ComCom decision with the Federal Court. On October 1, 2004, the Federal Court issued a decision overturning the ComCom decisions on procedural grounds and remanding the petitions for re-hearing before ComCom to reconsider the pricing issues. On June 10, 2005 ComCom made new decisions, largely identical with those of November 6, 2003. ComCom reduced Swisscom's interconnection prices for the years 2000 – 2003 by around 30% (depending on the product) and declared a clause regulating the effect of decisions by the authorities on parties not involved in the proceedings, included in the interconnection agreement with one of the petitioners, as not applicable. Swisscom lodged administrative appeals against these new decisions with the Federal Court.

In 2004 the two petitioners together with two other telecommunications service providers filed petitions with the ComCom, demanding that prices be fixed on the basis of costs in 2004. The two new petitioners also applied for a retroactive reduction from the year 2000. These proceedings have currently been suspended.

On April 21, 2006 the court decided that no fault could be found with ComCom's price fixing for the years 2000 to 2003. However, the court criticized the method used by the authorities to fix prices for interconnection services as unviable and referred the matter back to ComCom for new calculations. The Federal Court also ruled in one court case that the clause stating that court decisions should be valid for third parties not involved in the proceedings was not to be included in the contract in question. On August 30, 2006 ComCom recalculated the prices for interconnection services for the years 2000 to 2003 in line with the Federal decision and issued a new decision.

Swisscom has created provisions in case ComCom rules that Swisscom must lower its interconnection prices for the petitioners. As a result of this Federal Court decision, there is a risk that other providers who have previously accepted the prices, will demand that Swisscom reduces the prices retroactively. This increases the potential liabilities by CHF 180 million. Provisions were increased by this amount in the second quarter of 2006. The increase in provisions was recorded under other operating expenses in the income statement. In addition the provisions were increased to take into account interest whereby this increase in provisions was recorded under net financial result in the income statement. Swisscom believes that it may be able to avert any further risks in future proceedings.

Provisions for ComCom's ruling on interconnection prices including interest as at September 30, 2006 amounted to CHF 554 million. The provisions are classified as current and are included under current liabilities in the condensed balance sheet as at September 30, 2006.

Competition commission proceedings - mobile termination fees

In October 2002 the Competition Commission initiated proceedings against Swisscom Mobile in connection with mobile termination fees. On April 7, 2006, the Secretariat of the Competition Commission provided Swisscom Mobile with its draft decision, according to which it believes that Swisscom Mobile has a market-dominant position and has violated Swiss Antitrust Law by demanding disproportionately high termination fees. In the draft decision of April 7, 2006 the Secretariat proposed to the Competition Commission that it impose a fine on Swisscom Mobile AG of around CHF 489 million in connection with the company's conduct between April 1, 2004 and May 31, 2005.

The proposed fines relate to the period from April 1, 2004 (when a new amendment to the Swiss Antitrust Law entered into effect) to May 31, 2005 (when Swisscom Mobile lowered its mobile termination fee from CHF 0.335 to CHF 0.20). The proceedings are to be continued in order to investigate the conduct of Swisscom Mobile AG after May 31, 2005.

Swisscom Mobile is of the view that it is not dominant in the market for mobile termination and that its tariffs for mobile termination have not been abusive. Prior to lowering its mobile termination fee on June 1, 2005, Swisscom Mobile's fee was approximately 10% lower than the fee charged by its competitors. In addition, as Swisscom customers place a higher volume of calls to their competitor's networks than vice versa, Swisscom Mobile makes net payments to these mobile network operators.

On October 11, 2006 the Secretariat of WEKO issued Swisscom Mobile AG with a new draft decision. The opinion of the Secretariat is largely identical with the draft decision of April 7, 2006. The Secretariat still proposes sanctions of CHF 489 million to WEKO.

Should the Competition Commission issue its decision in the form proposed by its Secretariat, Swisscom Mobile would appeal to the Appeals Commission for Competition Matters (REKO WEKO) and, if necessary, in the final event to the Federal Court.

In view of its legal assessment Swisscom is of the opinion that it is unlikely that sanctions will be imposed and has therefore not recognized any provisions as at September 30, 2006.

Notes to the Consolidated Interim Financial Statements (condensed)

Other provisions and contingent liabilities

At the end of 2005 Swisscom IT Services created provisions for expected losses in connection with projects and long-term outsourcing agreements. The provisions were increased in the second quarter of 2006 following a reassessment of the risks of the contracts.

The other provisions recognized in the 2005 consolidated financial statements and the contingent liabilities explained in the notes have not changed significantly during the course of the year.

