



14	Editorial
26	Organization
32	Swisscom share

35	Table of Content
36	Key Figures
37	Review of the Group's results
65	Consolidated financial statements
66	Consolidated income statement
67	Consolidated balance sheet
68	Consolidated cash flow statement
69	Statement of recognized income and expense
70	Notes to the consolidated financial statements
141	Report of the Group Auditors
142	Financial statements of Swisscom AG
142	Swisscom AG Income statement
143	Swisscom AG Balance sheet
144	Notes to the financial statements
146	Proposed appropriation of retained earnings
147	Report of the Statutory Auditors
148	Corporate Governance
168	Swisscom Group Five year review
170	Swisscom as a sustainable company
172	Swisscom and its customers
174	Our employees – a key factor in the Swisscom strategy
179	Suppliers – responsibility in the supply chain
180	Swisscom and the community
186	Swisscom and the environment
190	Key dates 2007, pictures
191	Publishing details

Key Figures

CHF in millions, except where indicated		2006	2005
Swisscom Group			
Net revenue		9,653	9,732
Operating income before interest, taxes, depreciation and amortization (EBITDA)		3,787	4,171
As % of net revenue		39.2	42.9
Operating income (EBIT)		2,352	2,777
Income from continuing operations		1,869	2,337
Net income		1,905	2,346
Net income attributable to equity holders of Swisscom AG		1,599	2,022
Equity		4,503	6,624
Equity ratio ¹	%	28.9	49.4
Number of full-time equivalent employees at end of period ²	FTE	17,068	16,088
Average number of full-time equivalent employees ³	FTE	16,734	15,455
Revenue per employee	CHF in thousand	577	630
EBITDA per employee	CHF in thousand	226	270
Cash provided by operating activities		3,264	3,432
Equity free cash flow ⁴		1,417	2,203
Capital expenditure		1,324	1,087
Net debt (net funds) ⁵		4,379	(1,632)
Swisscom AG			
Net income		1,665	1,940
Equity		4,459	5,661
Distributable reserves		2,179	3,586
Dividend		881	861
Key figures per share			
Par value per share at end of period	CHF	1.00	1.00
Average number of shares outstanding	in million	55.299	59.836
Price per share (high/low)	CHF	466.50 / 388.00	470.00 / 399.25
Closing price at end of period	CHF	461.25	414.75
Net income	CHF	28.92	33.79
Equity	CHF	80.21	100.29
Gross dividend	CHF	17.00	16.00
Pay-out ratio ⁶	%	58.79	47.35
Market capitalization at end of period ⁷		23,894	23,523

¹ In accordance with the proposal of the Board of Directors to the General Meeting of Shareholders.

² Equity as a percentage of total assets.

³ Excludes 429 and 512 full-time-equivalent employees of Worklink at December 31, 2006 and 2005, respectively.

⁴ Excludes 471 and 498 full-time-equivalent employees of Worklink in 2006 and 2005, respectively. See Note 8.

⁵ Definition of equity free cash flow: 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.

⁶ Definition of net debt (net funds): total debt and liabilities from collecting activities (Accarda Group) less cash and cash equivalents, current financial assets, receivables from collecting activities (Accarda Group), financial assets from cross-border tax lease transactions and long-term derivative financial instruments.

⁷ Representing gross dividend as a percentage of net income per share.

⁸ Closing price at end of period, multiplied with number of shares outstanding at end of period.

Review of the Group's results

The Review of the Group's results should be read in conjunction with the consolidated financial statements. Swisscom's consolidated financial statements were drawn up in compliance with the International Financial Reporting Standards (IFRS) and the statement provisions of Swiss law of obligations. The most important valuation and accounting principles are described in No. 2 in the Notes to the consolidated financial statements.

Summary

Business development in 2006 is strongly influenced by the one-off items price reductions for mobile termination rates in June 2005 and creation of additional provisions for interconnection proceedings in the second quarter of 2006. Compared with the prior year Swisscom reported a decline in net revenue of 0.8% to CHF 9,653 million and a decline in operating income before interest, taxes, depreciation and amortization (EBITDA) of 9.2% to CHF 3,787 million. As a result, net income fell by 18.8% to CHF 1,905 million. Equity free cash flow amounted to CHF 1,417 million, considerably lower than the previous year's figure of CHF 2,203 million since last year's figures included higher investments in fixed assets and extraordinary income from the sale of investments as well as a decrease in the inflow of funds from operating activities.

Adjusted by these one-off items, net revenue increased year-over-year by 0.5% and EBITDA declined by 3.1%. 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 9.7 billion for the 2007 financial year as a whole. The operating result (EBITDA) is now expected to be approximately CHF 3.9 billion.

CHF in millions, except where indicated	2006	2005	Change
Net revenue	9,653	9,732	-0.8%
Goods and services purchased	(1,840)	(1,831)	0.5%
Personnel expenses	(2,278)	(2,173)	4.8%
Other operating expenses	(2,044)	(1,817)	12.5%
Capitalized cost and other income	296	260	13.8%
EBITDA	3,787	4,171	-9.2%
Depreciation and amortization	(1,435)	(1,394)	2.9%
EBIT	2,352	2,777	-15.3%
Financial income and financial expense, net	(51)	82	-
Share of profit of affiliated companies	30	13	130.8%
Income before income taxes	2,331	2,872	-18.8%
Income tax expense	(462)	(535)	-13.6%
Income from continuing operations	1,869	2,337	-20.0%
Income from discontinued operations	36	9	-
Net income	1,905	2,346	-18.8%
Net income attributable to equity holders of Swisscom AG	1,599	2,022	-20.9%
Net income attributable to minority interests	306	324	-5.6%
Average number of ordinary shares issued (share in millions)	55.299	59.836	-7.6%
Earnings per share (in CHF)	28.92	33.79	-14.4%

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

Net revenue declined year-over-year by CHF 79 million (–0.8%) to CHF 9,653 million. EBITDA declined by CHF 384 million (–9.2%) to CHF 3,787 million and EBITDA margin decreased from 42.9% to 39.2%.

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

CHF in millions	Revenue	EBITDA
Balance as at December 31, 2006	9,653	3,787
Balance as at December 31, 2005	9,732	4,171
Change to the previous year	(79)	(384)
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	136	43
Other changes excluding one-off items	50	(131)
Total changes to the previous year	(79)	(384)

Disregarding the afore-mentioned one-off items, net revenue increased year-over-year by CHF 50 million or 0.5%. The Fixnet segment contributed to this increase as a result of an increase in number of Broadband 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, due 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 3.1% or CHF 131 million. The decline is mainly due to a lower result at Swisscom Fixnet and Swisscom IT Services.

Incoming orders in Swisscom IT Services and Swisscom Solutions project and outsourcing business saw a healthy growth in 2006. Contracts with business customers led to a total order volume of CHF 600 million, comparable with last year's volume.

Goods and services purchased

CHF in millions	2006	2005	Change
Raw material and supplies	24	16	50.0%
Purchased services	214	110	94.5%
Customer premises equipment	630	584	7.9%
National traffic fees	533	496	7.5%
International traffic fees	439	625	–29.8%
Total goods and services purchased	1,840	1,831	0.5%

Expenditure on goods and services purchased increased the CHF 9 million (0.5%) to CHF 1,840 million year-over-year. On one side this growth is due to the an increase in expenditure on goods and services resulting from growth in the area of outsourcing and system integration, increased sales of mobile customer equipment and an increase in the volume of mobile traffic. On the other hand, there was a transfer of international carrier services activities and the reduction in international outbound roaming tariffs.

Personnel expenses

CHF in millions	2006	2005	Change
Salaries and wages	1,741	1,625	7.1%
Termination benefits	14	39	-64.1%
Salaries and wages of employment company Worklink	82	68	20.6%
Social security expenses	166	145	14.5%
Pension cost	175	185	-5.4%
Share-based payment	17	16	4.9%
Other personnel expenses	83	95	-12.6%
Total personnel expenses	2,278	2,173	4.8%

Personnel expenditure rose by CHF 105 million (4.8%) to CHF 2,278 million, mainly as a result of an increase in headcount. Year-over-year headcount increased by 980 full-time equivalent employees or 6.1% to 17,068, primarily as a result of acquisitions. 660 new full-time employees were taken on as a result of these acquisitions (especially Comit and business fields taken over from Siemens).

The headcount at year-end was as follows:

Number of FTE	2006	2005	Change
Fixnet	7,205	7,118	1.2%
Mobile	2,457	2,412	1.9%
Solutions	1,929	1,795	7.5%
Other	4,574	3,868	18.3%
Corporate	903	895	0.9%
Total full-time equivalent employees	17,068	16,088	6.1%

Participants in the two social plan programs, the outplacement program PersPec (111 full-time jobs) and in the employment company Worklink (429 full-time jobs) are not included in the headcount reported as at December 31, 2006.

Net expenditure on termination benefits (outplacement and employment company Worklink) dropped by CHF 11 million to CHF 96 million and was as follows:

CHF in millions	2006	2005	Change
Fixnet	11	50	(39)
Mobile	3	8	(5)
Other	–	(4)	4
Corporate	(4)	6	(10)
Elimination part of employment company Worklink	4	(21)	25
Total termination benefits Swisscom Group (Outplacement)¹	14	39	(25)
Salaries and wages Worklink participants	82	68	14
Total termination benefits, salaries and wages of employment company²	96	107	(11)

¹ Included in segment Corporate CHF 0 million (previous year minus CHF 15 million).

² Included in segment Corporate CHF 82 million (previous year CHF 53 million).

Costs relating to workforce reduction measures are recorded separately for each segment as soon as the employees affected have been informed in person or the detailed plan has been communicated to the staff. The corresponding expense amounted to CHF 10 million in 2006 and CHF 60 million in 2005. In 2005 this included costs of CHF 21 million for staff who in accordance with the provisions of the social compensation plan were entitled to transfer to the employment company Worklink AG or who were able to find a new position in another organizational unit within Swisscom. Under IFRS these costs do not meet the criteria for recognition of a provision because the employment relationship with the relevant staff was not terminated. These costs, for which provisions cannot be recognized, were eliminated through profit and loss again in the Corporate segment.

Other operating expenses

CHF in millions	2006	2005	Change
Rent	187	214	–12.6%
Maintenance	213	208	2.4%
Loss on disposal of fixed assets	19	22	–13.6%
Energy costs	77	73	5.5%
Information technology cost	178	161	10.6%
Advertising and promotion	171	174	–1.7%
Commissions	254	235	8.1%
Contractors and consultancy expenses	285	258	10.5%
Allowance for doubtful receivables	39	37	5.4%
Increase of provision for preceedings relating to interconnection	180	–	–
General and administration	168	174	–3.4%
Other operating expenses	273	261	4.6%
Total other operating expenses	2,044	1,817	12.5%

Other operating expenses rose year-over-year by CHF 227 million (12.5%) to CHF 2,044 million. The main reason is the recognition of an additional provision of CHF 180 million in June 2006 for interconnection proceedings as a result of the recent 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.

Capitalized costs and other income

CHF in millions	2006	2005	Change
Capitalized cost	192	159	20.8%
Gain on sale of fixed assets	27	38	-28.9%
Income from employment company Worklink (personnel hire)	17	15	13.3%
Other income	60	48	25.0%
Total capitalized cost and other income	296	260	13.8%

Capitalized costs and other income increased by CHF 36 million to CHF 296 million primarily as a result of an increase in capitalized costs in connection with further developments in network infrastructure for the launch of the new VDSL broadband technology at Fixnet.

Operating income before interest, taxes, depreciation and amortization EBITDA

CHF in millions	2006	2005	Change
Net revenue	9,653	9,732	-0.8%
Goods and services purchased	(1,840)	(1,831)	0.5%
Personnel expenses	(2,278)	(2,173)	4.8%
Other operating expenses	(2,044)	(1,817)	12.5%
Capitalized cost and other income	296	260	13.8%
Operating income before interest, taxes, depreciation and amortization (EBITDA)	3,787	4,171	-9.2%
Margin as % of net revenue	39.2	42.9	

The decline in revenue could not be offset by cost savings so that the EBITDA decreased by 9.2% to CHF 3,787 million. The EBITDA margin decreased accordingly from 42.9% to 39.2%.

Depreciation and amortization

CHF in millions	2006	2005	Change
Depreciation	1,280	1,286	-0.5%
Amortization	155	108	43.5%
Total depreciation and amortization	1,435	1,394	2.9%

Scheduled depreciation on property, plant and equipment, and amortization on intangible assets increased by CHF 41 million (2.9%) to CHF 1,435 million. The increase in amortization on intangible assets is primarily attributable to corporate acquisitions. A part of the costs of these acquisitions is spread among intangible assets such as brand names, customer relations and orders on hand, and are amortized over the useful life.

Net financial result

CHF in millions	2006	2005	Change
Interest income	117	135	(18)
Interest expense	(144)	(141)	(3)
Net interest expense	(27)	(6)	(21)
Present value adjustment on provisions	(11)	(10)	(1)
Interest on provisions for proceedings relating to interconnection	(75)	(4)	(71)
Gain on disposal of financial assets	63	16	47
Impairment on available-for-sale investments	–	(5)	5
Impairment reversal on loans	–	14	(14)
Reversal of provision for dismantlement and restoration costs	–	25	(25)
Reversal of provision for cross-border tax lease arrangements	–	24	(24)
Foreign exchange gain (loss)	(8)	20	(28)
Other financial result, net	7	8	(1)
Total financial income and financial expense, net	(51)	82	(133)

Net financial result fell by CHF 133 million year-over-year because the net interest result decreased by CHF 21 million and the foreign exchange result was CHF 28 million lower compared with the previous year. In addition, interest of CHF 75 million was recorded in connection with provisions for interconnections proceedings. This was largely offset by gains of CHF 63 million from the sale of financial assets. The previous year also includes the reversal of provisions from crossborder tax lease agreements of CHF 24 million and CHF 25 million for dismantlement and restoration.

Affiliated companies

CHF in millions	2006	2005	Change
Share of profit	30	13	17
Total share of profit of affiliated companies	30	13	17

The increase in the share of profit of affiliated companies from CHF 13 million to CHF 30 million is mainly attributable to acquisitions in the previous year. On April 8, 2005, Swisscom acquired a 49% share in CT Cinetrade AG, a Swiss media company. On July 1, 2005, Belgacom and Swisscom signed an agreement to form a joint venture in which Belgacom holds 72% and Swisscom 28%. Fixnet brought its international carrier business into an affiliated company in return for the 28% of the share capital. The item also comprises primarily Swisscom's share of profit from PubliDirect and AUCS Communications Services.

Income tax expenses

CHF in millions	2006	2005	Change
Current income tax expense	483	425	58
Deferred income tax (income) expense	(21)	110	(131)
Total income tax expense	462	535	(73)
Effective income tax rate	19.8%	18.6%	

Income tax expenses amounted to CHF 462 million (previous year: CHF 535 million), which corresponds to an effective income tax rate of 19.8% (previous year: 18.6%). Income tax payments decreased year-on-year by CHF 48 million to CHF 496 million. For the following years an effective income tax rate of around 22% is expected without one-off effects.

Discontinued operations

In 2004 Swisscom sold its stake in debitel. Last year's result of CHF 9 million was made up of the gain of CHF 59 million from the early repayment of loans granted to the buyers in connection with the sale and expenditure of CHF 50 million for a provision recognized for guarantees. In 2006 CHF 36 million of these provisions could be reversed.

Net income and earnings per share

CHF in millions, except where indicated	2006	2005	Change
Operating income before interest, taxes, depreciation and amortization (EBITDA)	3,787	4,171	-9.2%
Depreciation and amortization	(1,435)	(1,394)	2.9%
Operating income (EBIT)	2,352	2,777	-15.3%
Financial income and financial expense, net	(51)	82	-
Share of profit of affiliated companies	30	13	130.8%
Income tax expense	(462)	(535)	-13.6%
Income from discontinued operations	36	9	-
Net income	1,905	2,346	-18.8%
Net income attributable to equity holders of Swisscom AG	1,599	2,022	-20.9%
Net income attributable to minority interests	306	324	-5.6%
Average number of shares outstanding (in millions)	55.299	59.836	-7.6%
Earnings per share (in CHF)	28.92	33.79	-14.4%

Net income decreased year-over-year by CHF 441 million (-18.8%) to CHF 1,905 million. The decline in EBITDA and lower net financial result were partially offset by a lower income tax expense. Earnings per share only fell by 14.4% as a result of the share buyback to CHF 28.92 (previous year: CHF 33.79).

Provisions and 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 December 31, 2006, provisions amounted to CHF 484 million. Up to December 31, 2006, Swisscom had made payments of CHF 101 million.

In the proceedings initiated against Swisscom Mobile in connection with mobile termination fees, the Secretariat of the Competition Commission (WEKO) issued a decision on February 5, 2007, in which it comes to the conclusion that Swisscom Mobile had a market-dominant position from April 1, 2004, to May 31, 2005, and violated Swiss Antitrust Law during this period by demanding disproportionately high termination fees. WEKO orders sanctions of CHF 333 million. Swisscom refutes WEKO's claims in the decision and intends to appeal to the Administrative 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 in the 2006 consolidated financial statements.

Review of the segments:

The financial review reports on the following segments

- **Fixnet**
- **Mobile**
- **Solutions**
- **Other**, comprising mainly the Group companies Swisscom IT Services (incl. Comit), Swisscom Broadcast, the Accarda Group, Antenna Hungária, and the Hospitality Services segment.
- **Corporate** comprising divisions at Group Headquarters, shared services for group companies, the real estate company Swisscom Immobilien AG, and the employment company Worklink AG.

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

CHF in millions	Net revenue ¹			EBITDA		
	2006	2005	Change	2006	2005	Change
Fixnet	4,969	5,308	-6.4%	1,806	2,091	-13.6%
Mobile	4,022	4,168	-3.5%	1,802	1,850	-2.6%
Solutions	1,220	1,268	-3.8%	66	74	-10.8%
Other	1,334	1,059	26.0%	118	142	-16.9%
Corporate	637	690	-7.7%	23	17	35.3%
Intercompany	(2,529)	(2,761)	-8.4%	(28)	(3)	-
Total	9,653	9,732	-0.8%	3,787	4,171	-9.2%

¹ Includes intersegment revenue.

Fixnet

The Fixnet segment comprises primarily access services to residential and business customers, national and international telephony for residential customers as well as small and medium-sized businesses, 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.

The development of Fixnet is presented in the following table:

CHF in millions	2006	2005	Change
Revenue from external customers	4,130	4,319	-4.4%
Intersegment revenue	839	989	-15.2%
Net revenue	4,969	5,308	-6.4%
Segment expenses (incl. intercompany)	(3,163)	(3,217)	-1.7%
EBITDA	1,806	2,091	-13.6%
Margin as % of net revenue	36.3	39.4	
Depreciation and amortization	(757)	(797)	-5.0%
EBIT	1,049	1,294	-18.9%

CHF in millions or number	2006	2005	Change
Capital expenditure	610	494	23.5%
Number of full-time employees at end of period	7,205	7,118	1.2%

Revenue from Fixnet with external customers decreased by 4.4% to CHF 4,130 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 1,806 million, however, was CHF 285 million or 13.6% down on last year, due to the recognition of additional provisions for interconnection proceedings of CHF 180 million. Adjusted by these one-off items, the decline in EBITDA is CHF 105 million or -5.0%. The increase in capital expenditure is mainly due to the development of the network infrastructure for VDSL technology.

Fixnet/net revenue

CHF in millions	2006	2005	Change
Local and long-distance traffic	371	391	-5.1%
Fixed-to-mobile traffic	355	407	-12.8%
Internet traffic	48	74	-35.1%
International traffic	200	210	-4.8%
Total retail traffic	974	1,082	-10.0%
Wholesale traffic	351	483	-27.3%
Other traffic	105	130	-19.2%
Access	2,081	1,992	4.5%
Other revenue	619	632	-2.1%
Total revenue from external customers	4,130	4,319	-4.4%
Intersegment revenue	839	989	-15.2%
Total net revenue	4,969	5,308	-6.4%

Number of lines in thousands	2006	2005	Change
PSTN lines	2,891	2,922	-1.1%
ISDN lines	856	900	-4.9%
Total number of lines PSTN/ISDN	3,747	3,822	-2.0%
ADSL retail lines	936	708	32.2%
ADSL wholesale lines	432	390	10.8%
Total number of ADSL lines	1,368	1,098	24.6%

Retail traffic volume in millions of minutes	2006	2005	Change
Local and long-distance traffic	6,312	6,628	-4.8%
Fixed-to-mobile traffic	926	925	0.1%
Internet traffic	1,487	2,252	-34.0%
Total national traffic	8,725	9,805	-11.0%
International traffic	903	926	-2.5%
Total retail traffic	9,628	10,731	-10.3%

Wholesale traffic volume in millions of minutes	2006	2005	Change
National traffic	16,160	17,524	-7.8%
International traffic	-	755	-
Total wholesale traffic	16,160	18,279	-11.6%

Revenue from retail traffic fell by 10.0% to a total of CHF 974 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 2006 amounted to CHF 351 million (previous year: CHF 483 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 4.5% to CHF 2,081 million. Revenue from broadband (xDSL) increased by CHF 141 million to CHF 671 million. On the other hand there was a decrease in the number of analogue and digital access lines (PSTN/ISDN). The number of ADSL lines increased year-over-year by 24.6% to 1,368,000 lines. This business included 936,000 lines subscribed to by retail customers and 432,000 by the customers of other

providers. The number of analogue and digital access lines (PSTN/ISDN) decreased by 2.0% to 3,747,000, 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/segment expenses and depreciation and amortization

CHF in millions	2006	2005	Change
Goods and services purchased	489	606	-19.3%
Personnel expenses ¹	880	944	-6.8%
Other operating expenses	760	530	43.4%
Intersegment expenses	1,176	1,248	-5.8%
Capitalized cost and other income	(142)	(111)	27.9%
Total segment expenses	3,163	3,217	-1.7%
Depreciation and amortization	757	797	-5.0%

¹ Includes CHF 11 million termination benefits (previous year CHF 50 million).

Fixnet's total segment expenses decreased year-over-year slightly to CHF 3,163 million. Expenditure on goods and services purchased dropped mainly due to the transfer of international Carrier Services activities. The decrease in personnel expenses is mainly attributable to a decrease in costs relating to workforce reduction measures of CHF 39 million. The decrease in expenses with other segments is due to the reduction in termination prices at Mobile.

Other operating expenses increased by CHF 230 million, mainly due to the recognition of additional provisions for interconnection proceedings of CHF 180 million as well as an increase in costs related to the launch of new products.

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:

CHF in millions	2006	2005	Change
Revenue from external customers	3,541	3,651	-3.0%
Intersegment revenue	481	517	-7.0%
Net revenue	4,022	4,168	-3.5%
Segment expenses (incl. intercompany)	(2,220)	(2,318)	-4.2%
EBITDA	1,802	1,850	-2.6%
Margin as % of net revenue	44.8	44.4	
Depreciation and amortization	(385)	(373)	3.2%
EBIT	1,417	1,477	-4.1%

CHF in millions or number	2006	2005	Change
Capital expenditure	326	334	-2.4%
Number of full-time employees at end of period	2,457	2,412	1.9%

Mobile's revenue with external customers fell year-over-year by 3.0% to CHF 3,541 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. As a result, EBITDA fell by 2.6% to CHF 1,802 million. EBITDA margin is slightly up on the previous year at 44.8% (previous year 44.4%).

Mobile/net revenue

CHF in millions	2006	2005	Change
Connectivity voice	2,040	2,203	-7.4%
Connectivity data and value-added services	667	604	10.4%
Base fees	635	677	-6.2%
Other revenue	199	167	19.2%
Total revenue from external customers	3,541	3,651	-3.0%
Intersegment revenue	481	517	-7.0%
Total net revenue	4,022	4,168	-3.5%

Number of subscribers in thousands	2006	2005	Change
Postpaid	2,805	2,640	6.3%
Prepaid	1,827	1,641	11.3%
Total number of subscribers	4,632	4,281	8.2%

CHF, minutes or millions	2006	2005	Change
ARPU in CHF	65	74	-12.2%
AMPU in minutes	124	120	3.3%
Number of SMS messages in millions	2,107	1,991	5.8%

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) as per December 31, 2006, by an amount of CHF 128 million. In 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 has an overall positive impact on Swisscom Mobile's operating result. The retrospective price adjustments to the contracts have a one-off negative effect of CHF 28 million on revenue and a positive effect of CHF 40 million on operating expenses in the 2005 financial year.

The number of subscribers increased year-over-year by a net total of 351,000 (8.2%) to 4,632,000. 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 December 2006, the Liberty family had 1,608,000 subscribers while M-Budget Mobile, a prepaid product launched in the third quarter of 2005 had 278,000 subscribers.

Revenue from connectivity voice declined by 7.4% to CHF 2,040 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 120 minutes to 124 minutes. Due to lower prices and a higher share of prepaid subscribers, average revenue per user (ARPU) fell from CHF 74 to CHF 65.

Revenue from connectivity data and value-added services rose year-over-year by 10.4% to CHF 667 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 7.0% to CHF 481 million as a result of the price reductions for termination.

Mobile/segment expenses and depreciation and amortization

CHF in millions	2006	2005	Change
Goods and services purchased	955	975	-2.1%
Personnel expenses ¹	311	322	-3.4%
Other operating expenses	472	483	-2.3%
Intersegment expenses	503	555	-9.4%
Capitalized cost and other income	(21)	(17)	23.5%
Total segment expenses	2,220	2,318	-4.2%
Depreciation and amortization	385	373	3.2%

¹ Includes CHF 3 million termination benefits (previous year CHF 8 million).

Mobile segment expenses fell by 4.2% to CHF 2,220 million year-over-year. Apart from cost saving measures, the decrease was mainly a result of price adjustments for outgoing roaming traffic. The effect on expenditure on goods and services, however, was largely offset by an increase in traffic volume and higher expenditure on the purchase of mobile customer equipment due to increased sales.