9 Related parties

The transactions between Swisscom and related parties during the first nine months of 2006 are similar to those transactions described in the 2005 Annual Report.

In 2006, as part of a share buy-back scheme, Swisscom bought shares in an amount of CHF 2.18 billion from its majority shareholder, the Swiss Confederation. See Note 5.

10 Discontinued operation (debitel)

On June 8, 2004 Swisscom completed the sale of its stake in debitel. As a result, debitel is included in the consolidated financial statements as a discontinued operation and is disclosed separately. The purchaser was granted vendor loan notes amounting to EUR 210 million in connection with the sale of debitel. The vendor loan notes were initially recognized at fair value and in the following period using the effective interest method. An interest rate of 12.5% was taken to calculate the fair value. The purchaser prematurely repaid the entire loan in the first six months of 2005. The payment of CHF 351 million includes the repayment of the nominal value of the loan and the contractually agreed interest. The difference of CHF 59 million between the recoverable value of the loan and the payment was recorded as financial income from a discontinued operation. At the end of 2005 provisions of CHF 50 million were created for guarantees in connection with tax risks. Following a tax audit of debitel in the second quarter of 2006, CHF 32 million of these provisions could be reversed.

11 Post balance sheet events

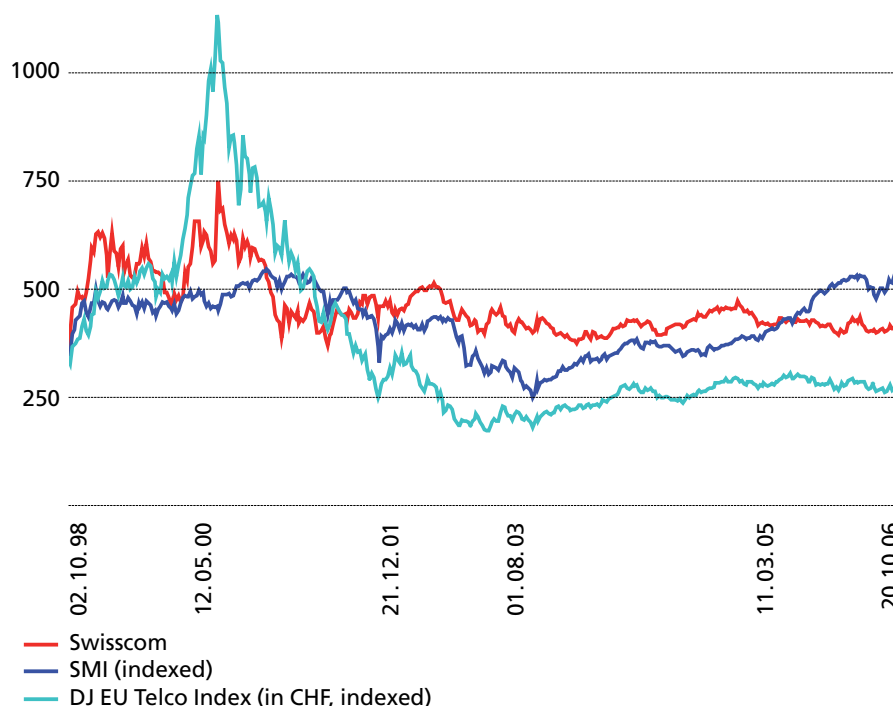
Approval of the interim report

Swisscom's Board of Directors approved the release of this interim report on November 7, 2006.

Acquisition of a 100% stake in JW Service AG (Switzerland)

In mid-October, 2006 Swisscom acquired a 100% stake in JW Service AG (JWS). JWS offers IT services to the finance industry, including consulting, project management and software development.

Performance of the Swisscom share on the virt-x



Shareholder information

31.12.2005 – 30.09.2006	virt-x	NYSE
Closing price at 31.12.2005	CHF 414.75	USD 31.51
Closing price at 30.09.2006 ¹	CHF 416.25	USD 33.39
Year high ¹	CHF 434.00	USD 34.53
Year low ¹	CHF 388.00	USD 29.88
Total trading volume	23 657 357	8 124 800
Daily average	125 837	43 217
Total volume in millions	CHF 9 646.79	USD 264.07
Daily average in millions	CHF 51.31	USD 1.40

Source: Bloomberg

¹ paid prices

Share information

On September 30, 2006 the company's share capital consists of 56,718,561 registered shares, of which the Swiss Confederation holds the majority in accordance with the Telecommunications Enterprise Act. On September 30, 2006 Swisscom had 53,651 registered shareholders and an average non-allotted share level of approximately 10%. The nominal value per registered share amounts to CHF 1.