Solutions

Solutions comprises primarily fixed-line domestic and international voice telephony services to business customers, networking which includes primarily leased lines, intranet services and 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 also 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	2006	2005	Change
Revenue from external customers	1,072	1,123	-4.5%
Intersegment revenue	148	145	2.1%
Net revenue	1,220	1,268	-3.8%
Segment expenses (incl. intercompany)	(1,154)	(1,194)	-3.4%
EBITDA	66	74	-10.8%
Margin as % of net revenue	5.4	5.8	
Depreciation and amortization	(34)	(39)	-12.8%
EBIT	32	35	-8.6%

CHF in millions or number	2006	2005	Change
Capital expenditure	42	22	90.9%
Number of full-time employees at end of period	1,929	1,795	7.5%

Revenue from external customers dropped by 4.5% to CHF 1,072 million compared with the previous year as a result of keen competition and price pressure. EBITDA fell by 10.8% to CHF 66 million. The year-over-year increase in headcount by 134 full-time equivalent employees primarily stems from the acquisition of the business fields from Siemens Switzerland.

Solutions/Net revenue

CHF in millions	2006	2005	Change
Local and long-distance traffic	74	87	-14.9%
Fixed-to-mobile traffic	76	96	-20.8%
International traffic	50	56	-10.7%
Total traffic	200	239	-16.3%
Leased lines	122	147	-17.0%
Intranet Services	140	152	-7.9%
Other revenue Service Business	230	247	-6.9%
Solution Business	338	283	19.4%
Other revenue	42	55	-23.6%
Total revenue from external customers	1,072	1,123	-4.5%
Intersegment revenue	148	145	2.1%
Total net revenue	1,220	1,268	-3.8%

Traffic volume in millions of minutes	2006	2005	Change
Local and long-distance traffic	1,540	1,672	-7.9%
Fixed-to-mobile traffic	246	258	-4.7%
Total national traffic	1,786	1,930	-7.5%
International traffic	342	356	-3.9%
Total national and international traffic	2,128	2,286	-6.9%

Traffic revenue decreased by 16.3% to CHF 200 million, mainly as a result of continuing competitive pressure, downward market trends due to migration effects, 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 17.0% to CHF 122 million was mainly due to the migration of existing products to Internet (IP) based services with lower prices and optimization of customer networks.

Despite an increase in volume, the fall in revenue from Intranet Services of 7.9% is attributable to the substitution of traditional by more modern technologies and lower prices due to competitive pressure.

The increase in revenue in the Solution Business segment of CHF 55 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 23.6% to CHF 42 million stems principally from lower revenue due to the declining number of rental agreements for private branch exchanges.

Solutions/segment expenses and depreciation and amortization

CHF in millions	2006	2005	Change
Goods and services purchased	240	197	21.8%
Personnel expenses	279	261	6.9%
Other operating expenses	43	43	-
Intersegment expenses	600	700	-14.3%
Capitalized cost and other income	(8)	(7)	14.3%
Total segment expenses	1,154	1,194	-3.4%
Depreciation and amortization	34	39	-12.8%

Segment expenses decreased in comparison with the previous year by 3.4% to CHF 1,154 million, mainly due to revenue-related lower purchasing volumes from other segments. There was an increase in goods and services purchased due to higher revenues in the Solution Business segment.

Other

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

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	2006	2005	Change
Revenue from external customers	840	571	47.1%
Intersegment revenue	494	488	1.2%
Net revenue	1,334	1,059	26.0%
Segment expenses (incl. intercompany)	(1,216)	(917)	32.6%
EBITDA	118	142	-16.9%
Margin as % of net revenue	8.8	13.4	
Depreciation and amortization	(208)	(140)	48.6%
EBIT	(90)	2	-

CHF in millions or number	2006	2005	Change
Capital expenditure	219	154	42.2%
Number of full-time employees at end of period	4,574	3,868	18.3%

Revenue with external customers rose year-over-year by 47.1% to CHF 840 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 16.9% to CHF 118 million. This is mainly attributable to a decline in EBITDA at Swisscom IT Services. Swisscom IT Services recorded provisions for contractual risks for project-related business of CHF 49 million. 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 second half of 2006, Swisscom IT Services achieved an EBITDA margin of around 10%. The above 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 Comit and growth-related increase in headcount at Swisscom IT Services and new business fields.

Other/net revenue

CHF in millions	2006	2005	Change
Swisscom IT Services	346	249	39.0%
Swisscom Broadcast	152	150	1.3%
Accarda Group	118	115	2.6%
Antenna Hungária	162	26	523.1%
Hospitality Services	58	31	87.1%
Other	4	–	–
Total revenue from external customers	840	571	47.1%
Intersegment revenue	494	488	1.2%
Total net revenue	1,334	1,059	26.0%

The increase in revenue at Swisscom IT Services of 39.0% to CHF 346 million can be attributed mainly to higher revenue from IT outsourcing and the acquisition of Comit. The increase in revenue in the Hospitality Services segment (formerly Swisscom Eurospot) of CHF 27 million to CHF 58 million is primarily attributable to the increase in use of Internet connection services in hotels and conference centers by business customers.

Other/segment expenses and depreciation and amortization

CHF in millions	2006	2005	Change
Goods and services purchased	164	69	137.7%
Personnel expenses ¹	559	419	33.4%
Other operating expenses	393	325	20.9%
Intersegment expenses	143	129	10.9%
Capitalized cost and other income	(43)	(25)	72.0%
Total segment expenses	1,216	917	32.6%
Depreciation and amortization	208	140	48.6%

¹ Includes CHF 0 million termination benefits (previous year CHF 4 million).

Segment expenses rose in comparison with the previous year by 32.6% to CHF 1,216 million, primarily revenue-related and due to the acquisition of Antenna Hungária and Comit.

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 Corporate is presented in the following table:

CHF in millions	2006	2005	Change
Revenue from external customers	70	68	2.9%
Intersegment revenue	567	622	-8.8%
Net revenue	637	690	-7.7%
Segment expenses (incl. intercompany)	(614)	(673)	-8.8%
EBITDA	23	17	35.3%
Margin as % of net revenue	3.6	2.5	
Depreciation and amortization	(58)	(48)	20.8%
EBIT	(35)	(31)	12.9%

CHF in millions or number	2006	2005	Change
Capital expenditure	140	100	40.0%
Number of full-time employees at end of period	903	895	0.9%

Net revenue decreased by 7.7% to CHF 637 million as a result of fewer transactions between Group Headquarter divisions and the Swisscom-group companies. EBITDA increased by CHF 6 million to CHF 23 million. On the one hand there were cost savings and on the other a decline in profits from the sale of real estate by Swisscom Immobilien AG and an increase in expenditure on workforce reduction. The increase in capital expenditure stems from various construction projects run by Swisscom Immobilien AG.

Corporate/net revenue

CHF in millions	2006	2005	Change
Swisscom Immobilien AG	66	63	4.8%
Other	4	5	-20.0%
Total revenue from external customers	70	68	2.9%
Intersegment revenue	567	622	-8.8%
Total net revenue	637	690	-7.7%

Intersegment revenue fell by 8.8% to CHF 567 million and is attributable to a decrease in services which Group Headquarter divisions settled through other group companies.

Corporate/segment expenses and depreciation and amortization

CHF in millions	2006	2005	Change
Personnel expenses ¹	249	228	9.2%
Other operating expenses	377	436	-13.5%
Intersegment expenses	75	65	15.4%
Capitalized cost and other income	(87)	(56)	55.4%
Total segment expenses	614	673	-8.8%
Depreciation and amortization	58	48	20.8%

¹ Includes CHF 82 million termination benefits (previous year CHF 53 million).

Segment operating expenses decreased by 8.8% to CHF 614 million. This includes costs for workforce reduction measures of CHF 82 million (previous year CHF 53 million), including expenditure on the employment company Worklink AG.

Cash flows and net debt (net funds)

CHF in millions	2006	2005	Change
Cash flow provided by operating activities	3,264	3,432	(168)
Cash flow used in investing activities	(4,257)	(1,417)	(2,840)
Cash flow provided by (used in) financing activities	641	(3,381)	4,022
Net decrease in cash and cash equivalents	(352)	(1,366)	1,014

The net decrease in cash and cash equivalents of CHF 352 million can primarily be attributed to capital expenditure of around CHF 1.3 billion as well as Swisscom's return policy. In 2006, returns of around CHF 3.1 billion (previous year CHF 2.9 billion) were paid to Swisscom's shareholders. Minority shareholders received dividends of a total of CHF 297 million (previous year CHF 367 million). On December 20, 2006 a share of 25% in Swisscom Mobile was bought back from Vodafone for a purchase price of CHF 4.25 billion. The transaction was wholly financed by bank loans.

Cash flows from operating activities

CHF in millions	2006	2005	Change
Operating income before interest, taxes, depreciation and amortization (EBITDA)	3,787	4,171	(384)
Changes in operating assets and liabilities and other payments or receipts from operating activities	–	99	(99)
Special payment to comPlan pension scheme	–	(288)	288
Net interest	(27)	(6)	(21)
Income taxes paid	(496)	(544)	48
Cash flow provided by operating activities	3,264	3,432	(168)

Net cash provided by operating activities decreased year-over-year by CHF 168 million to CHF 3,264 million. The decrease in EBITDA of CHF 384 million was partially offset by a special payment to the Swisscom pension fund (comPlan) of CHF 288 billion in connection with changes to the plan. In addition, payments in connection with interconnection proceedings of CHF 101 million were paid for the first time in the fourth quarter of 2006.

Cash flows from investing activities

CHF in millions	2006	2005	Change
Capital expenditure	(1,324)	(1,087)	(237)
Proceeds from sale of fixed assets	49	53	(4)
Acquisition of a share of 25% in Swisscom Mobile	(4,258)	–	(4,258)
Acquisition of subsidiaries, less cash and cash equivalents acquired	(246)	(303)	57
Acquisition and sale of affiliated companies, net	(9)	(101)	92
Proceeds from sale of discontinued operation	–	351	(351)
Proceeds from other current and non-current financial assets	1,809	856	953
Investments in other current and non-current financial assets	(278)	(1,186)	908
Cash flow used in investing activities	(4,257)	(1,417)	(2,840)

Compared with the previous year net cash used in investing activities increased by CHF 2.9 billion to CHF 4.3 billion. The increase is mainly attributable to the repurchase of the 25% in Swisscom Mobile for CHF 4.25 billion. Other acquisitions in 2006 include the acquisition of the remaining 25% in Antenna Hungária as well as the acquisition of Comit, Cybernet, Medgate, Core Communications, Swapcom, Betty, Minick, and a business field from Siemens. A total of CHF 255 million (previous year CHF 404 million) was spent on acquisitions in 2006. Capital expenditure on tangible and intangible assets increased year-on-year by CHF 237 million. In order to release cash, long-term fixed-term deposits amounting to CHF 1.5 billion were not extended. In 2005, proceeds of CHF 351 million from the early repayment of vendor loan notes granted to the purchasers of debitel, CHF 199 million and CHF 28 million from the sale of the available-for-sale investments Infonet and Intelsat were included.

Capital expenditure on tangible and intangible assets

CHF in millions	2006	2005	Change
Fixnet	610	494	23.5%
Mobile	326	334	–2.4%
Solutions	42	22	90.9%
Other	219	154	42.2%
Corporate	140	100	40.0%
Intercompany elimination	(13)	(17)	–23.5%
Total capital expenditure	1,324	1,087	21.8%

The increase in capital expenditure by CHF 237 million (21.8%) to CHF 1,324 million is mainly attributable to the increase in capitalized costs in connection with further developments in network infrastructure for the launch of the new VDSL broadband technology at Fixnet. The increase in capital expenditure in the Corporate segment can be attributed to higher investments by the real estate company Swisscom Immobilien AG. This increase stems from various construction projects, such as property development at Köniz Business Park, where employees from nine sites in the Berne region were brought together under one roof in November.

Cash flows from financing activities

CHF in millions	2006	2005	Change
Issuance of long-term debt	4,264	13	4,251
Repayment of long-term debt	(54)	(165)	111
Expenditure for stock-based compensation	(17)	(16)	(1)
Share buyback	(2,348)	(1,985)	(363)
Dividends paid to shareholders of Swisscom AG	(907)	(861)	(46)
Dividends paid to minority interests	(297)	(367)	70
Cash flow provided by (used in) financing activities	641	(3,381)	4,022

Net cash provided by financing activities in 2006 amounted to CHF 641 million. The main reasons are bank loans taken out to finance the repurchase of the 25% share in Swisscom Mobile for CHF 4.25 billion. Swisscom AG shareholders and minority shareholders received payouts of CHF 3.4 billion (previous year CHF 3.2 billion). On December 31, 2005, Swisscom owed CHF 136 million in withholding tax in connection with the share buyback program which was repaid to the tax authorities at the beginning of 2006. In the cash flow statement, the payment is presented under the item share buyback.

Net debt (net funds)

CHF in millions	31.12.2006	31.12.2005	Change
Bank loans	4,243	–	4,243
Financial liability from cross-border tax lease arrangements	1,459	1,474	(15)
Finance lease obligation	637	681	(44)
Other financial liabilities	244	281	(37)
Liabilities from collecting activities	128	154	(26)
Total	6,711	2,590	4,121
Cash and cash equivalents	(673)	(1,023)	350
Current financial assets	(142)	(1,672)	1,530
Receivables from collecting activities	(385)	(390)	5
Financial assets from lease and leaseback transactions	(1,125)	(1,125)	–
Long-term derivative financial assets	(7)	(12)	5
Net debt (net funds)	4,379	(1,632)	6,011

Net debt (net funds) consists of total debt and liabilities from collection activities of the Accarda Group less cash and cash equivalents, current financial assets, receivables from collection activities of the Accarda Group, and financial assets from cross-border tax lease transactions as well as non-current derivative financial instruments. On December 31, 2006, the net debt amounted to CHF 4,379 million (previous year net funds of CHF 1,632 million). The year-over-year change of CHF 6 billion is mainly due to the repurchase of the 25% share in Swisscom Mobile for CHF 4.25 billion as well as payouts to Swisscom AG shareholders and minority shareholders of CHF 3.4 billion.

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 finance lease obligations. Financial liabilities consist primarily of finance lease obligations and sale and leaseback obligations relating to buildings. The finance lease obligations reported are covered by non-current financial assets to an extent of CHF 1,125 million.

Equity free cash flow

Swisscom's dividend policy so far has been 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	2006	2005	Change
Cash flow provided by operating activities	3,264	3,432	(168)
Capital expenditure	(1,324)	(1,087)	(237)
Acquisition of a share of 25% in Swisscom Mobile	(4,258)	–	(4,258)
Acquisition of subsidiaries, less cash and cash equivalents acquired	(246)	(303)	57
Acquisition and sale of affiliated companies	(9)	(101)	92
Proceeds from the sale of discontinued operation (debitel)	–	351	(351)
Net investments in other non-current financial assets	(1)	240	(241)
Issuance of financial liabilities	4,242	–	4,242
Dividends paid to minority interests	(297)	(367)	70
Other cash flow from investing and financing activities, net	46	38	8
Equity free cash flow	1,417	2,203	(786)

In 2006, the equity free cash flow amounted to CHF 1,417 million, CHF 786 million lower than the previous year. The decrease was due to lower net revenue from operative activities, higher capital expenditure on other intangible assets and extraordinary income from the sale of stakes in the previous year. The repurchase of the 25% share in Swisscom Mobile had no impact on the equity free cash flow in 2006, since the transaction was financed 100% by bank loans.

Balance Sheet

CHF in millions	31.12.2006	31.12.2005	Change
Cash and cash equivalents and current financial assets	815	2,695	-69.8%
Receivables and other assets	2,779	2,537	9.5%
Property, plant and equipment	5,795	6,000	-3.4%
Goodwill	4,169	315	-
Other intangible assets	557	407	36.9%
Investments in affiliated companies and non-current financial assets	1,385	1,366	1.4%
Current and deferred tax assets	97	89	9.0%
Total assets	15,597	13,409	16.3%
Financial liabilities	6,583	2,436	170.2%
Other current liabilities	2,399	2,232	7.5%
Accrued pension cost	719	805	-10.7%
Accrued liabilities and other long-term liabilities	826	722	14.4%
Current and deferred tax liabilities	567	590	-3.9%
Equity attributable to equity holders of Swisscom AG	4,436	6,001	-26.1%
Equity attributable to minority interests	67	623	-89.2%
Total liabilities and equity	15,597	13,409	16.3%

The decrease in cash and cash equivalents and current financial assets of CHF 1,880 million is mainly due to the return policy. In 2006, a total of CHF 3.4 billion (previous year CHF 3.2 billion) was paid out to shareholders of Swisscom AG and minority shareholders. The increase in goodwill of CHF 3,854 million is primarily due to the repurchase of the 25% share in Swisscom Mobile. The acquisition costs of CHF 4.25 billion were offset against the minority interest of CHF 565 million, and the difference of CHF 3,693 million recorded as goodwill. The repurchase was wholly financed by a bank loan which led to an increase in financial liabilities of CHF 4.25 billion. Equity attributable to equity holders of Swisscom AG dropped by CHF 1,565 million as a result of the return policy.

Pensions

The obligatory and supplementary retirement provision for Swisscom employees is managed by the company's own comPlan Foundation, which insures employees against the economic consequences of old age, death, and disability. At December 31, 2006, comPlan's provisional year-end results prepared under Swiss GAAP FER showed an overfunding of CHF 712 million (previous year under funding of CHF 698 million), or a funding ratio of 112% (previous year 109%). The return on insurance provisions in the plan amounted to 5.2% (previous year 13.1%).

The determination of defined benefit obligation and net periodic pension expense in the consolidated financial statements is based on the International Financial Reporting Standards (IFRS). At December 31, 2006, the funded status calculated, based on IFRS, amounted to CHF 1,597 million (previous year CHF 1,727 million), of which only CHF 719 million (previous year CHF 805 million) are recognized in the balance sheet as an obligation. In contrast to Swiss GAAP FER, this calculation follows IFRS guidelines and takes into account actuarial assumptions for future developments, such as salary and contribution increases or pension indexation. The effect of salary increases, indexation of pension benefits and assumptions for early retirement amounts to some CHF 894 million. In addition, under IFRS the defined benefit obligation is discounted at a riskfree discount rate of 2.54%. In order to calculate the defined benefit obligation under Swiss GAAP FER a discount rate of 3.75% is used. This different discount rate led to an increase in defined benefit obligation of CHF 1,199 million. The unrecognized underfunding of CHF 878 million (previous year: CHF 922 million) is due to the fact that, under IFRS, the actuarial gains and losses are recognized over future periods, using the so-called corridor method.

Equity

The changes in consolidated equity are presented in the table below:

CHF in millions	Equity attributable to equity holders of Swisscom AG	Minority interests	Total equity
Balance at December 31, 2004	6,790	663	7,453
Gains and losses directly recognized in equity, net	51	–	51
Net income	2,022	324	2,346
Total income and expenses	2,073	324	2,397
Dividends paid	(861)	(367)	(1,228)
Share buyback	(2,001)	–	(2,001)
Acquisition of subsidiaries	–	3	3
Balance at December 31, 2005	6,001	623	6,624
Gains and losses directly recognized in equity, net	(45)	–	(45)
Net income	1,599	306	1,905
Total income and expenses	1,554	306	1,860
Dividends paid	(907)	(297)	(1,204)
Share buyback	(2,212)	–	(2,212)
Acquisition of minority interest	–	(565)	(565)
Balance at December 31, 2006	4,436	67	4,503

Equity decreased by CHF 2,121 million or 32.0% to CHF 4,503 million in the year under review. The reduction in equity is a result of Swisscom's return policy, since the total payout in the form of dividends and share buybacks based on last year's equity free cash flow exceeded the consolidated net income. Minority interest fell by CHF 565 million as a result of the repurchase of the 25% share in Swisscom Mobile.

Distributable reserves are not calculated on the basis of equity as reported in the consolidated balance sheet in accordance with the International Financial Reporting Standards (IFRS), but on the equity reported in the individual financial statements of Swisscom AG in line with statutory accounting provisions. At December 31, 2006, this amounted to CHF 4,459 million. After deduction of treasury stock, equity is reduced to CHF 2,247 million. The difference between this amount and the equity shown in the consolidated balance sheet is primarily due to retained earnings of subsidiaries as well as to different accounting and valuation methods.

Under Swiss law share capital and 20% of the share capital in the reserves may not be distributed. At December 31, 2006, Swisscom AG had distributable reserves of CHF 2,179 million.

Outlook

Swisscom expects net revenue in 2007 of around CHF 9.7 billion and operating income before interest, taxes, depreciation and amortization (EBITDA) of around CHF 3.9 billion. Continuing price pressure in the Fixnet business should be offset this year through growth in other areas. Capital expenditure will be around CHF 1.4 billion.

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	2006
Net revenue	2,445	2,467	2,386	2,434	9,732	2,375	2,398	2,423	2,457	9,653
Goods and services purchased	(431)	(462)	(479)	(459)	(1,831)	(409)	(466)	(471)	(494)	(1,840)
Personnel expenses	(559)	(532)	(504)	(578)	(2,173)	(594)	(555)	(542)	(587)	(2,278)
Other operating expenses	(395)	(432)	(421)	(569)	(1,817)	(418)	(671)	(445)	(510)	(2,044)
Capitalized cost and other income	32	66	91	71	260	80	74	76	66	296
EBITDA	1,092	1,107	1,073	899	4,171	1,034	780	1,041	932	3,787
Depreciation and amortization	(357)	(346)	(340)	(351)	(1,394)	(348)	(355)	(343)	(389)	(1,435)
EBIT	735	761	733	548	2,777	686	425	698	543	2,352
Net financial result	20	11	28	23	82	(10)	(12)	(11)	(18)	(51)
Share of profit of affiliated companies	(1)	7	3	4	13	(1)	14	4	13	30
Income tax expense	(147)	(148)	(155)	(85)	(535)	(131)	(82)	(137)	(112)	(462)
Income from continuing operations	607	631	609	490	2,337	544	345	554	426	1,869
Income from discontinued operations	6	53	–	(50)	9	–	32	–	4	36
Net income	613	684	609	440	2,346	544	377	554	430	1,905
Attributable to equity holders of Swisscom AG	520	596	534	372	2,022	488	299	470	342	1,599
Attributable to minority interests	93	88	75	68	324	56	78	84	88	306
Net revenue by segments¹										
Fixnet	1,378	1,372	1,262	1,296	5,308	1,281	1,252	1,220	1,216	4,969
Mobile	1,040	1,067	1,051	1,010	4,168	958	1,002	1,032	1,030	4,022
Solutions	314	314	312	328	1,268	293	294	301	332	1,220
Other	246	255	249	309	1,059	316	322	329	367	1,334
Corporate	169	171	172	178	690	164	165	159	149	637
Intercompany elimination	(702)	(712)	(660)	(687)	(2,761)	(637)	(637)	(618)	(637)	(2,529)
Total net revenue	2,445	2,467	2,386	2,434	9,732	2,375	2,398	2,423	2,457	9,653
EBITDA by segments										
Fixnet	519	546	528	498	2,091	526	322	489	469	1,806
Mobile	509	492	445	404	1,850	459	432	481	430	1,802
Solutions	23	26	23	2	74	18	19	17	12	66
Other	39	52	43	8	142	36	(7)	52	37	118
Corporate	5	(9)	37	(16)	17	1	20	9	(7)	23
Intercompany elimination	(3)	–	(3)	3	(3)	(6)	(6)	(7)	(9)	(28)
Total EBITDA	1,092	1,107	1,073	899	4,171	1,034	780	1,041	932	3,787
Capital expenditure	176	255	236	420	1,087	235	291	326	472	1,324
Equity free cash flow	606	927	829	(159)	2,203	67	409	545	396	1,417
Number of full-time employees at end of period	15,397	15,307	15,288	16,088	16,088	16,544	16,739	16,875	17,068	17,068

¹ Includes intersegment revenue.

Quarterly review 2005 and 2006

Number of lines in thousands	1. quarter	2. quarter	3. quarter	4. quarter	2005	1. quarter	2. quarter	3. quarter	4. quarter	2006
Operational data Fixnet										
PSTN lines	2,982	2,951	2,930	2,922	2,922	2,923	2,911	2,892	2,891	2,891
ISDN lines	921	919	911	900	900	888	878	867	856	856
Total number of lines PSTN/ISDN	3,903	3,870	3,841	3,822	3,822	3,811	3,789	3,759	3,747	3,747
ADSL retail lines										
ADSL retail lines	550	603	645	708	708	775	846	886	936	936
ADSL wholesale lines	328	345	365	390	390	414	407	419	432	432
Total number of ADSL lines	878	948	1,010	1,098	1,098	1,189	1,253	1,305	1,368	1,368
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	1,585	6,312
Fixed-to-mobile traffic	228	236	231	230	925	231	232	231	232	926
Internet traffic	674	563	513	502	2,252	470	375	327	315	1,487
Total national traffic	2,658	2,453	2,291	2,403	9,805	2,412	2,154	2,027	2,132	8,725
International traffic	241	231	220	234	926	235	222	217	229	903
Total retail traffic	2,899	2,684	2,511	2,637	10,731	2,647	2,376	2,244	2,361	9,628
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	3,907	16,160
International traffic	353	402	-	-	755	-	-	-	-	-
Total wholesale traffic	4,996	4,863	4,102	4,318	18,279	4,390	4,056	3,807	3,907	16,160
Number of subscribers in thousands										
Operational data Mobile										
Postpaid	2,536	2,559	2,603	2,640	2,640	2,669	2,703	2,752	2,805	2,805
Prepaid	1,447	1,485	1,571	1,641	1,641	1,701	1,766	1,811	1,827	1,827
Total number of subscribers	3,983	4,044	4,174	4,281	4,281	4,370	4,469	4,563	4,632	4,632
CHF, minutes or millions										
ARPU in CHF	77	79	74	67	74	65	66	66	62	65
AMPU in minutes	112	120	124	124	120	120	125	126	126	124
Number of SMS messages in millions	493	493	486	519	1,991	521	511	526	549	2,107
Traffic volume in millions of minutes										
Operational data Solutions										
Local and long-distance traffic	437	428	400	407	1,672	417	383	366	374	1,540
Fixed-to-mobile traffic	64	67	64	63	258	63	62	60	61	246
Total national traffic	501	495	464	470	1,930	480	445	426	435	1,786
International traffic	92	92	86	86	356	90	85	83	84	342
Total national and international traffic	593	587	550	556	2,286	570	530	509	519	2,128

Consolidated financial statements

Consolidated income statement
Consolidated balance sheet
Consolidated cash flow statement
Statement of recognized income and expense

- 1 General information
- 2 Summary of significant accounting policies
- 3 Critical accounting policies, estimates and assumptions
- 4 Change in the group of consolidated companies
- 5 Segment information
- 6 Net revenue
- 7 Goods and services purchased
- 8 Personnel expenses
- 9 Share-based payment
- 10 Retirement benefits
- 11 Other operating expenses
- 12 Capitalized cost and other income
- 13 Financial income and expense
- 14 Income tax expense
- 15 Earnings per share
- 16 Cash and cash equivalents
- 17 Trade accounts receivable and other receivables
- 18 Other financial assets
- 19 Inventories
- 20 Other non-financial assets
- 21 Non-current assets held for sale
- 22 Property, plant and equipment
- 23 Goodwill and other intangible assets
- 24 Investments in affiliated companies
- 25 Financial liabilities
- 26 Trade accounts payable and other payables
- 27 Provisions
- 28 Other current and non-current non-financial liabilities
- 29 Repurchase of a share of 25% in Swisscom Mobile AG
- 30 Equity
- 31 Financial instruments
- 32 Additional information about the cash flow statement
- 33 Commitments
- 34 Contingencies
- 35 Research and development
- 36 Related parties
- 37 Discontinued operations
- 38 Disclosure of service concession agreements (SIC-29)
- 39 Dividends
- 40 Events after the balance sheet date
- 41 List of subsidiaries, affiliated companies and joint ventures

Report of the Group Auditors

Consolidated income statement

CHF in millions, except per share amount	Note	2006	2005
Net revenue	5,6	9,653	9,732
Goods and services purchased	7	(1,840)	(1,831)
Personnel expenses	8,9,10	(2,278)	(2,173)
Other operating expenses	11	(2,044)	(1,817)
Capitalized cost and other income	12	296	260
Operating income before interest, taxes, depreciation and amortization (EBITDA)		3,787	4,171
Depreciation and amortization	22,23	(1,435)	(1,394)
Earnings before interest and taxes (EBIT)		2,352	2,777
Financial income	13	189	242
Financial expense	13	(240)	(160)
Share of profit of affiliated companies	24	30	13
Earnings before taxes		2,331	2,872
Income tax expense	14	(462)	(535)
Income from continuing operations		1,869	2,337
Income from discontinued operations	37	36	9
Net income		1,905	2,346
Net income attributable to equity holders of Swisscom AG		1,599	2,022
Net income attributable to minority interests		306	324
Basic and diluted earnings per share (in CHF)			
– from continuing operations		28.27	33.64
– from discontinued operation		0.65	0.15
– net income	15	28.92	33.79

Consolidated balance sheet

CHF in millions	Note	31.12.2006	31.12.2005
Assets			
Current assets			
Cash and cash equivalents	16	673	1,023
Trade accounts receivable and other receivables	17	2,436	2,278
Other financial assets	18	142	1,672
Inventories	19	147	120
Current tax assets	14	4	5
Other non-financial assets	20	135	100
Non-current assets held for sale	21	19	5
Total current assets		3,556	5,203
Non-current assets			
Property, plant and equipment	22	5,795	6,000
Goodwill and other intangible assets	23	4,726	722
Investments in affiliated companies	24	221	191
Other financial assets	18	1,164	1,175
Deferred tax assets	14	93	84
Other non-financial assets	20	42	34
Total non-current assets		12,041	8,206
Total assets		15,597	13,409
Liabilities and equity			
Current liabilities			
Financial liabilities	25	1,568	137
Trade accounts payable and other payables	26	1,693	1,422
Current tax liabilities	14	217	229
Provisions	27	423	383
Other non-financial liabilities	28	283	427
Total current liabilities		4,184	2,598
Non-current liabilities			
Financial liabilities	25	5,015	2,299
Pension obligation	10	719	805
Provisions	27	682	580
Deferred tax liabilities	14	350	361
Other non-financial liabilities	28	144	142
Total non-current liabilities		6,910	4,187
Total liabilities		11,094	6,785
Equity			
Share capital	30	57	61
Additional paid-in capital	30	370	392
Retained earnings	30	6,200	7,483
Treasury stock	30	(2,213)	(2,002)
Fair value and other reserves	30	22	67
Equity attributable to equity holders of Swisscom AG		4,436	6,001
Equity attributable to minority interests	30	67	623
Total equity		4,503	6,624
Total liabilities and equity		15,597	13,409

Consolidated cash flow statement

CHF in millions	Note	2006	2005
Cash flows from operating activities			
Net income		1,905	2,346
Net income adjustments	32	1,891	1,825
Changes in operating assets and liabilities	32	(17)	(174)
Interest paid		(62)	(161)
Income taxes paid		(496)	(544)
Interest received		34	124
Dividends received		9	16
Cash flow provided by operating activities		3,264	3,432
Cash flows from investing activities			
Capital expenditure	22,23	(1,324)	(1,087)
Proceeds from sale of fixed assets		49	53
Acquisition of a share of 25% in Swisscom Mobile AG	29	(4,258)	–
Acquisition of subsidiaries, net of cash acquired	4	(246)	(303)
Acquisition of affiliated companies	24	(12)	(101)
Proceeds from sale of affiliated companies		3	–
Proceeds from sale of discontinued operations	37	–	351
Proceeds from other current financial assets		1,803	615
Investments in other current financial assets		(271)	(1,184)
Proceeds from other non-current financial assets		6	241
Investments in other non-current financial assets		(7)	(2)
Cash flow used in investing activities		(4,257)	(1,417)
Cash flows from financing activities			
Issuance of financial liabilities		4,264	13
Repayment of finance lease obligation		(32)	(155)
Repayment of other financial liabilities		(22)	(10)
Purchase of treasury stock for share-based payment	9	(17)	(16)
Share buyback	30	(2,348)	(1,985)
Dividends paid to shareholders of Swisscom AG	30	(907)	(861)
Dividends paid to minority interests	30	(297)	(367)
Cash flow provided by (used in) financing activities		641	(3,381)
Net decrease in cash and cash equivalents			
		(352)	(1,366)
Cash and cash equivalents at beginning of year		1,023	2,387
Currency translation of cash and cash equivalents		2	2
Cash and cash equivalents at end of year		673	1,023

Statement of recognized income and expense

CHF in millions	Note	2006	2005
Currency translation of foreign Group companies	30	21	8
Write-off of cumulative translation losses of foreign Group companies	30	–	6
Fair value adjustments of available-for-sale investments	30	(8)	58
Write-off of cumulative gains and losses on available-for-sale financial assets	30	(63)	(27)
Fair value adjustments of cash flow hedges	30	7	5
Tax effect on gains and losses directly recognized in equity	30	(2)	1
Gains and losses directly recognized in equity, net		(45)	51
Net income		1,905	2,346
Total recognized income and expense		1,860	2,397
Attributable of equity holders of Swisscom AG		1,554	2,073
Attributable to minority interests		306	324

Notes to the consolidated financial statements

1 General information

Swisscom AG as the holding company and its subsidiaries form the Swisscom Group (referred to as Swisscom). A schedule of all significant subsidiaries, affiliated companies and joint ventures is presented in Note 41.

Swisscom offers telecommunication services mainly in Switzerland. A more detailed description of Swisscom activities can be found in Note 5.

Swisscom AG is a specially regulated stock corporation incorporated in Switzerland and domiciled in Ittigen (Berne). Swisscom is listed on the SWX Swiss Exchange (SWX) and the New York Stock Exchange (NYSE). To comply with both regulatory frameworks, Swisscom must also consider the applicable accounting standards in the United States (U.S. GAAP). Differences in recognition and valuation principles between IFRS and U.S. GAAP are presented in the „Annual Report on Form 20-F“.

On December 31, 2006 the Swiss Confederation was the majority shareholder in Swisscom, holding 54.8% of the share capital and voting rights. The Swiss Confederation is obliged to remain the majority shareholder of Swisscom.

The reporting period encompasses twelve months. The consolidated financial statements are presented in Swiss Francs (CHF). If not stated otherwise, all amounts are reported in millions of Swiss Francs.

Swisscom's consolidated income statement is prepared using the nature of expense method.

The balance sheet is classified based on maturity. Current receivables and payables have a maturity of less than a year. Trade accounts receivable and payable as well as inventory are also included as current items. Deferred tax liabilities and assets are presented as non-current. Starting in 2006, in order to give a better view of its financial position, Swisscom classifies its financial assets and financial liabilities separately from its non-financial assets and non-financial liabilities. Consequently, certain other assets and other liabilities from prior year have been reclassified for comparison purposes. Financial assets of CHF 12 million and non-financial assets of CHF 34 million have been transferred from current assets to non-current assets. Financial liabilities of CHF 169 million have been transferred from current to non-current liabilities, and other non-financial liabilities of CHF 32 million have been transferred from non-current to current liabilities.

Swisscom's Board of Directors approved these consolidated financial statements on March 9, 2007. The consolidated financial statements must be approved by the Shareholders' Meeting on April 24, 2007.

2 Summary of significant accounting policies

2.1 Basis of presentation

The consolidated financial statements of Swisscom have been prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and in conformity with Swiss law.

The consolidated financial statements are based on historical cost convention unless a standard or an interpretation requires a different valuation method.

In order to report consolidated financial statements which are compliant with IFRS, certain estimates are required. In addition, Swisscom's management needs to make assumptions when applying group-wide uniform accounting and reporting policies. Areas with accounting policy choices or with a high degree of complexity, or in which estimates or assumptions that management has made could have a major impact on Swisscom's financial statements, are described in Note 3.

Any changes in applicable accounting principles resulting from new or revised standards and rules of interpretation are applied retrospectively, unless the transitional provisions of the standards or interpretations require prospective application.

2.2 Consolidation

Subsidiaries

Entities are considered to be subsidiaries of Swisscom when Swisscom has the power to govern the financial and operating policies. Control is generally presumed where Swisscom AG holds directly or indirectly the majority of voting rights or of the potential voting rights that are currently exercisable.

Companies acquired or disposed of during the reporting period are included in the consolidated financial statements from the date on which the control of business operations was transferred to Swisscom and excluded from the date on which control was transferred to the buyer, respectively.

Acquisitions are accounted for using the purchase method. The acquisition costs include payments in cash, the fair value of the assets given and liabilities incurred or assumed as well as equity instruments issued by Swisscom at the acquisition date. Acquisition costs also include any transaction cost directly attributable to the acquisition. All assets, liabilities and contingent liabilities which qualify for recognition, are recorded at their fair value on the date of the acquisition, independent of any minority interests. Goodwill is the excess of the cost of the business combination over the fair value of the net assets acquired. Any negative goodwill is released through the income statement at the date of the acquisition.

All intercompany balances, transactions and profits are eliminated in consolidation. Unrealized losses on intragroup transactions may indicate that the asset exchanged is impaired. The indication results in an impairment testing of the respective asset.

Minority interests in subsidiaries are presented in the consolidated balance sheet within shareholders' equity, but separate from shareholders' equity attributable to Swisscom AG shareholders. In the consolidated income statement, the minority's share in net income is a part of the consolidated net profit or loss.

All consolidated subsidiaries have the same reporting period and year-end as Swisscom AG.

There are no significant restrictions on transferring cash from the subsidiaries to the holding company.

Acquisitions and disposals of minority interests in subsidiaries

Acquisitions of minority interests in consolidated subsidiaries are accounted for using the purchase method. If the acquisition cost is higher than the respective book value of the minority interests at the date of the acquisition, the difference shall be allocated to goodwill. No re-measurement of assets, liabilities and contingent liabilities is undertaken. Swisscom continues to consolidate the subsidiary at its carrying amounts before the acquisition of the minority interests. When disposing part of a subsidiary without losing control, the difference between the consideration received and the relative book value at the time of the disposal is recorded in the income statement.

If a minority interest holder has the right to put its minority interest back to Swisscom, the put option is recorded as a financial liability, except if the put option can only be exercised in the case of a change in law.

Affiliated companies and joint ventures

Affiliated companies and joint ventures, where Swisscom has significant influence but does not have control are accounted for using the equity method. This is generally the case in companies where Swisscom AG holds 20%–50% of the voting rights or of the potential voting rights currently exercisable. Under the equity method, investments are initially recognized at cost. The purchase price is allocated to Swisscom's share of net assets and goodwill. Goodwill is not amortized. If there is any indication that goodwill might be impaired, the total carrying value of the investment in the affiliate is tested for impairment. The carrying amounts of investments are adjusted, through the income statement, for Swisscom's share of profit or loss of the affiliated company resulting from post-acquisition activity, less any share in a dividend payout. After Swisscom's interest is reduced to zero, additional losses are only recorded if Swisscom entered into an agreement to cover the additional losses, or if Swisscom has made additional payments. Transactions with affiliated companies which lead to unrealized intragroup gain are eliminated against the investment to the extent of Swisscom's interest in the investee. Unrealized losses are eliminated the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Reporting and measurement policies are aligned to ensure a consistent measurement basis within the consolidated financial statements.

2.3 Foreign currency translation

For most of Swisscom's subsidiaries, their local currency is their functional currency. Some subsidiaries, though, have another functional currency, when this currency better reflects the economic environment in which the subsidiary has its primary business. Transactions in currencies other than the functional currency are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at the historical rate prevailed at the transaction date. Differences thereof are recorded in the income statement.

Assets and liabilities of foreign operations reporting in a functional currency other than Swiss francs are translated at the exchange rates prevailing on the balance sheet date. Income statements, cash flow statements, and other transaction positions are translated at the average exchange rates for the period. Translation gains and losses are recorded as cumulative translation adjustments in shareholders' equity.

On disposal of a foreign entity, respective cumulative translation adjustments are recognized in the income statement as part of the gain or loss on the sale.

The exchange rates used in the consolidated financial statements were:

	31.12.2006	Average 2006	31.12.2005	Average 2005
1 EUR	1.61	1.58	1.56	1.55
1 GBP	2.39	2.31	2.26	2.27
1 USD	1.22	1.25	1.32	1.25
100 HUF	0.64	0.60	0.62	0.62

2.4 New and amended accounting principles

The following new or amended International Financial Reporting Standards (IFRS) and Interpretations (IFRIC), which had been applied for financial years beginning on or after January 1, 2006, and are of relevance to Swisscom are:

- IAS 19 (revised) „Employee benefits: Actuarial Gains & Losses, Group Plans & Disclosures“
- 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“

The amendments to IAS 19 require additional disclosure about pension plans, which have been included in Note 10. The other application of the new or amended accounting principles did not have a significant impact on the presentation of Swisscom's net assets, financial position or results of operations.

2.5 Cash and cash equivalents

Cash includes petty cash, cash at banks, and cash on deposit. Cash equivalents include term deposits with financial institutions, with original maturity dates of three months or less.

2.6 Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are recorded at amortized cost. A provision is recorded for any doubtful receivables. The adjustment of the provisions is recorded in operating expenses in the income statement. Non-recoverable receivables are recorded as a loss.

2.7 Other financial assets

Other financial assets are classified as „at Fair Value through Profit and Loss“, „Available-for-sale“, „Held-to-maturity“ or „Loans and receivables“. Initial classification depends on the purpose of the investment. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation at each balance sheet date. Swisscom applies trade date accounting for regular purchases and sales of financial assets. These financial assets are initially recognized at fair value, including transaction costs that are directly attributable. Transaction costs relating to financial assets at fair value through profit and loss are expensed immediately.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are either held for trading or are classified as such at purchase. Swisscom classifies only derivative financial instruments in this category. See Note 2.24.

Financial assets held-to-maturity

Financial assets held-to-maturity are fixed-term financial assets for which Swisscom has the ability and intention to hold to maturity. These financial assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Foreign exchange gains and losses are recorded in the income statement. Financial assets that are held-to-maturity are assessed for possible impairment at the end of each period. An impairment loss is recorded under financial expense when there is objective evidence of impairment, such as when the issuer is in bankruptcy, default, or other significant financial difficulty. Financial assets from cross-border tax lease arrangements are disclosed under assets held-to-maturity.

Loans and receivables

This account contains loans and term deposits with original maturity dates of more than three months which Swisscom provides directly or over a sub-participation agent to the borrower. The financial assets are initially recorded at fair value and subsequently measured at amortized cost using the effective interest method. Foreign exchange gains and losses are recorded in the income statement. Loans and receivables are assessed for possible impairment at the end of each period. An impairment loss is recorded under financial expense when there is objective evidence of impairment, such as where the borrower is in bankruptcy, default, or other significant financial difficulty.

Available-for-sale financial assets

All other financial assets are classified as available-for-sale financial assets. These assets are included in non-current financial assets unless management has the expressed intention of holding these assets for less than twelve months from the end of the period, or unless they will need to be sold to raise operating capital, in which case they are included in current financial assets. Available-for-sale financial assets are subsequently carried at fair value, with all changes in unrealized gains or losses recorded in equity. When the available-for-sale financial assets is sold, impaired or otherwise disposed of, the cumulative gains and losses previously recorded in equity are released through the income statement and presented as financial income or expense. The financial assets are assessed for possible impairment at each balance sheet date. Any equity instruments that have a lower market value than carrying value for a prolonged period or that are significantly below their original cost, will be considered impaired. The difference between the fair value and the carrying amount is removed from equity and released to the income statement and presented as financial expense.

2.8 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is calculated using the weighted average method. For slow turning inventories an allowance is recorded. Inventories which can not be sold anymore are written off completely.

2.9 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Land is not depreciated.

Depreciation is computed using the straight-line method based on the following estimated useful lives:

	Years
Buildings and building equipment	10 to 40
Cable and ducts	14 to 20
Transmission equipment	4 to 12
Switching equipment	5 to 10
Customer premises equipment	4 to 10
Broadcasting equipment and other network assets	3 to 10
Vehicles	5 to 7
Machinery, office and auxiliary equipment	4 to 15
Information technology equipment	3 to 5
Software for technical equipment	3

The amount to be depreciated corresponds to the cost minus an estimated residual value. If material parts of property, plant and equipment have different estimated useful life, these parts are recorded separately and depreciated accordingly. The estimated useful life and respective residual value are re-evaluated at least annually and, if necessary, depreciation is adjusted.

Capitalized leasehold improvements and installations in leased buildings are depreciated over the shorter period of their estimated useful life and the remaining term of the lease. Maintenance and repair costs and borrowing costs are expensed as incurred.

Gains and losses from the disposal of property, plant and equipment are calculated as the difference between the proceeds of the sale and carrying amount of the asset and are recorded in the income statement within other income or other operating expenses.

2.10 Intangible assets

Goodwill

Goodwill is measured as the difference between the cost of the acquisition and the group's share of the fair value of identifiable intangible and tangible net assets acquired at the date of the acquisition. Goodwill is presented under intangible assets in the consolidated financial statements. Goodwill is tested for impairment at least annually and recorded at initial cost minus any recognized impairment losses. The reversal of any recorded impairment is not allowed. Goodwill is allocated to cash-generating units when tested for impairment. The allocation is to those cash-generating units of which future economic benefit is expected as a result of the combination. Gains and losses on disposals of subsidiaries include their respective goodwill.

Research and development costs

Research costs are expensed as incurred. Development costs are capitalized under intangible assets, if they generate probable future economic benefits and can be determined reliably. Capitalized development costs are amortized using the straight-line method over the estimated useful life. The estimated useful life is re-evaluated at least at the end of each reporting period and if necessary adjusted. Development costs that do not fulfill the requirements for capitalization are expensed as incurred.

Software development costs

Development costs of identifiable software under Swisscom's control are recorded as intangible assets if they will generate probable future economic benefit and software development costs are amortized using the straight-line method over the estimated useful life of three to five years. Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is capitalized and added to the original cost of the software. The estimated useful life and residual value are re-evaluated at least annually and, if necessary, adjusted.

Other intangible assets

Other intangible assets, which comprise primarily mobile license fees and purchased software, are capitalized at cost and amortized using the straight-line method over the shorter period of estimated life or the respective legal term, starting when they are put into operation. The estimated useful life and the amortization method of the assets are reviewed annually and, if necessary, adjusted.

2.11 Non-current assets held for sale

Non-current assets held for sale are classified as current items and disclosed separately. They are measured at the lower of carrying amount and fair value minus any costs to sell. Assets held for sale are no longer depreciated. Any potential impairment is recorded in the income statement.

2.12 Impairment of property, plant and equipment and other intangible assets

Impairment of goodwill

Goodwill is allocated to a cash-generating unit and assessed for possible impairment annually in the fourth quarter after the business plan has been approved. If there is an indication that goodwill might be impaired during the reporting period but before the annual impairment testing, Swisscom performs an earlier impairment test. An impairment is recorded if the recoverable amount of an asset, which is the higher of the fair value less cost to sell or the value in use, is lower than the carrying amount. The method applied is described in Note 23.

Impairment of property, plant and equipment and other intangible assets

If there is an indication that an asset may be impaired, Swisscom determines the estimated recoverable amount. An impairment loss is recorded if the recoverable amount of an asset, which is the higher of fair value less costs to sell costs and value in use, is lower than the carrying amount.

2.13 Finance and operating leases

Assets acquired under lease agreements which effectively transfer substantially all the risks and rewards incidental to ownership from the lessor to the lessee are classified as finance leases. Finance leases on tangible fixed assets are capitalized at amounts equivalent to the lower of respective fair value or the estimated net present value of the future minimum lease payments. The same amount less finance costs is recorded correspondingly as a finance lease obligation. Assets under finance leases are amortized over the shorter of their estimated useful life and term of the lease. The interest portion of the lease payment is recorded as interest expense in the income statement, calculated on the amortized cost. Lease contracts on buildings and land are recorded separately, if lease payment can be allocated accordingly. Gains on sale and leaseback transactions resulting in finance leases are deferred and released over the term of the lease into other income, while losses on sale and leaseback transactions are recorded immediately.

Lease agreements which do not transfer the risks and rewards to Swisscom are classified as operating leases. Payments are recorded ratably over the lease period. Gains and losses on sale and leaseback transactions of operating leases are recorded immediately in the income statement.

2.14 Financial liabilities

Financial liabilities are measured at fair value on initial recognition less directly attributable transactions cost. After initial recognition financial liabilities are subsequently measured at amortized cost using the effective interest method.

2.15 Provisions

Provisions are recorded when a present legal or constructive obligation results from past events, it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made. Provisions are recorded at the best estimate of the expenditure required to settle the obligation using market interest rates to discount.

Termination benefits

Costs relating to the implementation of workforce reduction measures are recorded when management commits itself to a workforce reduction plan, and it is probable that a liability has been incurred and the amount can be reasonably estimated. Conditions and the number of employees affected must be defined. A liability is recorded when an appropriate public announcement has been made, specifying the terms of redundancy and the number of employees affected, or after individual employees have been advised of the specific terms.

Dismantlement and restoration costs

Swisscom has a legal obligation in Switzerland to dismantle transmitter or mobile stations and to restore the property owned by third parties on which the stations are situated, after the stations are removed. The costs associated with the dismantling of these sites are capitalized in the carrying amount of property, plant and equipment and depreciated over the life of the transmitter or mobile stations. The total provision required to dismantle and restore these sites, discounted to its present value, is recorded under non-current provisions. Changes in the provision are accounted for using the cost model in accordance with IFRIC 1 „Changes in Existing Decommissioning, Restoration and Similar Liabilities“. Under the cost model, changes in the liability are either added to or deducted from the cost of the related asset. The amount deducted from the cost of the related asset shall not exceed its net carrying amount. Should there be a reduction in the liability that exceeds the net carrying amount of the related asset, any excess is recorded immediately in the income statement as financial income.

2.16 Treasury stock

Treasury stock is presented under equity. Gains or losses on the sale of treasury stock are also recognized under consolidated equity within retained earnings.

2.17 Revenue

Revenue consists primarily of monthly subscription and connection fees, as well as volume-related charges to customers for calls from the fixed and mobile networks. Also included are revenues from providing interconnection services to other telecommunications companies, revenue from national and international leased lines, as well as revenue from private network services and intranet services and the sale and maintenance of subscriber equipment. Swisscom also provides services in the field of outsourcing.

Revenue from subscription fees is recorded ratably over the subscription period. Revenue from installation and connection activities is recorded at the time of installation or connection.

Revenue from telephony is recorded at the time the call is made. Revenue from pre-paid calling cards is deferred and recorded at the time the customer makes a call. Revenue from leased lines is recorded over the rental period. Revenue from the sale of equipment is recorded at the time of sale. Revenue from the maintenance of equipment is recorded ratably over the life of the contract.

Revenue for long-term outsourcing contracts is recorded based on services provided to the customer. The actual development of costs incurred and invoices issued are not relevant when recording revenue. Start-up and integration costs of new outsourcing transactions are accrued and recorded as expense over the contract period. The contracts are assessed at the end of each period to evaluate if the unavoidable costs of meeting the obligations under the contract exceed the expected benefits to be received under it.

Customer-specific contracts are accounted for in accordance with the Percentage-of-Completion-Method. The stage of completion is based on actual costs in reference to

total estimated costs. Receivables from construction contracts contain recorded costs and gains reduced by prepayments and losses on contracts. A negative amount is presented in trade accounts payables and other payables.

When Swisscom acts as principal, bearing the risks and rewards in a transaction, revenue is recorded on a gross basis. However, when Swisscom acts as an agent or broker on behalf of third parties, revenue is reported net of direct costs.

2.18 Capitalized costs, financial income and other income

Costs to be capitalized and expensed in future periods, such as costs capitalized on construction projects, are recognized in the income statements as other operating income with a corresponding amount included in expenses, such that the effect on income is zero.