The dividend payment of CHF 16 per share (previous year: CHF 14) agreed at the General Meeting of Shareholders in 2006 was paid on April 28, 2006. In addition to the total dividend payment of CHF 907 million, Swisscom launched a share buy-back scheme in the third quarter of 2006 in the amount of CHF 2.21 billion. This means the shareholders received dividend payouts totaling CHF 3.12 billion during the current year.

As part of the 2006 share buy-back scheme Swisscom acquired 4,916,618 shares or 8.67% of the share capital. The Swisscom Board of Directors intends to propose the General Meeting of Shareholders on 24 April 2007 a capital reduction in the amount of the buy-back volume achieved. The Board of Directors reserves the right, however, to re-issue these repurchased shares if circumstances change and to use the proceeds to finance acquisitions, for example. In this case the share capital will not be reduced or only to a lesser extent. The shares purchased as part of the 2006 share buy-back scheme are non-voting and non-dividend bearing and reduce the number of shares outstanding to 51,801,943. The dividend per share will be recalculated on this basis.

Each share entitles the holder to one vote. Voting rights may only be exercised if the shareholder has been entered with voting rights into the Swisscom share register. However, the Board of Directors may refuse to enter a shareholder into the share register together with voting rights if such voting rights exceed 5% of the company's overall share capital.

Financial calendar

March 13, 2007	Annual results 2006
April 24, 2007	Shareholders' Meeting, Zurich
April 27, 2007	Dividend payout
May 9, 2007	2007 First Quarter Interim Report
August 8, 2007	2007 Half Year Interim Report
November 7, 2007	2006 Third-Quarter Interim Report

Trading locations

Swisscom shares are traded on the pan-European platform virt-x under the symbol „SCMN“ (Security ID: 874251) and in the form of American Depositary Shares (ADS) at a ratio of 1:10 on the New York Stock Exchange under the symbol „SCM“ (Security ID: 949527).

Stock exchange	Bloomberg	Reuters	Telekurs
virt-x, London	SCMN, VX	SCM.VX	SCMN, VTX
NYSE, New York	SCM	SCM	SCM, NYS

Return policy

Swisscom's policy is to distribute the freely available funds (equity free cash flow) each year. The funds available for such payments consist of the net cash flow provided by operating activities, net proceeds from the sale and purchase of investments less net capital expenditure, taking out and repaying financial liabilities (excl. leasing liabilities) and dividend payments to minority interests. The disbursement is made via a dividend and may be supplemented by a share buy-back. A share buy-back need not take place at the same time as dividend payouts.

Quarterly review 2005 and 2006

CHF in millions	1. quarter	2. quarter	3. quarter	4. quarter	2005	1. quarter	2. quarter	3. quarter	4. quarter	Sept. 30 2006
Net revenue	2 445	2 467	2 386	2 434	9 732	2 375	2 398	2 423	-	7 196
Other income	32	66	91	71	260	80	74	76	-	230
Goods and services purchased	(431)	(462)	(479)	(459)	(1 831)	(409)	(466)	(471)	-	(1 346)
Personnel expenses	(559)	(532)	(504)	(578)	(2 173)	(594)	(555)	(542)	-	(1 691)
Other operating expenses	(395)	(432)	(421)	(569)	(1 817)	(418)	(671)	(445)	-	(1 534)
EBITDA	1 092	1 107	1 073	899	4 171	1 034	780	1 041	-	2 855
Depreciation and amortization	(357)	(346)	(340)	(351)	(1 394)	(348)	(355)	(343)	-	(1 046)
EBIT	735	761	733	548	2 777	686	425	698	-	1 809
Net financial result	20	11	28	23	82	(10)	(12)	(11)	-	(33)
Equity in net income of affiliated companies	(1)	7	3	4	13	(1)	14	4	-	17
Income tax expense	(147)	(148)	(155)	(85)	(535)	(131)	(82)	(137)	-	(350)
Income from continuing operations	607	631	609	490	2 337	544	345	554	-	1 443
Income from discontinued operation (debitel)	6	53	-	(50)	9	-	32	-	-	32
Net income	613	684	609	440	2 346	544	377	554	-	1 475
Attributable to equity holders of Swisscom AG	520	596	534	372	2 022	460	299	470	-	1 229
Attributable to minority interests	93	88	75	68	324	84	78	84	-	246
Net revenue by Segments¹										
Fixnet	1 378	1 372	1 262	1 296	5 308	1 281	1 252	1 220	-	3 753
Mobile	1 040	1 067	1 051	1 010	4 168	958	1 002	1 032	-	2 992
Solutions	314	314	312	328	1 268	293	294	301	-	888
Other	246	255	249	309	1 059	316	322	329	-	967
Corporate	169	171	172	178	690	164	165	159	-	488
Intercompany elimination	(702)	(712)	(660)	(687)	(2 761)	(637)	(637)	(618)	-	(1 892)
Total net revenue	2 445	2 467	2 386	2 434	9 732	2 375	2 398	2 423	-	7 196
EBITDA by Segments										
Fixnet	519	546	528	498	2 091	526	322	489	-	1 337
Mobile	509	492	445	404	1 850	459	432	481	-	1 372
Solutions	23	26	23	2	74	18	19	17	-	54
Other	39	52	43	8	142	36	(7)	52	-	81
Corporate	5	(9)	37	(16)	17	1	20	9	-	30
Intercompany elimination	(3)	-	(3)	3	(3)	(6)	(6)	(7)	-	(19)
Total EBITDA	1 092	1 107	1 073	899	4 171	1 034	780	1 041	-	2 855
Capital expenditure	176	255	236	420	1 087	235	291	326	-	852
Equity free cash flow	606	927	829	(159)	2 203	67	409	545	-	1 021
Number of full-time equivalent employees at end of period	15 397	15 307	15 288	16 088	16 088	16 544	16 739	16 875	-	16 875