Interest income is accounted for in accordance with the amortized cost method. Dividend income is recognized when Swisscom has the right to receive the payment.

Other income is recorded when the inflow of proceeds or other financial benefits is probable.

2.19 Share-based payment

Compensation cost for shares issued to employees, members of the Executive Board and the Board of Directors is measured at the grant date, this being the date the shares are issued, as the excess of the market price of Swisscom's stock over the purchase price. These costs are recorded as personnel expenses at the time the shares are granted.

2.20 Pension obligation

The cost and obligations relating to the defined benefit plan are determined on an actuarial basis using the projected unit credit method, which reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. The pension cost in each period is calculated on the basis of a yearly actuarial valuation. The latest actuarial valuation was performed using base data of December 31, 2006. Current service costs are charged to the income statement in the periods in which the services are rendered. The effects of changes in actuarial assumptions are charged or credited to the income statement over a period approximating the average expected remaining service periods of participating employees. The portion of actuarial gains and losses recorded is defined as the excess of the net cumulative unrecorded actuarial gains and losses at the end of the previous reporting period over the greater of 10% of the present value of the defined benefit obligation at that date (before deducting plan assets), or 10% of the fair value of any plan assets at that date. Past service cost attributable to plan amendments is recorded as an expense on a straight-line basis over the average period until the benefits become vested. To the extent the benefits immediately vest, the costs associated with the amendment are recorded immediately.

2.21 Customer acquisition costs

Swisscom pays commissions to dealers for the acquisition and retention of mobile subscribers. The amount of commission payable is dependent on the type of subscription. Customer acquisition and retention costs are recorded immediately in the income statement.

2.22 Income taxes

Income taxes include all income-related taxes due and deferred. Non-income-related taxes, such as capital tax or taxes on properties are recorded in operating expenses.

Deferred income taxes are determined using the comprehensive liability method, whereby deferred tax is recorded on all temporary differences. Temporary differences arise when there are differences between the recoverable amount of a balance sheet item and the value for tax purposes and reverse in one or more subsequent periods. Deferred tax assets and liabilities are determined using the tax rates that are expected to apply when such temporary differences are realized. Deferred tax assets are recorded only if it is probable that benefits will be realized in the future.

2.23 Fair value

Fair value is the amount for which an asset, liability or financial instrument could be exchanged between knowledgeable, willing and independent business parties in an arm's length transaction. The fair value is determined based on quoted prices or by using valuation techniques, such as discounted cash flow analysis. The presented amounts in the notes approximate fair value if not mentioned otherwise.

2.24 Derivative financial instruments

Derivative financial instruments are initially recorded at fair value and subsequently re-measured at their fair value at each balance sheet date. The method of recording the resulting gain or loss is dependent on the nature of the item being hedged and the intention regarding its purchase or issue. On the date a derivative contract is entered into, Swisscom designates certain derivatives as either a hedge of exposure to changes in fair value of a recognized asset or liability, or an unrecognized firm commitment (fair value hedge), or a hedge of the exposure to variability in cash flows on forecasted transaction (cash flow hedge).

Changes in the fair value of derivatives that are designated as fair value hedges are recorded in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives that are designated as cash flow hedges are recorded in the hedge reserves in equity. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or liability, the gains and losses previously recognized in equity are removed from equity and included in the initial cost of the asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or liability, the associated gains or losses that were recognized in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. However, if an entity expects that all or a portion of a loss recognized directly in equity will not be recovered in one or more future periods, it shall reclassify into profit or loss the amount that is not expected to be recovered.

Changes in the fair value of derivative instruments that were not designated as hedges are recorded immediately in the income statement.

Swisscom documents at the inception of each transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific forecast transactions. Swisscom also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of publicly traded derivatives and trading available-for-sale securities is based on quoted market prices at the end of the period. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the end of period. The fair value of foreign exchange options is determined using option pricing models.

2.25 New accounting principles, not yet mandatory

In 2006 the IASB stated that it will not require the application of new IFRS or major amendments to existing standards before January 1, 2009. By refraining from requiring new standards to be applied before 2009, the IASB will also be providing four years of stability in the IFRS platform of standards for those companies that adopted IFRS in 2005. New standards and major amendments will be published during this time and companies have the choice to early adopt them but are not required. Interpretations and minor amendments are excluded from this approach.

The following standards and interpretations published before December 31, 2006, must be applied for annual periods beginning on January 1, 2007, or after:

Amendments to IAS 1: Capital Disclosures: Amendments require companies to disclose the objectives, policies and processes on managing their capital. Swisscom will comply with the new requirement and disclose the necessary information. (Effective: January 1, 2007.)

IFRS 7: Financial Instruments: Disclosures: IFRS 7 replaces IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions and disclosure requirements of IAS 32 Financial Instruments: Disclosure and Presentation. The goal of the new standard is to provide information on the amount, timing, and probability of future cash flows resulting from financial instruments that may be of relevance for decision-making. Swisscom has set up the necessary processes to comply with the requirements upon the effective date of January 1, 2007.

IFRIC 7: Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies: IFRIC 7 clarifies that if due to economic circumstances a functional currency becomes hyperinflationary, the subsidiary must be presented as if the functional currency had always been hyperinflationary. As Swisscom has no subsidiaries in hyperinflationary economies there will be no impact on adoption of this standard.

IFRIC 8: Scope of IFRS 2: IFRIC 8 clarifies that share-based payments also apply to transactions in which companies can not, or can only partially, identify goods or services received. Companies shall measure the non-identifiable goods or services as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received or to be received. Swisscom does not expect any impact in applying this standard as its transactions involving share-based payment are minimal.

IFRIC 9: Reassessment of Embedded Derivative: IFRIC 9 defines when an embedded derivative has to be accounted for separately from the host contract. Swisscom does not expect any impact on its financial reporting on the adoption of this interpretation.

The following standards, amendments and interpretations will be effective at a later date. Swisscom will not early adopt these standards.

IFRIC 10: Interim Financial Reporting and Impairment: This interpretation clarifies that impairment losses of goodwill or certain assets which have been recognized in an interim period shall not be reversed. Swisscom does not expect any impact on its financial reporting.

IFRIC 11: IFRS 2 Group and Treasury Share Transactions: IFRIC 11 clarifies how transactions with group or treasury shares have to be accounted for by the group as well as

on the subsidiary level. Swisscom does not expect a material impact on the adoption of this interpretation as its transactions involving treasury stock are minimal.

IFRIC 12: Service Concession Arrangement: IFRIC 12 clarifies how concessions granted have to be accounted for. Swisscom will analyze its concessions granted with regard to compliance with this interpretation but does not expect a material impact on its financial reporting upon adoption.

IFRS 8: Operating Segments: IFRS 8 replaces IAS 14. IFRS 8 requires companies to present its segment reporting following the management approach. Swisscom is analyzing whether it needs to adjust its segment reporting in order to comply with the new requirements.

3 Critical accounting principles, estimates and assumptions

3.1 Critical accounting principles

When applying the relevant standards, management has the possibility to make some decisions at its own discretion. The recognition and measurement principles below have a significant impact on the items in the financial statements:

Cash generating units for fixed and mobile networks

The recoverability of the carrying amounts of fixed and mobile networks is assessed on the level of cash-generating units in accordance with IAS 36 „Impairment of Assets“. Management is of the opinion that fixed and mobile networks should be treated as separate integral units and must therefore be classified as two independent cash generating units.

In order to test recoverability, individual network elements or regions are not separately assessed as cash flows cannot be allocated accordingly.

Sale and long-term leaseback of buildings

In 2001, Swisscom sold 196 buildings and entered into long-term leaseback agreements for some of these buildings. Some of the leaseback agreements were classified as finance leases in accordance with IAS 17 „Leases“. In the opinion of management, buildings classified as finance leases are special properties. The nature of these buildings is such that they cannot be used by other tenants unless major alterations are made.

3.2 Key assumptions with significant risk of value adjustments

The most important assumptions about future developments and other sources of uncertainty which may require significant adjustments to the assets and liabilities in the subsequent period are presented below:

Goodwill

On December 31, 2006, the carrying amount of goodwill from acquisitions totalled CHF 4,169 million. The recoverability of goodwill is tested for impairment annually during the fourth quarter or earlier if an indication of impairment exists. The value of goodwill is primarily dependant upon projected cash flows, WACC and long-term growth rates. A change in the assumptions is disclosed in Note 23. An alteration to the assumptions may result in an impairment loss in subsequent years.

Pension obligation

The pension obligation is calculated on the basis of various financial and actuarial assumptions. The key assumptions for assessing this obligation are the discount rate, future salary and pension increases and the probability of the employee reaching retirement. As of December 31, 2006, the underfunding amounted to CHF 1,597 million, whereby only CHF 719 million was recorded as an obligation in the consolidated balance sheet. The obligation was calculated using a discount rate of 2.54%. A reduction in the discount rate of 0.5% to 2.04% would result in an increase in the pension obligation of CHF 788 million. An increase in average future salary increases of 0.5% would result in an increase in the pension obligation of CHF 90 million. Pension costs were calculated on the basis of an expected return on plan assets of 3.9%. A reduction in the expected return of 0.5% would result in an increase in pension costs of CHF 34 million. See Note 10.

Provision for dismantlement and restoration costs

A provision has been recorded for dismantlement and restoration costs of mobile stations and analog broadcast transmitter stations. As of December 31, 2006, the carrying amount of this provision totalled CHF 369 million. The amount of the provision is primarily based on estimates of future costs for dismantlement and restoration and the timing of the dismantlement. An increase in the estimated costs by 10% would result in an increase in the provision of CHF 25 million. A postponement of the date of the dismantlement by 10 years would result in an increase in the provision of CHF 37 million. See Note 27.

Provisions and contingent liabilities**Interconnection proceedings**

Since 2000 Swisscom has been involved in proceedings with regard to interconnection prices (see Note 27). Swisscom has recorded a provision and an allowance for receivables on the basis of their own estimate of the expected outcome of the proceedings. Further development of the proceedings or a decision by the Federal Court may result in a different assessment of the financial consequences in subsequent years and require an increase or decrease of the recorded provision.

Proceedings before the competition commission (WEKO)

WEKO is currently leading various proceedings against Swisscom. The individual proceedings are described in Note 34. If WEKO proves that Swisscom has violated the Antitrust law, they can impose sanctions. Based upon its legal assessment, Swisscom is of the opinion that it is not probable that WEKO will impose sanctions and has therefore not recorded a provision. Further developments may result in a different assessment and require the recognition of a provision.

4 Changes in the group of consolidated companies

During financial year 2006 Swisscom acquired several subsidiaries. These include the acquisition of Comit, the Betty Group, Cybernet (Switzerland) AG, Swapcom SA, Core Communications (now Hospitality Services North America Corp.), JW Service AG (now Comit Strategic Sourcing AG), the Minick Group, Undernet s.r.l., and a business area of Siemens Switzerland.

In 2006, Swisscom acquired investments in the affiliated companies Medgate Group and Sportradio.ch AG. See Note 24.

The new acquisitions are presented in the consolidated accounts from the date the transactions were completed.

On December 20, 2006, Swisscom repurchased the 25% minority interest in Swisscom Mobile AG from Vodafone. See Notes 25 and 29. Other acquisitions in 2006 included the remaining 60% minority interest in the employment company Worklink AG and 10.3% in Tele Rätia AG. Tele Rätia AG was subsequently merged with Swisscom Broadcast AG.

In 2006, Betty Schweiz AG and Mona Lisa Capital AG were established in Switzerland. Companies established abroad included Airbites Ukraine, Hospitality Services Romania, Sicap Malaysia, and Comit Singapore.

A list of consolidated subsidiaries, affiliated companies and joint ventures is presented in Note 41.

The acquisitions of subsidiaries in 2005 and 2006 are disclosed below.

Acquisitions 2006

In 2006, Swisscom made cash payments for subsidiaries for a total of CHF 246 million, excluding acquisitions of minority interests in consolidated subsidiaries. This amount includes CHF 96 million for the acquisition of the outstanding shares of Antenna Hungária.

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, for CHF 69 million. The purchase price includes transaction costs of CHF 0.4 million.

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

CHF in millions	Carrying amount prior to acquisition	Adjustment	Carrying amount upon acquisition
Cash and cash equivalents	19	–	19
Trade accounts receivable and other receivables	6	–	6
Other current assets	5	–	5
Property, plant and equipment	1	–	1
Other intangible assets	–	8	8
Deferred tax assets	2	(2)	–
Trade accounts payable and other payables	(5)	–	(5)
Current tax liabilities	(2)	–	(2)
Provisions	(2)	–	(2)
Pension obligation	(10)	–	(10)
Other current and non-current liabilities	(10)	–	(10)
Identified assets and liabilities	4	6	10
Goodwill			59
Acquisition cost			69
Deferred payment of purchase price			(22)
Cash and cash equivalents acquired			(19)
Cash outflow			28

Goodwill relates mainly to the synergies that are expected from the merger of Comit and Swisscom IT Services, non-contractual and non-separable customer relations as well as the qualified personnel. The brand name and orders on hand were assessed separately from goodwill as intangible assets. The brand name is amortized using the straight-line method over a period of five years. Following the acquisition, the Financial Services division was transferred from Swisscom IT Services AG and integrated into Comit. In 2005 Comit achieved revenue of CHF 63 million. In 2006 the new unit achieved revenue of CHF 220 million. In view of this merger it is not practicable to calculate the revenue and result arising from the acquisition. Since the takeover was completed on January 4, 2006, the effects on net revenue and net income are included in the consolidated financial statements for twelve months.

Other acquisitions 2006

Swisscom Solutions AG acquired the telephone equipment and IP-communication platforms for medium and larger business customers from Siemens Switzerland. Furthermore, businesses acquired include applications and services as well as the integration, operation and maintenance of data networks. The acquisition was completed on February 28, 2006.

Swisscom Fixnet signed a contract for the acquisition of a 100% share of the Internet service provider Cybernet (Switzerland) AG on October 20, 2005. The acquisition was completed with the approval of the Competition Commission on March 22, 2006.

On June 8, 2006, Hospitality Services SA acquired a 98% share in Core Communications Corp. Following the acquisition the company was renamed Hospitality Services North America Corp. Hospitality Services North America Corp. is a US American service provider of data communication and Internet solutions for the hotel industry.

On August 3, 2006, Swisscom acquired a 100% share in Swapcom (France). Swapcom is specialized in server-side mobile architecture and develops software solutions.

On September 27, 2006, Swisscom acquired a 100% share of the voting rights and 65% of share capital in Betty Holding AG. Betty Holding AG (Zurich) holds 100% of the shares in 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 selling rights are recorded as a financial liability.

On October 13, 2006, Swisscom acquired a 100% share in JW Service AG. Following the acquisition the company was renamed Comit Strategic Sourcing AG. The company offers IT services to the financial services, including consulting, project management and software development.

In connection with the expansion of its business activities in Eastern Europe, Airbites purchased a 87.5% share in Undernet s.r.l. on November 8, 2006.

On December 4, 2006, Swisscom Mobile acquired a 100% share in Minick Holding AG and its subsidiaries in Switzerland, Germany, the UK, and Spain. Minick is a provider of solutions for mobile Internet portals and interactive applications.

The acquired net assets of the acquisitions of Betty and Minick have only been determined provisionally at the time the financial statements were prepared, as Swisscom was not in a position to finalize the purchase price allocation for this transaction.

The table below shows the allocation of the aggregated purchase prices to the fair values of other acquisitions in 2006:

CHF in millions	Carrying amount prior to acquisition	Adjustment	Carrying amount upon acquisition
Cash and cash equivalents	20	–	20
Trade accounts receivables and other receivables	26	–	26
Other current assets	13	–	13
Property, plant and equipment	3	–	3
Other intangible assets	15	48	63
Deferred tax assets	3	(1)	2
Trade accounts payable and other payables	(29)	–	(29)
Provisions	(2)	–	(2)
Pension obligation	(13)	–	(13)
Financial liabilities	(7)	–	(7)
Other current and non-current liabilities	(16)	–	(16)
Identified assets and liabilities	13	47	60
Goodwill			106
Acquisition cost			166
Deferred payment of purchase price			(24)
Cash and cash equivalents acquired			(20)
Cash outflow			122

The purchase price includes transaction costs of CHF 1 million. Goodwill in connection with other acquisitions relates mainly to the expected synergies, future services and the personnel. Intangible assets primarily include contractual customer relationship. These are amortized from the date of acquisition over the estimated remaining term of the customer relationship. The 2006 consolidated financial statements include net revenue of CHF 81 million and a net income of CHF 2 million resulting from these acquisitions. Had these acquisitions been consolidated in Swisscom's financial statements from January 1, 2006, Swisscom's pro forma net revenue would have been CHF 9,738 million and net income CHF 1,901 million.

Acquisitions 2005

In 2005, Swisscom paid a total of CHF 303 million for the acquisition of subsidiaries including the deferred consideration of CHF 7 million paid to the seller for T-Systems Card Services AG (now Accarda AG), which was acquired at the end of 2003.

Acquisition of Antenna Hungária

On July 28, 2005, Swisscom signed an agreement for the acquisition of a 75% share in Antenna Hungária. The company operates in the field of analog radio and television broadcasting. Swisscom completed the purchase of a 75% share (plus one share) in Antenna Hungária on October 25, 2005. The purchase price was CHF 293 million. On November 11, 2005, Swisscom tendered an offer to Antenna Hungária's public shareholders for the same price per share as paid for the 75% plus one share holding, i.e. HUF 5,250 per share. At the beginning of 2006, a further 23% of the shares were acquired. A squeeze-out procedure was launched for the remaining 2% share. Since the transaction involved a statutory obligation to make a public takeover bid to the minority shareholders, the transaction was included as a 100% acquisition in the 2005 financial statements. The purchase price of CHF 104 million for the remaining shares was recorded under other current liabilities as at December 31, 2005. The table below presents the allocation of the purchase price to Antenna Hungária's net assets:

CHF in millions	Carrying amount prior to acquisition	Adjustment	Carrying amount upon acquisition
Cash and cash equivalents	8	–	8
Trade accounts receivable and other receivables	16	–	16
Other current assets	19	–	19
Property, plant and equipment	140	96	236
Other intangible assets	8	41	49
Trade accounts payable and other payables	(15)	–	(15)
Other current and non-current liabilities	(26)	–	(26)
Deferred tax liabilities	–	(22)	(22)
Identified assets and liabilities	150	115	265
Equity attributable to minority interests			(3)
Goodwill			138
Acquisition cost			400
Deferred payment of purchase price			(104)
Cash and cash equivalent acquired			(8)
Cash outflow			288

The purchase price of CHF 400 million includes transaction costs for consultancy and bank fees of CHF 3 million. Goodwill relates to the premium paid on the acquisition and reflects the growth potential of Antenna Hungária in the field of digital broadcasting. Swisscom will bring in its know-how in the area of digital broadcasting. Intangible assets primarily comprised of contractual customer relationships, are amortized from the date of acquisition over the estimated remaining term of the customer relationship.

Other acquisitions 2005

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

On July 1, 2005, Swisscom acquired a 99% share in Medipa AG, a Swiss medical billing company.

The table below shows the allocation of the aggregated purchase price to the fair values of the assets acquired in Celeris and Medipa:

CHF in millions	Carrying amount prior to acquisition	Adjustment	Carrying amount upon acquisition
Cash and cash equivalents	4	–	4
Other current assets	13	–	13
Property, plant and equipment	1	–	1
Other intangible assets	3	5	8
Deferred tax assets	–	(1)	(1)
Other current and non-current liabilities	(35)	–	(35)
Identified assets and liabilities	(14)	4	(10)
Goodwill			22
Acquisition cost			12
Cash and cash equivalents acquired			(4)
Cash outflow			8

Goodwill reflects the expected synergies that can be achieved from the integration into the existing business activities. Medipa was presented on a provisional basis in the 2005 financial statements. There were no changes to the net assets presented in the balance sheet in 2006 following the final purchase price allocation.

Net revenue and results of acquired subsidiaries in 2005

The 2005 consolidated financial statements include net revenue of CHF 35 million and a net loss of CHF 4 million resulting from these acquisitions. Had these acquisitions been consolidated in Swisscom's financial statements from January 1, 2005, Swisscom's pro forma net revenue would have been CHF 9,870 million and net income CHF 2,343 million.

5 Segment information

Segment information is mainly based on the business segments and secondly, geographical segments. Swisscom's income and risks mainly depend on the services offered and less on the geographical location of the company and the customers. This breakdown corresponds to the management and organizational structure as well as to internal reporting to group management and the board of directors. Swisscom comprises of the segments Fixnet, Mobile, Solutions, Other, and Corporate.

The „Fixnet“ segment provides primarily access services to residential and business customers, fixed retail telephony traffic in respect of residential customers, wholesale traffic services offered to national and international telecommunication providers and 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 still records 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.

„Mobile“ consists primarily 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 their mobile telephones over Swisscom's networks. It also consists of value-added services numbers, data traffic as well as the sale of mobile handsets.

„Solutions“ comprises primarily fixed-line voice telephony services to business customers, leased lines, intranet services, and management of communication infrastructures.

„Other“ mainly comprises Swisscom IT Services consisting of Swisscom IT Services AG and the Comit Group, Swisscom Broadcast, the Accarda Group, comprising Billag AG, Accarda AG and Medipa AG, Antenna Hungária, and Hospitality Services (formerly Swisscom Eurospot).

The „Corporate“ segment includes the divisions at Group Headquarters, group initiatives, shared services for Group companies, the real estate company Swisscom Immobilien AG, and the employment company Worklink AG.

Intersegment revenue is billed at market prices. If a regulated price for telecommunications services exists for competitors, such as for interconnection services, this price will also be used to bill internal services. Costs relating to termination benefits are calculated per segment for the employees participating in one of the workforce reduction programs and are recorded as part of that segment's expense. Not all of the costs relating to termination benefits recorded by the segments meet the criteria for recognition under IFRS. Therefore, these expenses for which provisions cannot be recorded were eliminated in the „Corporate“ segment in the consolidated financial statements.

Intragroup profits and losses may occur as a result of billing intersegment services and sales of assets. These are eliminated in the consolidated financial statements and disclosed in segment reporting in the column „Elimination“.

Segment assets include all operating assets used by a segment and comprise receivables, inventories, property, plant and equipment and intangibles. Segment liabilities include all operating liabilities and comprise primarily accounts payable, other liabilities, pension obligations, and provisions.

Segment expenses include goods and services purchased, personnel costs and other operating costs less capitalized cost and other income.

Swisscom's operations are mainly focused in Switzerland, where it provides a full range of telecommunication services. Business activity abroad mainly comprises Antenna Hungária and Hospitality Services. Antenna Hungária offers services in the field of broadcasting and telecommunications. Hospitality Services is a service provider of broadband and Internet-based solutions for the hotel industry.

2006, CHF in millions	Fixnet	Mobile	Solutions	Other	Corpo- rate	Elimi- nation	Total
Net revenue from external customers	4,130	3,541	1,072	840	70	–	9,653
Intersegment revenue	839	481	148	494	567	(2,529)	–
Net revenue	4,969	4,022	1,220	1,334	637	(2,529)	9,653
Goods and services purchased	(489)	(955)	(240)	(164)	–	8	(1,840)
Personnel expenses	(880)	(311)	(279)	(559)	(249)	–	(2,278)
Other operating expenses	(760)	(472)	(43)	(393)	(377)	1	(2,044)
Intersegment expenses	(1,176)	(503)	(600)	(143)	(75)	2,497	–
Capitalized cost and other income	142	21	8	43	87	(5)	296
Segment expenses	(3,163)	(2,220)	(1,154)	(1,216)	(614)	2,501	(5,866)
Operating income before interest, taxes, depreciation and amortization (EBITDA)	1,806	1,802	66	118	23	(28)	3,787
Margin as % of net revenue	36.3	44.8	5.4	8.8	3.6	–	39.2
Depreciation and amortization	(757)	(385)	(34)	(208)	(58)	7	(1,435)
Earnings before interest and taxes (EBIT)	1,049	1,417	32	(90)	(35)	(21)	2,352
Segment assets	4,261	2,440	377	1,374	1,109	(449)	9,112
Goodwill	30	3,749	14	376	–	–	4,169
Affiliated companies	173	–	–	1	47	–	221
Non-current assets held for sale	–	–	–	–	19	–	19
Assets not allocated	–	–	–	–	–	–	2,076
Total assets	4,464	6,189	391	1,751	1,175	(449)	15,597
Segment liabilities	1,510	823	372	640	1,031	(432)	3,944
Liabilities not allocated	–	–	–	–	–	–	7,150
Total liabilities	1,510	823	372	640	1,031	(432)	11,094
Capital expenditure	610	326	42	219	140	(13)	1,324
Gain (loss) on disposal of assets	(4)	(6)	2	(5)	21	–	8
Termination benefits	11	3	–	–	–	–	14
Share of profit of affiliated companies	16	1	–	1	12	–	30
Number of full-time equivalent employees at end of period	7,205	2,457	1,929	4,574	903	–	17,068
Average number of full-time equivalent employees	7,101	2,413	1,919	4,404	897	–	16,734

2005, CHF in millions	Fixnet	Mobile	Solutions	Other	Corpo- rate	Elimi- nation	Total
Net revenue from external customers	4,319	3,651	1,123	571	68	–	9,732
Intersegment revenue	989	517	145	488	622	(2,761)	–
Net revenue	5,308	4,168	1,268	1,059	690	(2,761)	9,732
Goods and services purchased	(606)	(975)	(197)	(69)	–	16	(1,831)
Personnel expenses	(944)	(322)	(261)	(419)	(228)	1	(2,173)
Other operating expenses	(530)	(483)	(43)	(325)	(436)	–	(1,817)
Intersegment expenses	(1,248)	(555)	(700)	(129)	(65)	2,697	–
Capitalized cost and other income	111	17	7	25	56	44	260
Segment expenses	(3,217)	(2,318)	(1,194)	(917)	(673)	2,758	(5,561)
Operating income before interest, taxes, depreciation and amortization (EBITDA)	2,091	1,850	74	142	17	(3)	4,171
Margin as % of net revenue	39.4	44.4	5.8	13.4	2.5	–	42.9
Depreciation and amortization	(797)	(373)	(39)	(140)	(48)	3	(1,394)
Earnings per interest and taxes (EBIT)	1,294	1,477	35	2	(31)	–	2,777
Segment assets	4,513	2,322	343	1,274	1,021	(534)	8,939
Goodwill	17	–	4	294	–	–	315
Affiliated companies	137	2	–	2	50	–	191
Non-current assets held for sale	–	–	–	–	5	–	5
Assets not allocated	–	–	–	–	–	–	3,959
Total assets	4,667	2,324	347	1,570	1,076	(534)	13,409
Segment liabilities	1,364	744	503	566	1,122	(540)	3,759
Liabilities not allocated	–	–	–	–	–	–	3,026
Total liabilities	1,364	744	503	566	1,122	(540)	6,785
Capital expenditure	494	334	22	154	100	(17)	1,087
Gain (loss) on disposal of assets	(3)	(11)	2	(5)	33	–	16
Termination benefits	50	8	–	(4)	(15)	–	39
Share of profit of affiliated companies	10	–	–	1	2	–	13
Number of full-time equivalent employees at end of period	7,118	2,412	1,795	3,868	895	–	16,088
Average number of full-time equivalent employees	7,274	2,460	1,812	3,021	888	–	15,455

Information on geographical regions

CHF in millions	Switzerland	International	Total
2006			
Net revenue	9,418	235	9,653
Operating income before interest, taxes, depreciation and amortization (EBITDA)	3,729	58	3,787
Earnings before interest and taxes (EBIT)	2,386	(34)	2,352
Segment assets	8,717	395	9,112
Capital expenditure	1,279	45	1,324
Number of full-time equivalent employees at end of period	15,909	1,159	17,068
Average number of full-time equivalent employees	15,762	972	16,734
2005			
Net revenue	9,677	55	9,732
Operating income before interest, taxes, depreciation and amortization (EBITDA)	4,134	37	4,171
Earnings before interest and taxes (EBIT)	2,779	(2)	2,777
Segment assets	8,558	381	8,939
Capital expenditure	1,049	38	1,087
Number of full-time equivalent employees at end of period	15,199	889	16,088
Average number of full-time equivalent employees	15,277	178	15,455

6 Net revenue

The table below presents a breakdown of net revenue:

	2006	2005
Retail traffic	974	1,082
Wholesale traffic	351	483
Other traffic	105	130
Access	2,081	1,992
Other revenue	619	632
Segment Fixnet	4,130	4,319
Connectivity voice	2,040	2,203
Connectivity data and value-added services	667	604
Base fees	635	677
Other revenue	199	167
Segment Mobile	3,541	3,651
Traffic	200	239
Leased lines	122	147
Intranet Services	140	152
Other revenue Service Business	230	247
Solution Business	338	283
Other revenue	42	55
Segment Solutions	1,072	1,123
Swisscom IT Services	346	249
Swisscom Broadcast	152	150
Accarda	118	115
Antenna Hungária	162	26
Hospitality Services	58	31
Other	4	–
Segment Other	840	571
Swisscom Immobilien AG	66	63
Swisscom AG	4	5
Segment Corporate	70	68
Total net revenue	9,653	9,732

Swisscom net revenue mainly comprises of services. Details of Swisscom's business activities are contained in Note 5.

7 Goods and services purchased

CHF in millions	2006	2005
Raw material and supplies	24	16
Purchased services	214	110
Customer premises equipment and trade goods	630	584
National traffic fees	533	496
International traffic fees	439	625
Total goods and services purchased	1,840	1,831

8 Personnel expenses

CHF in millions	2006	2005
Salaries and wages	1,741	1,625
Termination benefits	14	39
Salaries and wages of employment company Worklink	82	68
Social security expenses	166	145
Pension cost. See Note 10.	175	185
Share-based payment. See Note 9.	17	16
Other personnel expenses	83	95
Total personnel expenses	2,278	2,173

Workforce reduction programs

Swisscom supports the personnel affected by workforce reduction mainly through two programs incorporated in a social compensation plan – the outplacement program PersPec and the employment company Worklink AG.

Outplacement program PersPec

In the outplacement program, employees are trained for new jobs and receive assistance in finding new employment within or outside the Swisscom Group. The length of the outplacement program depends on age, years of service and the relevant social plan. At the end of 2006, 111 full-time equivalent employees participated in the program (previous year: 291). In connection with this program, Swisscom incurred expenses of CHF 20 million in 2006 (previous year: CHF 42 million). The amount of the expense relates only to the costs for those employees who are not expected to continue working for Swisscom.

Employment company Worklink AG

Depending on age, years of service and the relevant social plan, certain employees who are affected by the workforce reduction measures are entitled to transfer to Worklink AG within the framework of the outplacement program. The social plan allows most of the employees to remain in Worklink AG until the age of 60, after which they are eligible for early retirement.

Worklink seeks to hire these employees out to third parties on a temporary basis. The employees receive an average of approximately 70% of their final salary from Swisscom. The total wages and social security payments for these employees were CHF 82 million in 2006 (previous year CHF 68 million). This includes the expenditure for the time spent in the outplacement program before their transfer to the employment company. Under IAS 37 „Provisions, Contingent Liabilities and Contingent Assets“ these costs do not qualify for the recognition of a provision because the employment relationship with the employees has not been terminated.

9 Share-based payment

CHF in millions	2006	2005
Expenditure for TopShare	13	11
Expenditure for Management Incentive Plan (MIP)	5	5
Adjustment from previous year	(1)	–
Total expenditure for share-based payment	17	16

Swisscom offers two share-based payment plans to its employees, management, members of the Executive Board, and Board of Directors: the share purchase scheme TopShare and the Management Incentive Plan (MIP).

TopShare

TopShare is a voluntary share purchase scheme available to all employees except management, members of the Executive Board and Board of Directors. Each year, employees may purchase up to ten shares at preferential conditions, below the market price. In 2006, 8,323 employees participated in this share purchase scheme (previous year: 8,223). The shares purchased are subject to a one-year blocking period from the grant date, after which they can be freely disposed of. The shares are vested upon grant date. The difference between the market value and the consideration received from employees is recognized under personnel expenses.

The market and offering price, the number of shares allocated and the expense recorded are:

Year of allocation	Number of allocated shares	Market price in CHF	Offering price in CHF	Cost in CHF millions
2006	78,521	418	250	13
2005	76,882	447	300	11

Management Incentive Plan (MIP)

The MIP is available for members of management, whereby they can voluntarily invest 25% of their annual bonus. For members of management who participate in this program, Swisscom makes a contribution of 50% of the amount invested by management. Members of the Board of Directors and Executive Board also participate in this program and must invest annually 25% of their compensation or bonus in this program, respectively. The shares are subject to a blocking period of three years from the grant date. The shares are vested upon grant date and are allocated based on their tax value. In 2006, allocated shares are the following:

Participant	Number of allocated shares	Market price in CHF	Offering price in CHF	Cost in CHF millions
Board of Directors	1,434	418	355	0.1
Group Executive Board	2,398	418	355	0.2
Management	23,013	418	222	4.5
Total	26,845	418	241	4.8

In 2005, allocated shares are the following:

Participants	Number of allocated shares	Market price in CHF	Offering price in CHF	Cost in CHF millions
Board of Directors	1,386	447	368	0.1
Group Executive Board	2,158	447	368	0.2
Management	22,199	447	226	4.9
Total	25,743	447	246	5.2

10 Retirement benefits

Swisscom mainly has two defined benefit pension plans: „comPlan“ and „Altrentner PUBLICA“.

comPlan

The majority of Swisscom's employees are insured for the risks of old age, death, and disability by Swisscom's own pension plan comPlan.

Under this plan the retirement benefit is determined by the amount in the employee's retirement savings account at the time of retirement. The annual pension is calculated by multiplying the retirement savings account by a conversion rate at the time of retirement. If an employee retires at the regular retirement age of 65, the savings account is converted into a retirement pension at a rate of 7.2%.

Due to longer life expectancies and lower expected yields the conversion rate will be gradually reduced by the year 2010 to 6.8%. Employees qualify for early retirement at the earliest on their 58th birthday which results in an accordingly decrease of the conversion rate.

Employees may choose to take their entire pension or part of it in the form of a capital payment.

The normal employer contributions include risk contributions of 3% and credits to the employee's retirement savings account of 5% to 13% of the insured salary depending on age. In addition, Swisscom has also committed to pay additional contributions to comPlan for the period 2006 to 2010 in order to build up reserves for the fluctuation in asset value.

On November 22, 2005, the trustees of comPlan decided to make various amendments to the plans, which became effective on January 1, 2006. Before the amendment around 4,200 employees were insured with the „Leistungsprimatplan“ portion (final salary plan) of the comPlan. Under this old plan, the retirement benefit was determined based on the last insured salary. As part of the amendment, these employees were transferred to the „Duoprimatplan“ portion (cash balance plan) of the comPlan which resulted in lower future pension benefits to the affected employees. By way of compensation for this reduction in pension benefits, Swisscom made an one-off payment of CHF 288 million by the end of 2005, which amount was credited to individual employee accounts in 2006.

In addition, Swisscom has also committed to pay additional contributions of 3.0% of the total insured salary to comPlan for a period of five years from 2006 to 2010 in order to build up reserves for the fluctuation in asset value. The contributions to build up these reserves will be approximately CHF 250 million. However, should comPlan's return on plan assets be sufficient to build up this reserve, Swisscom's additional contributions can be used to fund the regular employer contributions or other pension benefits. The plan amendments resulted in a net decrease in the pension obligation of CHF 104 million. Starting in 2006, the reduction in the pension obligation is amortized as past service costs on a straight line basis over the average period until the benefits become vested.

Retired employees of PUBLICA („Altrentner PUBLICA“)

Effective January 1, 1999, all Swisscom employees who were members of PUBLICA (former PKB), the pension plan of the Swiss Government, were transferred to the new pension scheme comPlan. All retired employees at that date remained members of PUBLICA. Swisscom settled the obligation relating to these retired employees as at December 31, 1998, but retained in accordance with a contract with the Swiss Government an obligation for pension indexation. In accordance with this contract, Swisscom must pay PUBLICA the difference between the actual return on plan assets and the Swiss Government prescribed discount rate and, in addition, an administration charge. At January 1, 2005, a new legislation was introduced to abolish the previously guaranteed annual pension increases. In the future, the Swiss Government will determine the pension increase on an annual basis. Swisscom expects an annual increase in the indexation obligation of 0.5% in order to calculate this contractual obligation. The pension obligation for future pension payments is gross CHF 3,535 million as at December 31, 2006 (prior year CHF 3,743 million) including CHF 177 million (prior year CHF 190 million) related to the pension indexation and administration charge. The pension obligation recognized by Swisscom includes only future pension indexation and administration charge as Swisscom does not bear any of investment or demographic risks. Swisscom uses the gross defined benefit obligation in the amount of gross CHF 3,535 million as a basis to determine the corridor for amortizing the unrecognized actuarial gains or losses. The unrecognized actuarial gains included in the present value of PUBLICA's pension obligation are CHF 126 million as at December 31, 2006. These actuarial gains are within the 10% corridor and are therefore not amortized.

Pension cost and status of pension plans

Pension cost and status of pension plans are presented in the table below:

CHF in millions	2006	2005
Current service cost	198	174
Interest cost	206	224
Expected return on plan assets	(250)	(234)
Amortization of past service costs	(4)	11
Amortization of actuarial loss	25	10
Net pension cost	175	185

The development of comPlan's assets and defined benefit obligation is presented in the table below:

CHF in millions	2006	2005
Defined benefit obligation		
At beginning of year	7,801	7,072
Service cost on benefits earned	198	174
Interest cost on projected defined benefit obligation	201	218
Contribution of plan participants	121	111
Benefits paid	(299)	(257)
Actuarial loss	58	587
Plan amendments	8	(104)
Change in scope of consolidation	77	–
Defined benefit obligation at end of year	8,165	7,801
Plan assets		
At beginning of year	6,264	5,209
Expected return on plan assets	250	234
Employer contributions	283	498
Contribution of plan participants	121	111
Benefits paid	(299)	(257)
Actuarial gain	72	469
Change in scope of consolidation	54	–
Plan assets at end of year	6,745	6,264
Defined benefit obligation in excess of plan assets	1,420	1,537
Unrecognized actuarial losses	(1,012)	(1,051)
Unrecognized past service costs	8	20
Defined benefit obligation in the balance sheet	416	506

Changes in defined benefit obligations recognized are presented in the table below:

CHF in millions	2006	2005
Movement in the obligation recognized in the balance sheet		
At beginning of year	805	1,118
Net pension cost	175	185
Contributions paid	(284)	(498)
Change in scope of consolidation	23	–
Balance at end of year	719	805

The development of Publica's defined benefit obligation is presented in the table below:

CHF in millions	2006	2005
Defined benefit obligation		
At beginning of year	190	187
Interest cost on projected defined benefit obligation	5	6
Benefits paid	(1)	(1)
Actuarial gain	(17)	(2)
Defined benefit obligation at end of year	177	190
Defined benefit obligation in excess of plan assets	177	190
Unrecognized actuarial gains	126	109
Defined benefit obligation in the balance sheet	303	299

At December 31, 2006, unrecognized actuarial losses in comPlan of net CHF 1,012 million (previous year CHF 1,051 million) exceeded the 10% of the present value of the defined benefit obligation. The excess amount of CHF 198 million (previous year: CHF 271 million) will be recognized as a pension expense over the expected average remaining service life of the employees. The average remaining service life per employee is 11.0 years (previous year 11.1 years).

In 2007, Swisscom expects to pay ordinary employer contributions of CHF 293 million into the pension plans including CHF 50 million to build a reserve for fluctuation in asset value.

The plan assets include Swisscom AG shares with a fair value of CHF 3.4 million (previous year CHF 4.5 million). The effective return on plan assets was CHF 322 million (previous year CHF 703 million).

The table below presents a breakdown of the various types of investment in which comPlan assets are invested as well as the investment strategy:

	Target	31.12.2006	31.12.2005
Debt instruments (bonds)	60.0%	59.1%	57.3%
Equity instruments (shares)	25.0%	27.7%	30.4%
Cash and cash equivalents and other assets	7.5%	6.0%	5.5%
Real estate	7.5%	7.2%	6.8%
Total plan assets	100.0%	100.0%	100.0%

Assumptions of actuarial calculations

The following significant weighted average assumptions were used in the actuarial calculation:

	2006	2005
Assumptions of comPlan		
Discount rate at December 31	2.54%	2.6%
Rate of increase in compensation levels	2.3%	2.3%
Long-term rate of return on plan assets	3.9%	3.9%
Rate of increase in pension	0.5%	0.5%
Assumptions of PUBLICA		
Discount rate at December 31	2.54%	2.6%
Rate of increase in pension	0.5%	0.5%

Additional information about defined benefit obligations and plan assets

The table below presents the carrying amount of the defined benefit obligations and plan assets shown in the balance sheet as well as adjustments made during the current year and in the past four years on the basis of experience:

CHF in millions	2006	2005	2004	2003	2002
Defined benefit obligation	(8,342)	(7,991)	(7,259)	(6,903)	(6,726)
Plan assets	6,745	6,264	5,209	4,893	4,559
Defined benefit obligation in excess of plan assets	(1,597)	(1,727)	(2,050)	(2,010)	(2,167)
Experience adjustments of defined benefit obligation	15	22	(6)	50	59
Experience adjustments of plan assets	72	469	64	114	(443)

11 Other operating expenses

CHF in millions	2006	2005
Rent	187	214
Maintenance	213	208
Loss on disposal of fixed assets	19	22
Energy costs	77	73
Information technology cost	178	161
Advertising and promotion	171	174
Commissions	254	235
Contractors and consultancy expenses	285	258
Allowance for bad debts	39	37
Provision for proceedings relating to interconnection	180	–
General and administration	168	174
Other operating expenses	273	261
Total other operating expenses	2,044	1,817

For further information about the provision for interconnection proceedings see Note 27.

12 Capitalized costs and other income

CHF in millions	2006	2005
Capitalized cost	192	159
Gain on sale of property, plant and equipment	27	38
Income from employment company Worklink (personnel hire)	17	15
Other income	60	48
Total capitalized cost and other income	296	260

Capitalized costs include personnel costs for the installation of technical equipment, the construction of network infrastructure and the development of software for internal use.

The release of the deferred gain from the sale and leaseback of real estate amounting to CHF 2 million (previous year CHF 2 million) is included in other income.

13 Financial income and expense

CHF in millions	2006	2005
Financial income		
Interest income	117	135
Dividends	6	8
Gain on sale of other financial assets	63	16
Present value adjustment on provisions	–	25
Impairment reversal on loans	–	14
Reversal of provision for cross-border tax lease arrangements	–	24
Foreign exchange gain	–	20
Other financial income	3	–
Total financial income	189	242
Financial expense		
Interest expense	(144)	(141)
Present value adjustment on provisions	(11)	(10)
Interest on provision for Interconnection proceedings	(75)	(4)
Impairment on available-for-sale investments	–	(5)
Foreign exchange loss	(8)	–
Other financial expenses	(2)	–
Total financial expense	(240)	(160)
Financial income and financial expense, net	(51)	82

In 2006, most of the financial assets available for sale were sold for a total of CHF 443 million. The gains and losses of CHF 63 million which have been recorded in equity since the acquisition of these financial assets have been removed from other reserves and recorded as financial income.

For further information about the interest recorded in connection with interconnection proceedings see Note 27.

Swisscom records a provision for the dismantlement of analog transmitter stations, which is based on the present value of future estimated costs. In 2005, Swisscom adjusted the costs and remaining useful life following a strategic revaluation of the analog transmitter stations, which resulted in an impact of CHF 25 million to the income statement and was recorded as financial income. See Note 27.

The impairment charge of CHF 5 million in 2005 resulted from the write-off of the outstanding stake in Swiss International Airlines Ltd.

Between 1996 and 2002, Swisscom entered into cross-border tax lease arrangements and committed to meet minimum credit ratings on the financial assets. Shortly before the end of 2004, the credit rating of some financial assets was downgraded by the rating agencies such that they dropped below the minimum rating agreed in the contracts. The cash value needed to restore the contractually agreed rating was estimated at CHF 34 million and a provision was recognized for this purpose at the end of 2004. In the third quarter of 2005, the minimum credit ratings had been finally restored at the expense of CHF 10 million. The unused provision of CHF 24 million could therefore be reversed. See Note 25.

Net interest expense was as follows

CHF in millions	2006	2005
Interest income	117	135
Interest expense	(144)	(141)
Net interest expense	(27)	(6)

14 Income tax expense

CHF in millions	2006	2005
Current income tax expense	484	429
Adjustments of current tax expense of previous years	(1)	(4)
Deferred income tax (income) expense	(21)	110
Total income tax expense	462	535

In addition to the amount recorded in the income statement, deferred income tax of CHF 2 million (previous year CHF 1 million) was recorded in equity on adjustments of the fair value of hedging instruments. See Note 30.

The applicable income tax rate to be used in the following analysis of income tax expense is the weighted-average statutory tax rate calculated on the basis of the operative companies in Switzerland. The applicable income tax rate fell year-on-year by 0.2% to 22.1%. The drop is a result of lower tax rates in various Swiss cantons.

Reconciliation between the income tax expense calculated on the basis of the applicable income tax rate and the income tax expense in the income statement is as follows:

CHF in millions	2006	2005
Income before income taxes	2,331	2,872
Applicable income tax rate	22.1%	22.3%
Income tax expense at the expected tax rate	515	640
Reconciliation to the effective income tax expense		
Effect from share of profit of affiliated companies	(7)	(7)
Effect of deferred taxes due to change in tax rate	9	(2)
Effect of use of different income tax rates	(54)	(83)
Effect of tax losses not recognized	28	11
Effect of recognition and offset of tax losses not recognized in prior years	(9)	(12)
Effect of income tax of other periods	1	(4)
Effect of non-taxable income	(21)	(8)
Total income tax expense	462	535
Effective income tax rate	19.8%	18.6%

Current and deferred income tax assets and liabilities are offset when they relate to the same tax authority and tax subject. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

CHF in millions	2006	2005
Balance at beginning of year	224	342
Income tax expense	483	425
Income taxes paid	(496)	(544)
Change in scope of consolidation	2	–
Currency conversion adjustments	–	1
Current tax liabilities, net	213	224
Thereof current tax assets	4	5
Thereof current tax liabilities	(217)	(229)

Changes in the deferred income tax assets and liabilities shown in the balance sheet are as follows:

CHF in millions	Property, plant and equipment	Pension obligation	Other non-current liabilities	Tax losses	Other	Total
Balance at December 31, 2004	(266)	129	(62)	76	(23)	(146)
Recognized in income statement	(2)	(31)	8	(51)	(34)	(110)
Recognized in equity	–	–	–	–	(1)	(1)
Change in scope of consolidation	(13)	–	–	–	(7)	(20)
Balance at December 31, 2005	(281)	98	(54)	25	(65)	(277)
Recognized in income statement	29	(20)	2	2	8	21
Recognized in equity	–	–	–	–	(2)	(2)
Change in scope of consolidation	–	6	–	4	(8)	2
Currency translation adjustments	–	–	–	–	(1)	(1)
Balance at December 31, 2006	(252)	84	(52)	31	(68)	(257)

Of the outstanding net deferred income tax balance, CHF 93 million (previous year CHF 84 million) are presented as assets and CHF 350 million (previous year CHF 361 million) as liabilities.

Deferred income tax assets relating to tax loss carry-forwards not yet used and deductible temporary differences are recognized if it is probable that they can be offset against future taxable profits or other temporary differences. In 2006, various subsidiaries capitalized CHF 4 million (previous year CHF 6 million) since it is foreseeable that loss carry-forwards will be offset against future taxable profits or other temporary differences. Furthermore, tax loss carry-forwards and other temporary differences of CHF 42 million (previous year CHF 42 million) were capitalized at subsidiaries that presented a loss in 2005 or 2006. On the basis of the approved business plans of these subsidiaries, Swisscom considers it probable that the future taxable profits or other temporary differences can be offset against future taxable profits.

Tax losses carry-forwards and other temporary differences on which no deferred income tax assets were capitalized amounted to:

CHF in millions	31.12.2006	31.12.2005
Expiration within one year	2	3
Expiration within 1 to 2 years	1	10
Expiration within 2 to 3 years	6	36
Expiration within 3 to 4 years	41	25
Expiration within 4 to 5 years	43	23
Expiration within 5 to 6 years	47	42
Expiration within 6 to 7 years	56	46
Expiration without limitation	148	57
Total tax losses carry-forwards not recognized	344	242
Other temporary differences not recognized without expiration	7	11
Total tax losses and other temporary differences not recognized	351	253

Other non-capitalized deductible temporary differences primarily include pension obligations.

15 Earnings per share

Basic earnings per share are calculated by dividing net income attributable to equity holders of Swisscom AG by the weighted average number of shares outstanding, excluding treasury stock.

CHF in millions, except where indicated	2006	2005
Net income attributable to equity holders of Swisscom AG	1,599	2,022
From continuing operations	1,563	2,013
From discontinued operations	36	9
Weighted-average number of ordinary shares issued (number)	55,299,323	59,835,529
Basic earnings per share (in CHF)	28.92	33.79
From continuing operations	28.27	33.64
From discontinued operations	0.65	0.15

The weighted-average number of outstanding shares was adjusted in 2006 und 2005 by the treasury stock acquired within the scope of share buybacks. See Note 30.

Swisscom has no stock options and appreciation rights outstanding which led to a dilution of earnings per share.

16 Cash and cash equivalents

CHF in millions	31.12.2006	31.12.2005
Cash deposits	618	651
Term deposits with maturity within 90 days	55	372
Total cash and cash equivalents	673	1,023

The weighted-average effective interest rate on short-term deposits was 1.18% (previous year 0.67%). The average maturity for these deposits was 40 days (previous year 34 days).

Cash and cash equivalents are held in the following currencies: CHF 567 million (previous year CHF 958 million), euro CHF 58 million (previous year CHF 56 million), US dollar CHF 18 million (previous year CHF 7 million), and other currencies CHF 30 million (previous year CHF 2 million).

Cash and cash equivalents of CHF 41 million could not be freely disposed of as at December 31, 2006, as they have been pledged to secure obligations from cross-border tax lease agreements.

17 Trade accounts receivable and other receivables

CHF in millions	31.12.2006	31.12.2005
Billed revenue	1,865	1,852
Accrued revenue	293	166
Allowance for bad debts	(149)	(158)
Total trade accounts receivable, net	2,009	1,860
Receivables from collecting activities (Accarda Group)	412	409
Receivables from construction contracts	14	9
Accrued income	10	–
Other receivables	21	19
Allowance for bad debts	(30)	(19)
Total other receivables	427	418
Total trade accounts receivable and other receivables	2,436	2,278

Trade accounts receivable are mainly receivables in Swiss francs.

Allowance for bad debts

Allowance for bad debts is as follows:

CHF in millions	Trade accounts receivable	Other receivables
Balance at December 31, 2004	168	13
Bad debt expense	72	13
Amounts written off	(48)	(7)
Reversal	(40)	–
Change in scope of consolidation	6	–
Balance at December 31, 2005	158	19
Bad debt expense	56	26
Amounts written off	(42)	–
Reversal	(23)	(15)
Balance at December 31, 2006	149	30

Allowance for bad debt on trade accounts receivable includes allowances of CHF 57 million (previous year CHF 57 million) on receivables in connection with interconnection proceedings. See Note 27. Allowance for bad debt on other receivables include CHF 27 million (previous year CHF 19 million) on allowances for receivables from collection activities.