¹ Includes intersegment revenue.

	1. quarter	2. quarter	3. quarter	4. quarter	2005	1. quarter	2. quarter	3. quarter	4. quarter	Sept. 30
Operational data Fixnet										
Number of lines in thousands										
PSTN lines	2 982	2 951	2 930	2 922	2 922	2 923	2 911	2 892	–	2 892
ISDN lines	921	919	911	900	900	888	878	867	–	867
Total number of lines PSTN / ISDN	3 903	3 870	3 841	3 822	3 822	3 811	3 789	3 759	–	3 759
ADSL retail lines										
ADSL retail lines	550	603	645	708	708	775	846	886	–	886
ADSL wholesale lines	328	345	365	390	390	414	407	419	–	419
Total number of ADSL lines	878	948	1 010	1 098	1 098	1 189	1 253	1 305	–	1 305
Retail traffic volume in millions of minutes										
Local and long-distance traffic	1 756	1 654	1 547	1 671	6 628	1 711	1 547	1 469	–	4 727
Fixed-to-mobile traffic	228	236	231	230	925	231	232	231	–	694
Internet traffic	674	563	513	502	2 252	470	375	327	–	1 172
Total national traffic	2 658	2 453	2 291	2 403	9 805	2 412	2 154	2 027	–	6 593
International traffic	241	231	220	234	926	235	222	217	–	674
Total retail traffic	2 899	2 684	2 511	2 637	10 731	2 647	2 376	2 244	–	7 267
Wholesale traffic volume in millions of minutes										
National traffic	4 643	4 461	4 102	4 318	17 524	4 390	4 056	3 807	–	12 253
International traffic	353	402	–	–	755	–	–	–	–	–
Total wholesale traffic	4 996	4 863	4 102	4 318	18 279	4 390	4 056	3 807	–	12 253
Operational data Mobile										
Number of subscribers in thousands										
Postpaid	2 536	2 559	2 603	2 640	2 640	2 669	2 703	2 752	–	2 752
Prepaid	1 447	1 485	1 571	1 641	1 641	1 701	1 766	1 811	–	1 811
Total	3 983	4 044	4 174	4 281	4 281	4 370	4 469	4 563	–	4 563
In CHF, minutes or millions										
ARPU in CHF	77	78	74	67	74	65	66	66	–	65
AMPU in minutes	112	120	124	124	120	120	125	126	–	124
Number of SMS messages in millions	493	493	486	519	1 991	521	511	526	–	1 558
Operational data Solutions										
Traffic volume in millions of minutes										
Local and long-distance traffic	437	428	400	407	1 672	417	383	366	–	1 166
Fixed-to-mobile traffic	64	67	64	63	258	63	62	60	–	185
Total national traffic	501	495	464	470	1 930	480	445	426	–	1 351
International traffic	92	92	86	86	356	90	85	83	–	258
Total national and international traffic	593	587	550	556	2 286	570	530	509	–	1 609

The interim report is published in German and English. The German version is binding.

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 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.

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