Construction contracts

Information on construction contracts is as follows:

CHF in millions	2006	2005
Contract revenue in period	60	30
Contract cost of current period	65	24
Recognized gains less losses	(29)	(3)
Contract cost including gains, net at end of period	36	21
Less prepayments	(51)	(19)
Total net receivables (liabilities) from construction contracts	(15)	2
Thereof receivables from construction contracts	14	9
Thereof liabilities from construction contracts	(29)	(7)
Received prepayments	10	6

18 Other financial assets

CHF in millions	Loans and receivables	Held-to-maturity investments	Available-for-sale investments	Derivative financial instruments	Total
Balance at December 31, 2004	906	1,065	572	17	2,560
Additions	1,133	110	68	8	1,319
Disposals	(793)	(200)	(250)	(16)	(1,259)
Fair value adjustments	–	–	58	5	63
Impairment reversal on loans	14	–	–	–	14
Currency translation adjustments	–	150	–	–	150
Balance at December 31, 2005	1,260	1,125	448	14	2,847
Additions	267	86	11	–	364
Disposals	(1,362)	(1)	(443)	(3)	(1,809)
Fair value adjustments	–	–	(8)	(3)	(11)
Currency translation adjustments	–	(85)	–	–	(85)
Balance at December 31, 2006	165	1,125	8	8	1,306
Less current portion	(136)	–	(4)	(2)	(142)
Total other non-current financial assets	29	1,125	4	6	1,164

Other financial assets are held in the following currencies: CHF 192 million (previous year CHF 1,440 million), euro CHF 2 million (previous year CHF 140 million), US dollar CHF 1,111 million (previous year CHF 1,226 million) and other currencies CHF 1 million (previous year CHF 41 million).

Loans and receivables

CHF in millions	31.12.2006	31.12.2005
Term deposits with maturity after 90 days	133	1,223
Other loans and receivables	32	37
Total loans and receivables	165	1,260

In order to secure liabilities in connection with cross-border tax lease arrangements, fixed-term assets totaling CHF 133 million could not be freely disposed of on December 31, 2006.

In 2004, in connection with the sale of the discontinued operation (debitel) Swisscom granted the buyer vendor loan notes with a total value of EUR 210 million. The loan was initially recognized as fair value and subsequently the effective interest method was applied. The purchaser prematurely repaid the entire loan in the first half year of 2005. The payment of CHF 351 million includes the repayment of the nominal value of the loan and the contractually agreed accrued interest. A gain of CHF 59 million resulted from the early repayment of these loans and was recorded under discontinued operation (debitel).

Financial assets held-to-maturity

Financial assets held-to-maturity as at December 31, 2006 include solely financial assets from cross-border tax lease arrangements. See Note 25.

Available-for-sale financial assets

CHF in millions	31.12.2006	31.12.2005
Shares	–	269
Bonds	–	89
Other investments	8	90
Total available-for-sale financial assets	8	448

In 2006, securities traded on the stock exchange were sold for a total of CHF 443 million. The gains and losses of CHF 63 million, which have been recorded in equity since the acquisition of these securities, have been removed from other reserves under equity and recorded as financial income. In 2005, the investments in Infonet und Intelsat were sold for CHF 229 million. A gain of CHF 16 million was made on the disposals and was recorded in financial income.

The impairment charge of CHF 5 million in 2005, resulted from the write-off of the outstanding stake in Swiss International Airlines Ltd.

Derivative financial instruments

CHF in millions	31.12.2006	31.12.2005
Derivatives related to cross-border tax lease arrangements	6	12
Other derivative financial instruments	2	2
Total derivative financial instruments	8	14

Derivative financial instruments comprise cross-currency interest rate swaps, interest rate swaps, and forward exchange contracts. See Note 31.

19 Inventories

CHF in millions	31.12.2006	31.12.2005
Raw material and supplies	54	68
Customer premises equipment and trade goods	123	87
Unfinished and finished goods	22	15
Prepayments	1	3
Total inventories, gross	200	173
Allowance for obsolete and slow-moving items	(53)	(53)
Total inventories, net	147	120

In 2006, inventory totaling CHF 654 million (previous year CHF 594 million) was recorded as expense. Goods and services purchased in 2005 includes a net increase in the provision for obsolete and slow moving items of CHF 6 million.

20 Other non-financial assets

CHF in millions	31.12.2006	31.12.2005
Accrual for prepaid expense	80	60
Other assets	55	40
Total other current assets	135	100
Accrual for prepaid expense	15	17
Other assets	27	17
Total other non-current assets	42	34

21 Non-current assets held for sale

Non-current assets held for sale include the carrying amount of real estate of CHF 19 million (previous year CHF 5 million) which is expected to be sold in the next twelve months. The scheduled sale is part of Swisscom Immobilien AG's plan to optimize its use of buildings.

In 2006, non-current assets held for sale were sold for a total of CHF 24 million (previous year CHF 33 million). The gain of CHF 17 million from the sales (previous year CHF 30 million) is recorded under capitalized costs and other income.

22 Property, plant and equipment

CHF in millions	Land and buildings	Technical equipment	Vehicles and other equipment	Prepayments and assets under construction	Total
At cost					
Balance at December 31, 2004	2,879	19,722	2,192	362	25,155
Additions	11	385	167	334	897
Adjustment of dismantlement and restoration costs	–	27	–	–	27
Disposals	(20)	(834)	(162)	–	(1,016)
Reclassification as non-current assets held for sale	(27)	–	–	–	(27)
Other reclassifications	1	182	136	(333)	(14)
Change in scope of consolidation	73	117	20	27	237
Currency translation adjustments	1	6	1	–	8
Balance at December 31, 2005	2,918	19,605	2,354	390	25,267
Additions	18	429	165	479	1,091
Disposals	(24)	(1,102)	(131)	–	(1,257)
Reclassification as non-current assets held for sale	(51)	–	–	–	(51)
Other reclassifications	13	231	259	(474)	29
Change in scope of consolidation	–	1	3	–	4
Currency translation adjustments	5	11	4	–	20
Balance at December 31, 2006	2,879	19,175	2,654	395	25,103
Accumulated depreciation					
Balance at December 31, 2004	2,079	15,424	1,462	–	18,965
Depreciation	36	1,026	224	–	1,286
Disposals	(15)	(805)	(140)	–	(960)
Reclassification as non-current assets held for sale	(22)	–	–	–	(22)
Other reclassifications	1	–	(7)	–	(6)
Currency translation adjustments	–	3	1	–	4
Balance at December 31, 2005	2,079	15,648	1,540	–	19,267
Depreciation	41	967	272	–	1,280
Disposals	(18)	(1,083)	(118)	–	(1,219)
Reclassification as non-current assets held for sale	(32)	–	–	–	(32)
Other reclassifications	–	1	(1)	–	–
Currency translation adjustments	1	8	3	–	12
Balance at December 31, 2006	2,071	15,541	1,696	–	19,308
Net book value					
At December 31, 2006	808	3,634	958	395	5,795
At December 31, 2005	839	3,957	814	390	6,000
At December 31, 2004	800	4,298	730	362	6,190

Property, plant and equipment includes:

CHF in millions	31.12.2006	31.12.2005
Technical equipment acquired under finance leases		
At cost	566	566
Accumulated depreciation	(545)	(506)
Net book value	21	60
Buildings relating to the sales leaseback		
At cost	957	957
Accumulated depreciation	(520)	(506)
Net book value	437	451

For further information on adjustments for costs of dismantlement and restoration see Note 27.

23 Goodwill and other intangible assets

CHF in millions	Goodwill	Internally generated software	Other intangible assets	Prepayments	Total
At cost					
Balance at December 31, 2004	153	257	257	87	754
Additions	–	17	63	110	190
Disposals	–	(10)	(6)	–	(16)
Reclassifications	–	10	86	(82)	14
Change in scope of consolidation	160	3	54	–	217
Currency translation adjustments	2	–	1	–	3
Balance at December 31, 2005	315	277	455	115	1,162
Additions	–	13	95	125	233
Disposals	–	(9)	(15)	–	(24)
Purchase price adjustments	(10)	–	–	–	(10)
Reclassifications	–	24	70	(95)	(1)
Change in scope of consolidation	165	1	70	–	236
Acquisition of minority interests	3,693	–	–	–	3,693
Currency translation adjustments	6	–	3	–	9
Balance at December 31, 2006	4,169	306	678	145	5,298
Accumulated amortization					
Balance at December 31, 2004	–	200	138	–	338
Amortization	–	38	70	–	108
Disposals	–	(8)	(4)	–	(12)
Reclassifications	–	–	6	–	6
Balance at December 31, 2005	–	230	210	–	440
Amortization	–	29	126	–	155
Disposals	–	(9)	(15)	–	(24)
Currency translation adjustments	–	–	1	–	1
Balance at December 31, 2006	–	250	322	–	572
Net book value					
At December 31, 2006	4,169	56	356	145	4,726
At December 31, 2005	315	47	245	115	722
At December 31, 2004	153	57	119	87	416

There are no accumulated impairments on goodwill. Goodwill from the acquisition of affiliated companies is disclosed under investments in affiliated companies.

The goodwill from the acquisition of minority interests is attributable to the repurchase of the 25% share in Swisscom Mobile. See Note 29.

Impairment test of goodwill

Goodwill is allocated to the cash generating units of Swisscom. Allocation of goodwill to the cash-generating units is as follows:

CHF in millions	31.12.2006	31.12.2005
Swisscom Mobile	3,693	–
Antenna Hungária	134	138
Swisscom IT Services	156	96
Hospitality Services	32	20
Other cash generating units	154	61
Total goodwill	4,169	315

Apart from goodwill, there are no intangible assets with indefinite useful lives.

The value of goodwill was tested in the fourth quarter after business planning had been completed. With the exception of Antenna Hungária, the recoverable amount of the cash-generating unit was calculated on the basis of value in use, using the discounted cash flow (DCF) method. Future cash flows were forecasted in line with the three-year business plan approved by the Board of Directors. The terminal value of free cashflows was calculated using a indefinite growth rate.

The recoverable amount of the cash-generating unit for Antenna Hungária is based on the fair value less costs to sell. Neither a market price, nor any information about transactions for similar companies in the same industry exist that could be used as a basis to calculate the fair value of Antenna Hungária. As a result, the value of Antenna Hungária was calculated using the DCF method. The impairment test for Antenna Hungária was based on a seven-year detailed business plan. The launch of the digital broadcasting network (DVB-T) for business and residential customers and shutdown of the analog network is scheduled for completion in 2012. Cash flows up to 2012 are primarily influenced by the change in technology. The values in the business plan for 2013 are considered to be a reliable basis for calculating the terminal value. The impairment test did not lead to any impairment of goodwill in 2006. The recoverable amount exceeds the net book amount by CHF 99 million. A key assumption is the expected cash flow from the launch of DVB-T and DVB-H for residential customers. The share of these new business activities in the recoverable amount totals CHF 155 million. In the business plan, calculations are based on a yield higher than the capital costs. If the capital costs after tax increased by 2.5%, the recoverable amount would fall by CHF 144 million and would then be CHF 45 million below the net book value.

The calculation is based on the following assumptions:

in %	WACC pre-tax	WACC post-tax	long-term growth rate
Swisscom Mobile	9.2	7.3	0.5
Antenna Hungária	12.2	9.0	1.5
Swisscom IT Services	8.5	6.9	1.0
Hospitality Services	16.6	13.7	1.0
Other cash generating units	7.5 to 15.2	5.6 to 12.9	-1.0 to 1.0

The application of pre-tax or post-tax discount rates (WACC pre-tax and WACC post-tax) both result in the same value in use. The discount rates used take into consideration the special risks of the cash-generating unit in question.

The growth rates applied in order to calculate cash flows beyond the business plan are the growth rates normally assumed for the country or market.

24 Investments in affiliated companies

CHF in millions	2006	2005
Net carrying amount		
Balance at beginning of year	191	58
Additions	12	137
Disposals	(5)	(8)
Dividends received	(9)	(9)
Share of profit	30	13
Currency translation adjustments	2	–
Balance at end of year	221	191

Additions and share of profit of affiliated companies

Acquisition of a 40% stake in the Medgate Group, Switzerland

On February 9, 2006, Swisscom acquired a 40% stake in Medgate Holding AG. Since its foundation in 1999 Medgate has become the leading Swiss center in the field of telemedicine.

Acquisition of a 30% stake in Sportradio.ch AG (Switzerland)

On December 22, 2006, Swisscom acquired a 30% stake in Sportradio.ch AG. Sportradio is a radio station for sports broadcasts, operating in Switzerland.

Transfer of international carrier business (Belgium)

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, valued at CHF 36 million, into the newly found company in return for the 28% of the share capital. Swisscom Fixnet still records 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.

Acquisition of a 49% stake in Cinetrade (Switzerland)

On April 8 2005, 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.

In addition to the above, the share of profit of affiliated companies comprises Swisscom's share of net income from PubliDirect and AUCS Communications Services. A list of the subsidiaries, affiliated companies and joint ventures is presented in Note 41.

Dividends received

Dividends received totalled CHF 9 million (previous year: CHF 9 million) and are attributable mainly to the dividend paid by PubliDirect.

Selected aggregated key data

The following schedule provides selected aggregated key data of affiliated companies and joint ventures:

CHF in millions	2006	2005
Income statement		
Net revenue	1,899	994
Operating expenses	(1,827)	(960)
Operating income	72	34
Net income	76	27
Balance sheet at end of year		
Current assets	829	758
Non-current assets	295	268
Current liabilities	(703)	(689)
Long-term liabilities	(43)	(48)
Equity	378	289

25 Financial liabilities

CHF in millions	31.12.2006	31.12.2005
Bank loans	1,498	–
Finance lease obligation	43	29
Deferred payments of purchase price of acquisitions	24	105
Other financial liabilities	3	3
Total short-term financial liabilities	1,568	137
Bank loans	2,745	–
Financial liability from cross-border tax lease arrangements	1,459	1,474
Finance lease obligation	594	652
Deferred payments of purchase price of acquisitions	26	3
Derivative financial instruments. See Note 31.	170	142
Other financial liabilities	21	28
Total long-term financial liabilities	5,015	2,299
Total financial liabilities	6,583	2,436

Financial liabilities are held in the following currencies: CHF 4,803 million (previous year CHF 653 million), US Dollar CHF 1,771 million (previous year CHF 1,673 million) and other currencies CHF 9 million (previous year CHF 110 million).

Weighted average interest rates of material financial liabilities in 2006 and 2005 were as follows:

	2006	2005
Bank loans	2.20%	–
Finance lease obligation	6.83%	6.44%
Financial liability from cross-border tax lease arrangements	7.61%	7.69%

Credit requirements for the repurchase of a share of 25% in Swisscom Mobile

On December 20, 2006, Swisscom bought back a share of 25% in Swisscom Mobile from Vodafone for a purchase price of CHF 4,250 million. The transaction was financed by a group of four financing institutions who each provided equal loans. These bank loans will be syndicated in a banking consortium in the first quarter of 2007. The loan is divided into two tranches. The first tranche of CHF 1,500 million has a term of one year with an extension option for one further year. The second tranche of CHF 2,750 million has a term of five years. The bank loans are due for immediate repayment if the capital share of the Confederation in Swisscom drops below 35% or if another shareholder can exercise control over Swisscom.

Financial liabilities from cross-border tax lease arrangements

Between 1996 and 2002, Swisscom entered into cross-border tax lease arrangements, under the terms of which parts of its fixed and mobile networks were to be sold or leased long-term to US Trusts and leased back with terms of up to 30 years. Swisscom has an early buyout option on these assets after a contractually agreed period. The financial liabilities are based on lease and leaseback transactions from the years 1999, 2000, and 2002. The sale and leaseback from the years 1996 and 1997 are presented as finance lease obligations. The finance lease obligations from the year 1996 were repaid in 2005.

Swisscom defeased a major part of the lease obligations through highly rated financial assets and payment undertaking agreements. The financial assets were irrevocably placed with trusts. The payment undertaking agreements were signed with financial institutions with minimal credit risk. In accordance with Interpretation SIC-27 „Evaluating the substance of transactions involving the legal form of a lease“, these financial assets or payment undertaking agreements and the liabilities in the same amount are offset in the balance sheet because the criteria for offsetting assets and liabilities are met. One of the transactions entered into in 2000 does not meet the conditions of SIC-27 and is consequently reported in the balance sheet as a long-term financial asset and a corresponding long-term financial liability.

As of December 31, 2006, the assets and liabilities resulting from these transactions totalled USD 4,092 million (CHF 5,055 million) and USD 3,823 million (CHF 4,721 million), respectively. Of this amount USD 2,947 million (CHF 3,596 million) are not reported in the balance sheet in accordance with SIC-27. Of the liabilities reported in the amount of CHF 1,459 million (previous year CHF 1,474 million), CHF 1,125 million (previous year CHF 1,125 million) are covered by financial assets.

The gains from the transactions were recorded as financial income in the period the transactions were closed.

In the transaction concluded in 2002, Swisscom entered into a contingent liability in favor of the investors. The „Standby-Letter-of-Credit“ issued serves as a security for any financial claim that the investors may assert in the event of the transaction being terminated prematurely due to the fault of Swisscom. A provision has been created for future costs in 2002. Swisscom is obliged to issue further Standby-Letters-of-Credit if the Swiss Confederation gives up its majority shareholding in Swisscom.

In connection with these lease transactions, Swisscom committed to meet minimum credit ratings. Shortly before the end of 2004, the credit rating of some financial assets was reduced by the rating agencies such that they had dropped below the minimum rating agreed in the contracts. Swisscom estimated it would cost CHF 34 million to restore the minimum rating required. As a result, in 2004 a provision was recorded as financial expense. In the third quarter of 2005, the minimum credit ratings could be finally restored at the expense of CHF 10 million. The unused provision of CHF 24 million was therefore reversed.

Future minimum payments resulting from cross-border tax lease arrangements are due as follows:

CHF in millions	31.12.2006	31.12.2005
Within 1 year	303	77
Within 1 to 2 years	116	261
Within 2 to 3 years	18	124
Within 3 to 4 years	129	19
Within 4 to 5 years	117	138
After 5 years	2,920	3,247
Total future minimum lease payments	3,603	3,866
Less future interest charges	(2,234)	(2,396)
Total present value of financial liability from cross-border tax lease arrangements	1,369	1,470
Fair value adjustments	2	4
Accrued interest	88	–
Long-term financial liability from cross-border tax lease arrangements	1,459	1,474

Liabilities from finance leases

The sale and leaseback transactions are reported in the balance sheet as liabilities from finance leases.

In 2001, Swisscom entered into two agreements for the sale of real estate and at the same time entered into long-term agreements to lease back part of the sold property space. A number of the leaseback agreements qualify as finance leases. The gain of CHF 127 million on the sale of these properties has been deferred and will be released to the income statement in other income over the individual lease terms. In 2006, CHF 2 million (previous year CHF 2 million) of the deferred gain were reversed. The minimum lease payments relating to these leaseback agreements are included in the table below. The remaining buildings have been leased back under operating leases over periods ranging from 5 to 20 years. See Note 33. In 2006, contingent rental payments of CHF 2 million (previous year CHF 1 million) were recorded as rental expense.

Future minimum payments relating to these transactions fall due as follows:

CHF in millions	Buildings 31.12.2006	Other 31.12.2006	Buildings 31.12.2005	Other 31.12.2005
Within 1 year	37	46	37	33
Within 1 to 2 years	37	123	37	50
Within 2 to 3 years	37	–	37	133
Within 3 to 4 years	37	–	37	–
Within 4 to 5 years	37	–	37	–
After 5 years	1,323	–	1,361	–
Total future minimum lease payments	1,508	169	1,546	216
Less future interest charges	(1,033)	(12)	(1,064)	(23)
Total present value of finance lease obligation	475	157	482	193
Fair value adjustments	–	–	–	1
Accrued interest	–	5	–	5
Total finance lease obligation	475	162	482	199
Less current portion	(5)	(38)	(6)	(23)
Total long-term finance lease obligation	470	124	476	176

Future payments of the cash value of these finance lease obligations on December 31, 2006 and 2005, were as follows:

CHF in millions	Buildings 31.12.2006	Other 31.12.2006	Buildings 31.12.2005	Other 31.12.2005
Within 1 year	5	38	6	23
Within 1 to 2 years	6	119	6	41
Within 2 to 3 years	6	–	6	129
Within 3 to 4 years	7	–	6	–
Within 4 to 5 years	7	–	7	–
After 5 years	444	–	451	–
Total present value of finance lease obligation	475	157	482	193

26 Trade accounts payable and other payables

CHF in millions	31.12.2006	31.12.2005
Invoices received	656	477
Goods and services received not invoiced	519	460
Total trade accounts payable	1,175	937

CHF in millions	31.12.2006	31.12.2005
Liabilities from collecting activities (Accarda Group)	128	154
Liabilities from construction contracts	29	7
Prepayments	64	41
Other liabilities	297	283
Total other payables	518	485
Total trade accounts payable and other payables	1,693	1,422

Trade accounts payable and other payables are mainly liabilities in Swiss francs.

27 Provisions

CHF in millions	Termination benefits	Dismantlement and restoration costs	Proceedings relating to interconnection	Contract risks	Other	Total
Balance at December 31, 2004	90	337	199	56	166	848
Additional provisions	50	18	67	102	52	289
Present value adjustment	–	10	4	–	–	14
Reversal of unused provisions	(15)	(4)	(7)	(26)	(32)	(84)
Utilized during year	(52)	(1)	–	(27)	(28)	(108)
Change in scope of consolidation	–	–	–	–	4	4
Balance at December 31, 2005	73	360	263	105	162	963
Additional provisions	42	1	247	59	29	378
Present value adjustment	1	9	75	–	1	86
Reversal of unused provisions	(33)	(1)	–	(41)	(30)	(105)
Utilized during year	(25)	–	(101)	(71)	(24)	(221)
Change in scope of consolidation	–	–	–	–	4	4
Balance at December 31, 2006	58	369	484	52	142	1,105
Less current portion	(40)	–	(259)	(39)	(85)	(423)
Total non-current provisions	18	369	225	13	57	682

Provisions for termination benefits

Provisions for termination benefits include costs for the programs defined in the social plans of 2001 and 2006. For further information on termination benefits see Note 8. Long-term provisions are expected to be due in the years 2008 to 2010.

Provisions for dismantlement and restoration costs

Provisions for dismantlement and restoration costs relate to the dismantlement of mobile stations and analog transmitter stations and restoration of property owned by third parties on which the transmitters are located. In 2005, Swisscom adjusted primarily the costs of dismantlement and remaining useful lives following a strategic revaluation of the analog transmitter stations. The dismantlement costs are expected to be incurred mainly after

2020. The present value of the adjustment to the future expected costs was CHF 77 million. The extension of the useful lives resulted in a reduction in the present value of CHF 75 million, of which CHF 50 million were recorded against the corresponding assets and CHF 25 million under financial income. The provision is based on future estimated costs and is discounted using a discount rate of 2.36% (previous year 2.34%). The amount of the present value adjustment arising from the change in the discount rate was CHF 1 million (previous year CHF 1 million). Long-term provisions are expected to be due after 2020.

Provisions for interconnections

Swisscom allows interconnection to its installations and services by 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 in accordance with the long-run incremental costs of providing the service (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 issued new decisions, largely identical with those of November 6, 2003. ComCom reduced Swisscom's interconnection prices for the years 2000 to 2003 by around 30% (depending on the product) and declared a clause included in the interconnection agreement with one of the petitioners, which regulates the effect of decisions by the authorities on parties not involved in the proceedings, as not applicable. Swisscom lodged an appeal 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 cost-oriented prices be fixed on the basis of costs in 2004. The two new petitioners also applied for a retroactive reduction from the year 2000 as well as for the above clause to be included in their interconnection agreements. These proceedings were extended to include interconnection prices for the years 2005 and 2006 and are still pending before ComCom.

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 proceedings that no fault could be found with the clause ordered by ComCom stating that court decisions should be valid for third parties not involved in the proceedings. 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. Overall this did not lead to any significant price changes in comparison with the decisions of June 10, 2005.

Swisscom has recognized provisions for the lower interconnection price ruling for the petitioners by ComCom. 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 approx. CHF 180 million.

Provisions were therefore increased by this amount in the second quarter of 2006. This increase was recorded under other operating expenses in the income statement. In addition the provisions were increased to take into account interest of CHF 75 million whereby this increase in provisions was recorded under net financial result in the income statement. Swisscom thinks that it may be able to avert any further risks in future proceedings. As a result of the federal court ruling Swisscom paid CHF 101 million in 2006. The remaining liabilities are expected to be paid between 2007 and 2011.

Provisions for contractual risks

Provisions for contractual risks relate to possible liabilities in connection with contractual agreements. This includes an amount for the indemnifications provided on the sale of debitel and an amount provided for risks in connection with projects. Long-term provisions are expected to fall due in 2008.

Other provisions

Other provisions include provisions for environmental risks, employee related items as well as other damage claims. Long-term provisions are expected to fall due between 2008 and 2011.

28 Other current and non-current non-financial liabilities

CHF in millions	31.12.2006	31.12.2005
Deferred revenue	158	166
VAT payable	92	107
Withholding tax from share buyback. See Note 32.	–	136
Other non-financial liabilities	33	18
Total current non-financial liabilities	283	427
Deferred gain on sale and leaseback of real estate	115	117
Other non-financial liabilities	29	25
Total non-current non-financial liabilities	144	142

Deferred revenue mainly comprises deferred payments for prepaid cards. The amortization of the deferred gain on sale and leaseback transactions (buildings) over the lease term is recorded under capitalized costs and other income. See Note 12.

29 Repurchase of a share of 25% in Swisscom Mobile AG

On December 20, 2006, Swisscom bought back a minority share of 25% in Swisscom Mobile from Vodafone for CHF 4,258 million including transaction costs of CHF 8 million. On the date of acquisition the carrying amount of Vodafone's minority interest in Swisscom Mobile of CHF 565 million was removed from equity and offset against the purchasing price. The difference of CHF 3,693 million between the carrying amount of the minority interest and the purchase price was recorded as goodwill.

In 2001, Swisscom sold 25% of the shares of Swisscom Mobile AG to Vodafone for CHF 4,450 million. At the time of the disposal, Swisscom entered into a shareholder's agreement with Vodafone for an unlimited period of time. In accordance with the shareholders' agreement, Vodafone had a right to sell its shares in Swisscom Mobile to Swisscom if the Swiss Government sold its controlling shareholding in Swisscom and another party or a group of parties were to obtain control of Swisscom. Control is defined as the power to have a controlling influence on the company. The shareholders' agreement outlined the price to be paid by Swisscom as the proportional fair market value of Swisscom Mobile at the time the sale is agreed.

The Telecommunication Enterprises Act (TUG) stipulates the Swiss Confederation (the „Confederation“) is required to control Swisscom by holding the majority of its capital and voting rights. A change of control of Swisscom was therefore not possible before the time of the repurchase of the outstanding minority share on December 20, 2006, and consequently Vodafone could not exercise its right to sell its shares in Swisscom Mobile. Accordingly, Swisscom did not record a liability based on the guidance in IFRIC 2. Under this guidance the minority interest relating to Vodafone was classified under equity.

30 Equity

Equity attributable to equity holders of Swisscom AG

CHF in millions	Share capital	Additional paid-in capital	Retained earnings	Treasury stock	Other reserves	Attri- butable to equity holders of Swisscom
Balance at December 31, 2004	66	572	8,138	(2,002)	16	6,790
Gains and losses directly recognized in equity, net	–	–	–	–	51	51
Net income attributable to equity holders of Swisscom AG	–	–	2,022	–	–	2,022
Total recognized income and expenses	–	–	2,022	–	51	2,073
Dividend payments	–	–	(861)	–	–	(861)
Share capital reduction	(5)	(180)	(1,816)	2,001	–	–
Share buyback	–	–	–	(2,001)	–	(2,001)
Purchase of treasury stock for share-based payment	–	–	–	(46)	–	(46)
Sale of treasury stock for share-based payment	–	–	–	46	–	46
Balance at December 31, 2005	61	392	7,483	(2,002)	67	6,001
Gains and losses directly recognized in equity, net	–	–	–	–	(45)	(45)
Net income attributable to equity holders of Swisscom AG	–	–	1,599	–	–	1,599
Total recognized income and expenses	–	–	1,599	–	(45)	1,554
Dividend payments	–	–	(907)	–	–	(907)
Share capital reduction	(4)	(22)	(1,975)	2,001	–	–
Share buyback	–	–	–	(2,213)	–	(2,213)
Sale of treasury stock	–	–	–	1	–	1
Purchase of treasury stock for share-based payment	–	–	–	(44)	–	(44)
Sale of treasury stock for share-based payment	–	–	–	44	–	44
Balance at December 31, 2006	57	370	6,200	(2,213)	22	4,436

Share capital and treasury stock

Shares outstanding at December 31, 2006, totalled 56,718,561 shares (previous year 61,482,761 shares). Each share has a par value of CHF 1. All issued shares are fully paid. Each share entitles the holder to one vote. After deduction of treasury stock, shares outstanding at December 31, 2006 totalled 51,801,943 (previous year 56,716,475 shares).

Share buyback

In September 2006, Swisscom acquired 4,916,618 of its own shares or 8% of total shares issued as part of a share buyback 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 of 35% withholding tax per registered share.

Between May and December 2005, Swisscom AG bought back shares for a total of CHF 2 billion. Of this, 35% or CHF 700 million was due in withholding tax. Until December 31, 2005, CHF 564 million had been paid to the tax authorities. The outstanding CHF 136 million was included under other current liabilities in the financial statements and was paid in the first quarter of 2006. At the General Meeting of Shareholders on April 25, 2006, a capital reduction in the amount of the buyback was approved. The capital reduction to 56,718,561 shares was effected in the third quarter of 2006.

Share-based payment

In 2006, shares with a market value totaling CHF 44 million (previous year CHF 46 million) were bought and then sold to Swisscom employees, management and members of the Executive Board and Board of Directors for a total of CHF 27 million (previous year CHF 30 million). The difference of CHF 17 million (previous year CHF 16 million) was included in the income statement under share based payment. See Note 9.

Changes in treasury stock are presented in the table below:

	Number	Average price in CHF	CHF in millions
Balance at December 31, 2004	4,722,927	424	2,002
Purchase	102,760	447	46
Sale	(476)	421	–
Sale of treasury stock in share purchase schemes. See Note 9.	(102,625)	447	(46)
Share capital reduction	(4,720,500)	424	(2,001)
Share buyback	4,764,200	420	2,001
Balance at December 31, 2005	4,766,286	420	2,002
Purchase	105,360	418	44
Sale	(2,069)	416	(1)
Sale of treasury stock in share purchase schemes. See Note 9.	(105,377)	418	(44)
Share capital reduction	(4,764,200)	420	(2,001)
Share buyback	4,916,618	450	2,213
Balance at December 31, 2006	4,916,618	450	2,213

Other reserves

CHF in millions	Hedging reserves	Fair value reserves	Cumulative translation adjustments	Other reserves total
Balance at December 31, 2004	(14)	38	(8)	16
Currency translation adjustments	–	–	8	8
Write-off of translation losses from transfer of international carrier business	–	–	6	6
Fair value adjustments of available-for-sale investments	–	58	–	58
Gain on sale of investment in Intelsat	–	(16)	–	(16)
Impairment of investment in Swiss	–	5	–	5
Write-off of cumulative losses from investment in Swiss	–	(16)	–	(16)
Fair value adjustments of derivative financial instruments	5	–	–	5
Tax effect	(1)	2	–	1
Balance at December 31, 2005	(10)	71	6	67
Currency translation adjustments	–	–	21	21
Fair value adjustments of available-for-sale investments	–	(8)	–	(8)
Gain on sale of available-for-sale investments	–	(63)	–	(63)
Fair value adjustments of derivative financial instruments	7	–	–	7
Tax effect	(2)	–	–	(2)
Balance at December 31, 2006	(5)	–	27	22

The hedging reserves comprise the changes in the fair value of hedging instruments which were designated as cash flow hedges.

The fair value reserves comprise the changes in the fair value of available for sale investments.

Reserves for cumulative translation adjustments comprise the differences from the currency conversion of the financial statements of subsidiaries, affiliated companies and joint ventures from the functional currency into Swiss francs.

Equity attributable to minority equity holders of Swisscom AG

CHF in millions	2006	2005
Balance at beginning of year	623	663
Net income attributable to minority interests	306	324
Dividends paid	(297)	(367)
Change in scope of consolidation. See Note 4.	–	3
Reduction of minority interests	(565)	–
Balance at end of year	67	623

On December 20, 2006, Swisscom acquired the minority share of 25% in Swisscom Mobile held by Vodafone for CHF 4,258 million. On the date of acquisition the carrying amount of this minority interest amounted to CHF 565 million. The difference between the purchase price and the carrying amount of CHF 3,693 million was presented as goodwill. In 2006, a dividend of CHF 285 million (previous year CHF 358 million) was paid to Vodafone.

31 Financial instruments

Financial risk management

Swisscom's activities expose it to a variety of financial risks, including the effects of foreign currency risks and interest risks, credit risks and liquidity risks. Swisscom's overall financial risk management program seeks to minimize potential adverse effects on the financial performance of Swisscom. Swisscom uses derivative financial instruments, such as foreign exchange contracts and interest rate swaps to hedge certain exposures resulting from the Group's commercial activities.

Financial risk management is carried out by the Group Treasury department under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board of Directors lays down the principles for overall risk management and approves guidelines covering specific areas, such as foreign exchange risk management, interest rate risk, credit risk, use of derivative financial instruments, and investing excess liquidity.

Foreign exchange risk

Swisscom is exposed to foreign exchange risk, arising from its business activities and financing which is the transaction risk arising from various currency exposures primarily with respect to USD and EUR. The transaction risk is the risk arising due to currency fluctuations between the date of agreement and the actual cash flow. Swisscom uses various forward exchange contracts and options to hedge its exposure to foreign currency. Swisscom hedges its long-term leasing commitments in USD.

Interest rate risk

Interest rate risks arise from fluctuation in interest rates, which could have a negative impact on the financial position of Swisscom. Changes in interest rates cause variation in interest income and expense and the fair value of financial assets and liabilities with fixed interest rates. Swisscom utilizes interest rate-swaps to manage its interest rate risk. The use of such financial instruments did not have a material impact on the financial position, results of operations, or cash flow of Swisscom.

Credit risk

Swisscom is exposed to credit risk, arising from its business activities and certain financing arrangements. Swisscom has no significant concentrations of credit risk. The Group has policies in place to ensure that products and services are sold only to creditworthy customers. Outstanding receivables are also continually monitored. Specific and general provisions are recorded to take account of credit risks. The danger of cluster risks is minimized by the large number of customers. Financial transactions and financial instruments are only entered into with very creditworthy financial institutes. Swisscom also has policies that limit the amount of credit exposure to any one financial institution.

Liquidity risk

Careful cashflow management ensures there is a sufficient reserve of cash and cash equivalents and tradable securities, as well as the possibility of raising finance. Swisscom has procedures in place that guarantee sufficient liquidity in order to settle current and future obligations.

Derivative financial instruments

CHF in millions	Contract value		Positive fair value		Negative fair value	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Foreign exchange derivatives						
Forward exchange contracts in USD	170	175	3	6	–	–
Forward exchange contracts in EUR	64	374	–	1	–	–
Forward exchange contracts in HUF	–	65	–	–	–	–
Forward exchange swaps in HUF	–	97	–	–	–	–
Cross-currency interest rate swaps in USD ¹	416	461	–	–	(166)	(132)
Total foreign exchange derivatives	650	1,172	3	7	(166)	(132)
Interest rate derivatives						
Interest rate swaps in USD	114	115	4	7	–	–
Interest rate swaps in CHF	1,300	–	1	–	–	–
Cross-currency interest rate swaps in USD ¹	163	195	–	–	(4)	(10)
Total interest rate derivatives	1,577	310	5	7	(4)	(10)
Total derivative financial instruments	2,227	1,482	8	14	(170)	(142)
Less current portion	–	–	(2)	–	–	–
Total non-current derivative financial instruments	2,227	1,482	6	14	(170)	(142)

¹ Separated in foreign exchange and interest rate components.

At December 31, 2006, derivative financial instruments consisted primarily of cross-currency interest rate swaps, interest rate swaps, and foreign exchange forwards to hedge interest rate risks and foreign exchange risks with respect to USD relating to the cross-border tax lease arrangements entered into in 1997, 2000, and 2002. The future interest payments relating to the arrangements from 1997 and 2002, were recorded as hedges. The hedging instruments had a negative fair value of CHF 5 million at December 31, 2006 (previous year CHF 31 million) and a positive fair value of CHF 0 million at December 31, 2006 (previous year CHF 5 million). For the designated cash flow hedges, CHF 6 million pre-tax (previous year CHF 14 million) was recorded in the hedging reserve within consolidated equity. The maximum length of time hedged is two years for cross-border tax lease arrangements entered into in 1997, 22 years for arrangements entered into in 2000 and seven years for arrangements entered into in 2002.

In order to hedge interest rate risks in connection with financing the repurchase of the 25% share in Swisscom Mobile AG, an interest rate swap with a term of five years was entered into in 2006. The hedge relates to a portion of the second tranche of the bank loan. See Note 25.

Also included are foreign exchange forwards for EUR and USD contained in derivative instruments designated to hedge future transactions in connection with the procurement of mobile equipment and obligations arising from international telephone traffic.

Fair value of financial instruments

The following table presents the carrying amounts and fair values of financial assets and liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a

forced or liquidated sale. The difference between the carrying amount and the fair value results from interest rate movements.

CHF in millions	Carrying amount	Fair value	Carrying amount	Fair value
	31.12.2006	31.12.2006	31.12.2005	31.12.2005
Financial assets				
Cash and cash equivalents	673	673	1,023	1,023
Trade accounts receivable and other receivables	2,436	2,436	2,278	2,278
Other financial assets	1,306	1,655	2,847	3,279
Financial liabilities				
Short-term financial liabilities	1,568	1,568	137	137
Trade accounts payable and other payables	1,693	1,693	1,422	1,422
Long-term financial liabilities	5,015	5,810	2,299	3,199

Estimation of fair values

Trade accounts receivable, trade accounts payable and other receivables and payables

The carrying amounts are a reasonable estimate of the fair value because of the short maturity of such instruments.

Cash and cash equivalents, other current financial assets and non-current financial assets

The carrying amounts of cash and loans receivable correspond to the fair value. The fair value of available-for-sale investments is based on stock exchange quoted bid prices or other market prices. The fair value of other non-current financial assets and financial assets from cross-border tax lease arrangements are calculated using the expected future payments discounted at market interest rates.

Finance lease obligations

The fair value of finance lease obligations is estimated using the expected future payments discounted at market rates.

Financial liabilities

The fair value of fixed rate debt is estimated using the expected future payments discounted at market interest rates.

32 Additional information about the cash flow statement

CHF in millions	Note	2006	2005
Net income adjustments			
Income from discontinued operations	37	(36)	(9)
Share of profit of affiliated companies	24	(30)	(13)
Income tax expense	14	462	535
Depreciation and amortization	22,23	1,435	1,394
Expenditure for share-based payment	9	17	16
Gain on disposal of fixed assets	12	(27)	(38)
Loss on disposal of fixed assets	11	19	22
Financial income	13	(189)	(242)
Financial expense	13	240	160
Total net income adjustments		1,891	1,825
Change in operating assets and liabilities			
Trade accounts receivable and other receivables		(118)	89
Inventories		(50)	–
Other non-financial assets		(39)	(46)
Trade accounts payable and other payables		210	(59)
Provisions		92	148
Other non-financial liabilities		(3)	7
Pension obligation	10	(109)	(313)
Total change in operating assets and liabilities		(17)	(174)

Non-cash investing and financing transactions

Share buyback

In 2004 and 2005, Swisscom carried out schemes to buyback up to CHF 2 billion worth of shares in each year. The seller of the share received the selling price minus the withholding tax of 35%. The withholding tax was retained and paid to the tax authorities at a later date. As of December 31, 2005, shares including transaction costs had been bought back for a total of CHF 2,000 million (previous year CHF 2,001 million). Of this, 35% or CHF 700 million are due in withholding tax. Until December 31, 2005, CHF 564 million (previous year CHF 581 million) had been paid to the tax authorities. The outstanding CHF 136 million (previous year CHF 119 million), included under other current liabilities, was paid in the first quarter of the following year. In the cash flow statement, the outstanding withholding tax is not included under changes in other current liabilities, but is presented as part of the share buyback under cash flows from financing activities.

Transfer of international carrier business

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, valued at CHF 36 million, into the affiliated company in return for 28% of the share capital.

Acquisition of Antenna Hungária

On October 25, 2005, Swisscom acquired 75% (plus 1 share) of the share capital of Antenna Hungária for CHF 293 million. On November 11, 2005, Swisscom tendered an offer to Antenna Hungária's public shareholders for the same price per share. The remaining 25% of the shares were acquired at the beginning of 2006. As Swisscom had a statutory obligation to make a public takeover bid, the purchase price of CHF 104 million for the outstanding shares was recorded as a liability in 2005. Goodwill was recorded on the acquisition as if Swisscom had acquired 100% of the shares in 2005. See Note 4.

33 Commitments

Contractual commitments for future capital expenditure

Contractual commitments for future capital expenditures and other intangible assets at December 31, 2006, amounted to CHF 364 million (previous year CHF 272 million), of which CHF 328 million will be due in 2007.

Operating leases

Operating leases comprise primarily the rental of business property space. See Note 25. In 2006, payments amounted to CHF 123 million (previous year CHF 118 million). Future minimum lease payments in respect of operating lease contracts as at December 31, 2006 and 2005 fall due as follows:

CHF in millions	31.12.2006	31.12.2005
Within 1 year	118	81
Within 1 to 2 years	112	66
Within 2 to 3 years	110	64
Within 3 to 4 years	108	63
Within 4 to 5 years	102	61
After 5 years	431	768
Total future minimum lease payments	981	1,103

34 Contingencies

Competition commission proceedings

The Competition Commission (WEKO) is currently bringing proceedings against a number of companies in the Swisscom Group which are described below. If it is proved that Swisscom has violated Antitrust Law, WEKO is entitled to impose monetary sanctions. This depends on the length, severity and nature of the violation and may amount to up to 10% of the revenue generated by the company in question over the last three financial years in the markets concerned in Switzerland.

Competition commission proceedings – mobile termination fees

In October, 2002 the Competition Commission (WEKO) initiated proceedings against Swisscom Mobile AG in accordance with Antitrust Law in connection with mobile termination prices. In several draft decisions issued to Swisscom Mobile AG, the Secretariat of the Competition Commission stated that it believes that Swisscom Mobile has a market-dominant position and has violated Swiss Antitrust Law by demanding disproportionately high termination fees. The Competition Commission therefore applied for sanctions of around CHF 489 million to be imposed on Swisscom Mobile AG.

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).

Swisscom Mobile AG 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 Mobile AG customers place a higher volume of calls to their competitor's networks than vice versa, Swisscom Mobile AG makes net payments to these mobile network operators.

On February 5, 2007 WEKO issued an injunction claiming that Swisscom Mobile is dominant in the market and has abused this position in violation of Swiss Antitrust Law by demanding disproportionately high termination fees from its competitors and particular end consumers during the period April 1, 2004 to May 31, 2005. The reasoning was largely identical to that of the previous injunctions. As a result of this alleged illegal behavior WEKO has imposed a direct sanction of CHF 333 million. The price development after June 1, 2005 is subject of a further investigation.

In connection with the repurchase of the 25% share in Vodafone to Swisscom Mobile AG (see Note 29) it was agreed that, in the event of a sanction, 25% of the sanction may be demanded back from Vodafone.

Swisscom Mobile refutes the accusation that it has abused its market dominant position and opposes the sanction. It intends to appeal to the Administrative Court 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 December 31, 2005 and 2006.

Investigation into the relationship between ADSL wholesale and retail prices

On October 20, 2005 WEKO launched an investigation into Swisscom AG and Swisscom Fixnet AG in connection with alleged abuse of their dominant market position. Swisscom is said to have set such high prices for ADSL pre-services in favor of Internet service providers that no scope is left for an adequate profit margin in relation to the end-customer prices charged by Swisscom. Swisscom refutes the accusation and is of the opinion that the prices for their ADSL pre-services leave their ADSL competitors enough scope

for an adequate profit margin. Swisscom does not consider sanctions likely from the present viewpoint and has therefore not recognized any provisions. The outcome of the investigation and the extent of the financial consequences of a potentially negative decision by WEKO are still uncertain.

Investigation into telephony services for large customers

On February 16, 2004 WEKO opened an investigation to determine whether Swisscom has engaged in any anti-competitive behavior when fixing prices for telephony services for its large customers. Swisscom is of the opinion that there is no intensive competition on the market for large customers and that they have therefore not engaged in any anti-competitive behavior. Swisscom does not consider sanctions likely from the present viewpoint and has therefore not recognized any provisions. The outcome of the investigation and the extent of the financial consequences of a potentially negative decision by WEKO are still uncertain.

Investigation into the services package „Talk & Surf“

On June 24, 2003, the WEKO secretariat informed Swisscom that another telephone company had filed a petition accusing Swisscom of abusive behavior in connection with Swisscom Fixnet's product „Talk & Surf“ under which it offers its customers a service package including PSTN/ISDN telephone connection, broadband Internet access and other services, and demanded that WEKO starts an investigation. On February 16, 2004 WEKO opened a formal investigation against Swisscom AG and Swisscom Fixnet AG. They have found that costs and prices of the „Talk & Surf“ package do not suggest any unlawful practice, nor is the bundling of services in this offer unlawful. On the other hand „Talk & Surf“ may constitute an unlawful restriction of business relations since Swisscom Fixnet does not offer wholesale access reselling to its competitors. Swisscom thinks it unlikely that the investigation will have a potentially negative outcome and has therefore not recognized any provisions. The outcome of the investigation and the extent of the financial consequences of a potentially negative decision by WEKO are still uncertain.

35 Research and development

The research and development costs in 2006 amounted to CHF 34 million (previous year CHF 39 million).

36 Related parties

Minority interests

Pursuant to the Swiss Telecommunications Enterprise Act („Telekommunikationsunternehmungsgesetz, TUG“), the Swiss Confederation must hold a majority of the capital and voting rights of Swisscom. On December 31, 2006, the Confederation (the „Confederation“) as majority shareholder held 54.8% of the shares of Swisscom AG. Any reduction of the Confederation's holding below a majority would require a change in law necessitating action by the Federal Assembly, which in some circumstances may also be subject to a referendum by Swiss voters. As the majority shareholder, the Confederation has the power to control any decisions taken at general meetings, including the election of the members of the Board of Directors and the approval of dividend payments.

Swisscom supplies telecommunication services to and procures services from the Confederation, the majority shareholder in Swisscom. The Confederation comprises the various departments and agencies of the Confederation, governmental agencies and other companies controlled by the Confederation (Post, Swiss railways, RUAG, Skyguide, and SRG). All business transactions with the Confederation are conducted in line with standard terms and conditions of business as with third-party customers.

Affiliated companies

The supply and provision of services with affiliated companies are effected at market prices. The affiliated companies are listed in Note 41.

Minority interests

On December 20, 2006, a share of 25% in Swisscom Mobile AG was bought back from Vodafone. Until this date, Vodafone was classified as a related party. The rendering and provision of services to Vodafone was effected at market prices. In accordance with the shareholders' agreement, Vodafone had a conditional right to sell its shares in Swisscom Mobile AG. In the event of a change of control of Swisscom, Vodafone was entitled to sell its 25% stake in Swisscom Mobile AG to Swisscom at the fair market value. See Note 29.

Other minority interests primarily comprise Publigroup's share of Swisscom Directories. The supply and provision of services with related parties are effected at market prices.

Pension funds

Transactions between Swisscom and the various pension funds are explained in Note 10.

Transactions and balances at the end of the year with related parties in 2006 and 2005 are presented in the following table:

CHF in millions	Net revenue	Operating expenses	Receivables	Liabilities
Confederation	471	209	64	26
Affiliated companies	132	225	16	25
Minority shareholder Vodafone	96	180	–	–
Other minority interests	7	27	1	2
Total in 2006 / Balance at December 31, 2006	706	641	81	53

CHF in millions	Net revenue	Operating expenses	Receivables	Liabilities
Confederation	434	182	59	8
Affiliated companies	85	74	44	21
Minority shareholder Vodafone	88	103	6	21
Other minority interests	6	28	1	2
Total in 2005 / Balance at December 31, 2005	613	387	110	52

On December 31, 2006, a loan of CHF 1 million, granted to a company held by the Swiss Confederation at market interest rate, was repaid.

In 2005, a loan granted to the affiliated company AUCS was offset against the shareholders' equity in AUCS.

Compensation paid to members of the Board of Directors and the Executive Board

CHF in millions	2006	2005
Board of Directors		
Regular salary payment	2.1	2.0
Share-based payment	0.1	0.1
Social security contributions	0.2	0.2
Total compensation to members of the Board of Directors	2.4	2.3
Executive Board		
Regular salary payment	7.1	8.2
Share-based payment	0.2	0.2
Special contributions	2.7	–
Pension contributions	0.8	0.6
Social security contributions	0.8	0.7
Total compensation to members of the Executive Board	11.6	9.7
Total compensation to members of the Board of Directors and of the Executive Board	14.0	12.0

Total compensation paid to members of the Board of Directors and the Executive Board includes fees, salaries, bonuses, special pension fund contributions, and other contractual obligations. In 2005 and 2006, 25% of bonuses were remunerated in shares. See Note 9.

Transactions with treasury stock

Swisscom bought back shares totaling CHF 2.18 billion from the Swiss Confederation during the share buyback in 2006. On December 31, 2006, the Swiss Confederation held 54.8% of the shares of Swisscom AG. The Confederation also participated in Swisscom's share buyback in 2005. 2.2 million shares were sold to Swisscom at an average price of CHF 422.40, totaling CHF 939 million.

37 Discontinued operations

In June, 2004, Swisscom sold its stake in debitel. debitel is disclosed in the consolidated financial statements as a discontinued operation. Of the selling price of EUR 640 million, EUR 430 million were paid in cash. For the remaining part of the selling price Swisscom granted two vendor loan notes of EUR 105 million each with repayment terms of seven and eight years. The loans were initially recorded at their fair value and in the following periods recorded using the effective interest method. The initial fair value evaluation was based on an interest rate of 12.5%. The contractually agreed interest rate was lower.

In the second quarter of 2005, the purchaser prematurely repaid the loans and the contractually agreed accrued interest of CHF 351. A gain of CHF 59 million resulted from the early repayment of these loans and was recorded under income from discontinued operations.

Swisscom also agreed to indemnify the buyer, in particular for possible tax liabilities. At the time of the sale no accrual was recorded for this indemnification as management believe that a payment was not probable. As a result of a tax audit that was ongoing in 2005, Swisscom reassessed the potential tax liability and recorded a provision of CHF 50 million in 2005. The tax audit, which was completed in 2006, resulted in a total tax liability of CHF 14 million, of which CHF 8 million were paid in 2006. Accordingly, Swisscom released CHF 36 million of the provision in 2006. The recognition and reversal of provisions were recorded under income from discontinued operations.

38 Disclosure of service concession arrangements (SIC 29)

In accordance with the Telecommunication Enterprises Act, ComCom awarded Swisscom Fixnet AG the universal service license in June 2002. Swisscom Fixnet is required to provide universal service for all sections of the Swiss population throughout the five-year license period from January 1, 2003, to December 31, 2007. The concession covers the whole of Switzerland. The universal service guarantees access to a minimum offering of telecommunications services. Within the universal service framework, everyone has the right to a real-time connection which allows national and international telephone calls, transmission and reception of faxes, and access to the Internet. The universal service also provides for the upkeep of a prescribed number of public telephones for each municipality. The universal service guarantees everyone's right to an analogue connection or a digital connection (ISDN or a comparable technology). The Federal Council periodically sets price ceilings on universal services. ComCom opened the tender for the new universal service license in the second half of 2006. Swisscom submitted a tender to ComCom for the universal service license for 2008 to 2017. From 2008, in addition to guaranteeing access to a minimum offering of telecommunications services for all sections of the Swiss population, the concession includes the universal provision of broadband Internet access. Furthermore, Swisscom, as a market-dominant service provider, must set its prices for the relevant interconnection service in a transparent and cost-oriented manner.

39 Dividends

Distributable reserves are determined based on equity as reported in the statutory financial statements of Swisscom AG (holding company) in accordance with Swiss law and not on the equity as reported in the consolidated balance sheet in accordance with IFRS. At December 31, 2006, Swisscom AG's distributable reserves amounted to CHF 2,179 million. The dividend must be proposed by the Board of Directors and approved by the Shareholders' Meeting. The dividend proposed for the 2006 financial year has not been recognized as a liability in these consolidated financial statements. Treasury stock is not eligible for dividend payments.

Swisscom paid the following dividends in 2006 and 2005:

	2006	2005
Number of registered shares eligible for dividends (in thousand)	56.716	61.480
Dividend on registered shares (in CHF)	16.00	14.00
Dividend paid (in CHF million)	907	861

The Board of Directors will propose a dividend of CHF 17 per share at the Shareholders' Meeting on April 24, 2007, amounting to a total distribution of CHF 881 million. The dividend is expected to be paid on April 27, 2007.

40 Events after the balance sheet date

Swisscom Board of Directors approved these consolidated financial statements on March 9, 2007. Until that date, no significant events occurred after the date of the balance sheet.

41 List of subsidiaries, affiliated companies and joint ventures

Company	Location	Interest in percent	Consolidation method		Share capital in thousands	Segment
Switzerland						
Accarda AG	Brüttisellen	100	Full	CHF	18,500	Other
Betty Holding AG ¹	Zurich	100	Full	CHF	480	Other
Betty Technology AG ¹	Zug	100	Full	CHF	250	Other
Betty TV (Schweiz) AG	Zurich	100	Full	CHF	5,000	Other
Billag AG	Fribourg	100	Full	CHF	100	Other
cablex AG	Berne	100	Full	CHF	5,000	Fixnet
Comit AG	Zurich	100	Full	CHF	125	Other
Comit Strategic Sourcing AG	Olten	100	Full	CHF	100	Other
CT Cinetrade AG	Zurich	49	Equity	CHF	500	Corporate
Cybernet (Schweiz) AG	Zurich	100	Full	CHF	100	Fixnet
e4life AG	Berne	100	Full	CHF	1,500	Other
Hospitality Services Plus AG	Geneva	100	Full	CHF	10,000	Other
Infonet Schweiz AG	Berne	90	Full	CHF	1,500	Solutions
Medgate Holding AG	Zug	40	Equity	CHF	6,155	Other
Medipa Abrechnungskasse AG	Freienbach	99	Full	CHF	1,850	Other
Minick Holding AG	Zollikon	100	Full	CHF	353	Mobile
Minick Schweiz AG	Zollikon	100	Full	CHF	100	Mobile
Mona Lisa Capital AG	Berne	98	Full	CHF	5,000	Corporate
PersPec AG	Berne	100	Full	CHF	500	Corporate
PubliDirect Holding AG	Zurich	49	Equity	CHF	10,000	Fixnet
Sicap AG	Köniz	100	Full	CHF	2,000	Mobile
Sportradio.ch AG	Zurich	30	Equity	CHF	100	Fixnet
Swisscom Auto-ID Services AG	Berne	100	Full	CHF	1,200	Other
Swisscom Broadcast AG	Berne	100	Full	CHF	25,000	Other
Swisscom Central & Eastern Europe AG	Berne	100	Full	CHF	27,000	Other
Swisscom Directories AG	Berne	51	Full	CHF	1,500	Fixnet
Swisscom Fixnet AG	Berne	100	Full	CHF	1,000,000	Fixnet
Swisscom Immobilien AG	Berne	100	Full	CHF	100,000	Corporate
Swisscom IT Services AG	Berne	100	Full	CHF	150,000	Other
Swisscom Mobile AG	Berne	100	Full	CHF	100,000	Mobile
Swisscom Solutions AG	Berne	100	Full	CHF	70,000	Solutions
Worklink AG	Berne	100	Full	CHF	100	Corporate
Belgium						
Belgacom International Carrier Services	Brussels	28	Equity	EUR	76,200	Fixnet
Hospitality Services Belgique SA	Brussels	100	Full	EUR	562	Other
Bulgaria						
Air Bites Bulgaria EOOD	Sofia	100	Full	BGN	1,593	Other
HDTelecom Bulgaria EOOD	Sofia	55	Full	BGN	5	Other
Germany						
Betty Entwicklungs GmbH ¹	Munich	100	Full	EUR	25	Other
Betty TV AG ¹	Munich	100	Full	EUR	50	Other
Comit Germany GmbH	Frankfurt	100	Full	EUR	233	Other
Hospitality Services Deutschland Plus GmbH	Munich	100	Full	EUR	120	Other
Minick Deutschland AG	Hamburg	100	Full	EUR	2,343	Mobile
Swisscom Telco GmbH	Stuttgart	100	Full	EUR	25	Corporate

Company	Location	Interest in percent	Consoli- dation method		Share capital in thousands	Segment
France						
Swapcom SA	Lyon	100	Full	EUR	409	Mobile
Hospitality Services France SA	Paris	96	Full	EUR	2,119	Other
United Kingdom						
Hospitality Networks and Services UK Ltd.	London	100	Full	GBP	1,622	Other
Minick UK Ltd.	London	100	Full	GBP	50	Mobile
Italy						
Hospitality Services Italia s.r.l.	Milano	100	Full	EUR	3,100	Other
Jersey						
Swisscom Finance Ltd.	Jersey	100	Full	EUR	–	Corporate
Liechtenstein						
Swisscom Re AG	Vaduz	100	Full	CHF	1,000	Corporate
Luxembourg						
Hospitality Services Luxembourg SA	Luxembourg	100	Full	EUR	31	Other
Malaysia						
Sicap Malaysia SdnBhd	Kuala Lumpur	100	Full	MYR	100	Mobile
Netherlands						
AUCS Communications Services v.o.f.	Hoofddorp	33.33	Equity	EUR	–	Corporate
HSIA Hospitality Services Netherlands B.V.	The Hague	100	Full	EUR	25	Other
Swisscom Investments B.V.	Amsterdam	100	Full	EUR	–	Corporate
Austria						
Comit Unternehmensberatungs- und EDV-Dienstleistungs GmbH	Vienna	100	Full	EUR	35	Other
Hospitality Services GmbH	Vienna	100	Full	EUR	35	Other
Poland						
Air Bites Polska	Warsaw	100	Full	PLN	16,860	Other
Portugal						
HSIA Hospitality Services Portugal	Lissabon	100	Full	EUR	1,050	Other
Romania						
Air Bites s.r.l.	Bukarest	100	Full	RON	8,270	Other
Hospitality Services s.r.l.	Bukarest	100	Full	RON	–	Other
S.C. Undernet s.r.l.	Bukarest	87,5	Full	RON	–	Other

Company	Location	Interest in percent	Consolidation method		Share capital in thousands	Segment
Slovakia						
Air Bites Slovakia s.r.o.	Bratislava	100	Full	SKK	45,800	Other
Spain						
Hospitality Networks and Services Espana SA	Madrid	100	Full	EUR	100	Other
Minick Spain SLU	Madrid	100	Full	EUR	3	Mobile
Ukraine						
Air Bites Ukraine LLC	Lviv	100	Full	UAH	4,228	Other
Hungary						
Antenna Hungária Zrt.	Budapest	100	Full	HUF	11,875,200	Other
Antenna Távközlési Szolgáltató Zrt.	Budapest	100	Full	HUF	10,531,595	Other
Pendant TMSZ Kft.	Budapest	50	Equity	HUF	95,000	Other
Antel Invest Kft.	Budapest	100	Full	HUF	500,000	Other
Hungaro DigiTel Távközlési Kft.	Szigetszentmiklós	55	Full	HUF	877,500	Other
Hunsat Magyar Ürtávközlési Rt.	Budapest	50	Equity	HUF	100,000	Other
Singapore						
Comit Solutions Pte Ltd.	Singapore	100	Full	SGD	100	Other
Sicap Asia Pacific Pte Ltd.	Singapore	100	Full	SGD	100	Mobile
USA						
Hospitality Services North America Corp.	Dulles	98	Full	USD	1,570	Other

* Voting rights of 100%; share in capital of 65%.

Report of the Group Auditors

Report of the Group Auditors to the General Meeting of Swisscom AG, Ittigen (Berne)

As Group auditors, we have audited the consolidated financial statements (income statement, balance sheet, cash flow statement, statement of recognized income and expense and notes) on pages 66 to 139 of Swisscom AG for the year ended December 31, 2006. These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG Klynveld Peat Marwick Goerdeler SA

Hanspeter Stocker	Christoph Schwarz
Swiss Certified Accountant	Swiss Certified Accountant
Auditor in charge	

Gümligen-Berne, March 9, 2007

Swisscom AG Income statement

CHF in millions	2006	2005
Net revenue	136	226
Other income	62	75
Gain on sale of fixed assets	–	3
Total	198	304
Personnel expenses	153	196
Other operating expenses	164	181
Depreciation and amortization	1	9
Total operating expenses	318	386
Operating income	(120)	(82)
Financial expense	(89)	(77)
Financial income	172	179
Income from investments	1,703	1,921
Tax expense	(1)	(1)
Net income	1,665	1,940

Swisscom AG Balance sheet

CHF in millions	Note	31.12.2006	31.12.2005
Assets			
Current assets			
Cash and cash equivalents		494	739
Other current financial assets		137	332
Treasury stock	4	2,212	1,960
Trade accounts receivable		1	–
Other receivables		7	4
Other receivables from subsidiaries		102	119
Dividends receivable from subsidiaries		1,681	1,901
Other current assets		2	3
Total current assets		4,636	5,058
Non-current assets			
Property, plant and equipment	3	2	2
Investments	7	2,671	2,671
Loans from third parties		4	7
Loans from subsidiaries		4,959	3,787
Other current financial assets		1	–
Total non-current assets		7,637	6,467
Total assets		12,273	11,525
Liabilities and shareholders' equity			
Current liabilities			
Financial liabilities		1,500	3
Financial liabilities to subsidiaries		2,598	4,667
Trade accounts payable		12	16
Other current liabilities		87	231
Other liabilities to subsidiaries		36	21
Total current liabilities		4,233	4,938
Non-current liabilities			
Financial liabilities		2,750	–
Financial liabilities to subsidiaries		348	359
Provisions		463	543
Other non-current liabilities		20	24
Total non-current liabilities		3,581	926
Total liabilities		7,814	5,864
Shareholders' equity			
Share capital		57	61
General reserves		255	277
Reserves for treasury stock		2,212	2,002
Retained earnings		1,935	3,321
Total shareholders' equity	5	4,459	5,661
Total liabilities and shareholders' equity		12,273	11,525

Notes to the financial statements

1 General

The financial statements of Swisscom AG, the parent company, comply with the legal provisions of the Swiss Code of Obligations.

2 Contingent liabilities

Total guarantees in favor of third parties on behalf of Group companies at December 31, 2006, amounted to CHF 296 million (previous year CHF 673 million). Swisscom AG is solidary liable with two other shareholders to cover future losses of an affiliated company.

3 Fire insurance values of property, plant and equipment

The fire insurance values of property, plant and equipment are generally based on replacement or fair values of such assets.

4 Treasury stock

Swisscom AG recorded treasury stock separately under assets and created a separate reserve treasury stock in the same amount under equity. This was recorded at the lower of cost or market value.

In 2006 and 2005, Swisscom AG launched share buyback schemes in the amount of CHF 2.2 billion (previous year CHF 2.0 billion). A total of 4,916,618 shares (previous year 4,764,200 shares) for an average purchase price of CHF 450 (previous year CHF 419.80) were bought back. The 4,764,200 shares repurchased in the previous year were deleted in the third quarter of 2006 by virtue of a resolution of the ordinary General Meeting of Shareholders on April 25, 2006.

For details of treasury stock outstanding and transactions see Note 30 to the consolidated financial statements.

5 Shareholders' equity

Changes in number of issued shares and in Swisscom AG shareholders' equity is as follows:

CHF in millions	Number of shares	Share capital	General reserves	Reserves for treasury shares	Retained earnings	Total equity
Balance at January 1, 2005	66,203,261	66	298	2,002	4,218	6,584
Net income	–	–	–	–	1,940	1,940
Dividend payment	–	–	–	–	(861)	(861)
Capital reduction	(4,720,500)	(5)	(21)	(2,002)	26	(2,002)
Purchase of treasury shares	–	–	–	2,002	(2,002)	–
Balance at December 31, 2005	61,482,761	61	277	2,002	3,321	5,661
Net income	–	–	–	–	1,665	1,665
Dividend payment	–	–	–	–	(907)	(907)
Capital reduction	(4,764,200)	(4)	(22)	(2,002)	68	(1,960)
Purchase of treasury shares	–	–	–	2,212	(2,212)	–
Balance at December 31, 2006	56,718,561	57	255	2,212	1,935	4,459

Swisscom AG is a holding company under Swiss law. According to the law governing the utilization of profits for holding companies, share capital and allocations to the general provisions may not be distributed in an amount of 20% of share capital and reserve treasury stock. On December 31, 2006, distributable reserves amounted to CHF 2 179 million. A dividend payout must be proposed by the Board of Directors and approved by the Shareholders' Meeting.

6 Major shareholders

On December 31, 2006, the Swiss Confederation as majority shareholder held 54.8% of the shares of Swisscom AG. Under the Telecommunications Enterprise Act (Telekommunikationsunternehmungsgesetz, TUG), the Swiss Confederation must hold a majority of the capital and voting rights of Swisscom.

7 Investments and recognition of dividends payable by subsidiaries

Investments are presented at cost less any impairment. Dividends from the fully consolidated subsidiaries of Swisscom AG are recorded in the year the dividend is proposed. The respective dividends have been approved at the subsidiaries' Shareholders' Meetings.

A list of direct and indirect holdings of Swisscom AG is included in Note 41 of the Notes to the financial statements.

8 Assets not freely disposable

On December 31, 2006, cash and cash equivalents totaling CHF 41 million and fixed-term assets totaling CHF 133 million could not be freely disposed of. These assets serve to secure liabilities in connection with cross-border tax lease arrangements. See note 25 to the consolidated financial statements.

9 Net reversal of hidden reserves

In 2006, hidden reserves of net CHF 33 million were reversed.

Proposed appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors proposes to the General Meeting of Shareholders on April 24, 2007, the following appropriation of retained earnings of CHF 1,935 million for the year ended December 31, 2006:

CHF in millions	31.12.2006
Retained earnings	
Balance to be carried forward from previous year	2,414
Capital reduction	68
Reserves for treasury stock	(2,212)
Net income	1,665
Total retained earnings	1,935
Proposal	
Dividend of CHF 17 per share of 51 801 943 shares.*	881
Balance to be carried forward	1,054

* Excluding treasury stock

Subject to the approval of this proposal, the dividend will be paid out to shareholders on April 27, 2007, as follows:

Per registered share	CHF
Gross dividend	17.00
Less 35% withholding tax	5.95
Net dividend	11.05

Report of the Statutory Auditors

Report of the Statutory Auditors to the General Meeting of Swisscom AG, Ittigen (Berne)

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes) on pages 142 to 145 of Swisscom AG for the year ended December 31, 2006.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and the financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

KPMG Klynveld Peat Marwick Goerdeler SA

Hanspeter Stocker
Swiss Certified Accountant
Auditor in charge

Christoph Schwarz
Swiss Certified Accountant

Gümligen-Berne, March 9, 2007

Corporate Governance

1 Principles

Transparency and a clear sense of responsibility are the cornerstones of Swisscom's corporate governance principles: transparency for the shareholders, both in consolidated accounting and performance of the individual group companies as well as a clear allocation of responsibilities to shareholders, the Board of Directors, the Executive Board, and group companies.

In addition to the principles of corporate governance laid down in the Swiss Code of Obligations, Swisscom complies with the following standards:

- the Swiss Code of Best Practice for Corporate Governance (effective as of July 1, 2002);
- the Directive on Information relating to Corporate Governance issued by the SWX Swiss Exchange (effective as of July 1, 2002);
- the corporate governance standards of the New York Stock Exchange (NYSE), in so far as applicable to listed foreign companies;
- the applicable requirements of the US Sarbanes-Oxley Act of 2002, including the certification of the annual report on Form 20-F by the CEO and the CFO.

Since it is listed on the SWX „EU-Compatible Segment“ and its shares traded in the „EU-Regulated Market Segment“ of the virt-x in London, Swisscom also complies with the relevant requirements of British capital market legislation. Swisscom consequently observes the relevant EU capital market regulations implemented by the UK under national law, including rules passed by the UK Financial Services Authority (FSA).

The corporate culture in place within Swisscom plays a decisive role in driving the company's long-term success. Of particular importance in this context are the Swiss Code of Ethics¹ adopted by the Audit Committee in 2003 and the Code of Conduct² introduced by the Swisscom Executive Board in 2005. The Swiss Code of Ethics is applicable to the CEO and CFO of Swisscom AG, the CEOs and CFOs of its group companies, the members of the Disclosure Committee and any other senior financial, accounting or controlling officer of the company. The standards defined in the Code of Ethics are intended to guarantee honest and ethical conduct, including the ethical handling of conflicts of interest between personal and professional relations. The Swisscom Code of Conduct describes how the Swisscom Management expects all managers and employees to conduct themselves in the daily course of business.

The section on corporate governance also adheres to the guidelines on corporate governance of the SWX Swiss Exchange.

¹ The Swisscom Code of Ethics can be found under www.swisscom.com/NR/rdonlyres/B73DB86F-500A-4993-85A5-FC312D633935/0/CodeofEthics_de.pdf

² The Swisscom Code of Conduct can be found under http://www.swisscom.com/NR/rdonlyres/2EC60DD6-EF6A-4D15-83ED-122088F1344B/0/verhaltenskodex_swisscom_de.pdf
<http://verhaltenskodex>

2 Group structure and shareholders

Group structure

Swisscom is a corporate group with independently operating subsidiaries. The aim of this group structure is to increase transparency for management and shareholders, while allocating clear responsibilities to the subsidiaries for their respective submarkets. This structure also allows them to enter into strategic partnerships. The group companies are divided into three categories, „strategic“, „important“, and „other“. In the 2006 fiscal year, Swisscom Fixnet AG, Swisscom IT Services AG, Swisscom Mobile AG, and Swisscom Solutions AG were classified as strategic group companies. At January 1, 2007, the group of important companies comprised Accarda AG, Antenna Hungária Zrt, Billag AG, Comit AG, calex AG, Infonet Schweiz AG, PubliDirect Holding AG, Swisscom Broadcast AG, Swisscom Directories AG, Hospitality Services Plus SA (formerly Swisscom Eurospot AG) and Swisscom Immobilien AG. All other companies are classified as „other“.

Swisscom AG, a company governed by Swiss law and headquartered in Ittigen (canton of Berne, Switzerland), is the holding company with responsibility for overall management as well as for strategic and financial management of the Swisscom Group. Strategic and financial management of the independently operating group companies is assured by the fact that powers and responsibilities are aligned to the Group by the Board of Directors.

Furthermore, the CEO of Swisscom AG chairs the strategic group companies' Boards of Directors, of which the CFO (Chief Financial Officer) and CSO (Chief Strategy Officer) are also members.

For the „important“ subsidiaries, the responsibilities of the Chairman of the Board of Directors are fulfilled by the CEO of a strategic subsidiary or by the head of a division of the Group Headquarters (GHQ).

The four expert divisions of the GHQ are: Group Finance & Controlling, Group Strategy & Business Development, Group Communications, and Group Human Resources. As of April 1, 2005, the new management division „Related Businesses“ (REB) was created. It includes Swisscom Broadcast, Swisscom Immobilien, Antenna Hungária, and the Accarda Group. REB is not a legal entity but is managed in the same way as the strategic group companies.

Swisscom AG is listed in the „EU-Compatible Segment“ of the SWX Swiss Exchange (Securities No. 874251, ISIN CH0008742519, Symbol SCMN) and in the form of American Depositary Shares (ADS) on the New York Stock Exchange (NYSE: Securities No. 949527, ISIN US8710131082; Ticker-Symbol: SCM). At December 31, 2006, Swisscom AG's stock market capitalization was CHF 23,894 million.

The strategic Group companies, with the exception of Swisscom IT Services AG, which is included under the segment „Other“, are reported as individual segments in the consolidated financial statements.

A diagram of the Group structure is shown in Chapter Overview, page 31 of the Annual Report. Note 41 to the consolidated financial statements contains a list of the subsidiaries, affiliated companies and joint ventures.

Significant shareholders

Under the Telecommunications Enterprise Act (TUG), the Swiss Federal Government has a majority holding in the company in terms of both capital and votes. According to a press release from the Swiss Federal Department of Finance issued on January 30, 2007, it held 31,087,764 shares or 54.8% of the total number of issued shares of Swisscom AG at the end of 2006, following the share buyback and other share sales on the markets.

In the Swiss Official Gazette of Commerce of September 20, 2006, Swisscom AG announced that, following the completion of the share buyback program 2006 via the issue of tradable put options on September 13, 2006, it holds 9,680,818 own registered shares in Swisscom AG (equivalent to 15.75% of share capital and voting rights) from the share buyback in 2005. Of these, 4,764,200 registered shares (or 7.75% of share capital and voting rights) are to be used for the capital reduction in accordance with the decision of the General Meeting of Shareholders on April 25, 2006.

In the Swiss Official Gazette of Commerce of September 25, 2006, Swisscom AG announced further that – having registered the capital reduction following the destruction of the shares bought back in 2005 with the Commercial Register (in accordance with the decision of the General Meeting of Shareholders on April 25, 2006) – it still holds 4,916,618 own registered shares in Swisscom AG (equivalent to 8.67% of share capital and voting rights) as at September 15, 2006.

On March 3, 2005, it was disclosed by „The Capital Group Companies, Inc. (CGC)“, that they had gone below the notifiable limit value of 5%, by holding 3,297,865 registered shares of Swisscom AG, or 4.98% of the voting rights. Please refer to the publication of the disclosure in the Swiss Official Gazette of Commerce of March 23, 2005. „The Capital Group Companies, Inc. (CGC)“ has not disclosed any new reports since this date

Cross-shareholdings

No cross-shareholdings exist between Swisscom AG and other public limited companies.

3 Capital structure

Capital

At December 31, 2006, Swisscom AG's share capital amounted to CHF 56,718,561. The registered shares each have a par value of CHF 1 per share. The shares have been paid up in full.

Authorized and conditional capital

There is no authorized or conditional share capital.

Changes in capital

Changes in shareholder's equity of Swisscom AG in the individual financial statements under commercial law in the years 2004 to 2006:

In CHF millions	Share capital	General reserves	Retained earnings	Total equity
Balance at January 1, 2004	66	298	4,682	5,046
Net income	–	–	2,399	2,399
Dividend payment	–	–	(861)	(861)
Balance at December 31, 2004	66	298	6,220	6,584
Net income	–	–	1,940	1,940
Dividend	–	–	(861)	(861)
Capital reduction	(5)	(21)	(1,976)	(2,002)
Balance at December 31, 2005	61	277	5,323	5,661
Net income	–	–	1,665	1,665
Dividend payment	–	–	(907)	(907)
Capital reduction	(4)	(22)	(1,934)	(1,960)
Balance at December 31, 2006	57	255	4,147	4,459

On April 27, 2004, the General Meeting of Shareholders agreed to the payment of a dividend. Within the framework of return policy, an additional payout to the shareholders took place by means of the share buyback between May 24 and December 22, 2004. The buyback was carried out using a second transaction line at virt-x, installed especially for this purpose. All in all, 4,720,500 shares were bought back at an average purchase price of CHF 423.68, amounting to a total of CHF 2 billion.

In 2005 a dividend was paid out and in addition a share buyback scheme took place between May 17 and December 19, 2005. The buyback was also carried out using a second transaction line at virt-x, installed especially for this purpose. In total 4,764,200 shares for an average purchase price of 419.80 were bought back totalling around CHF 2 billion.

The ordinary General Meeting of Shareholders on April 25, 2006 also agreed to the payout of a dividend. A further share buyback program via the issue of tradable put options was carried out between August 30 and September 13, 2006. Swisscom repurchased 4,916,618 own registered shares, or 8.0% of the registered share capital and voting rights. All in all shares totaling CHF 2.2 billion were bought back.

Shares, participation certificates and profit-sharing certificates

Each of the registered shares of Swisscom AG has a par value of CHF 1. All registered shares are eligible for dividends, with the exception of treasury shares held by Swisscom AG. There are no preferential rights.

The registered shares of Swisscom AG are not issued in certificate form but are held as uncertificated securities in the holdings of SIS SegalInterSettle AG (registered shares with no right to printed certificates). Shareholders can at any time request free confirmation from Swisscom AG of the registered shares they own. However, shareholders have no right to have their shares printed and physically delivered to them. Swisscom AG may print uncertificated shares at any time. If registered shares are printed, Swisscom AG may issue certificates for multiple registered shares. Registered shares bear the signatures of two members of the Board of Directors; these may be facsimile signatures.

Swisscom AG has issued neither participation certificates nor profit-sharing certificates.

Limitations on transferability and nominee registrations

There are no limitations on the transferability of Swisscom shares.

Swisscom has issued special regulations for the registration of trustees and nominees in the share register. To facilitate the tradability of the shares on the stock market, the Board of Directors may also, by means of regulations or agreements, permit the fiduciary entry of registered shares with voting rights which exceed the five percentage restriction by fiduciaries, provided that the latter disclose their fiduciary capacity (nominees, ADR banks): for voting restrictions see No. 7 below. Fiduciaries must be subject to supervision by a banking or financial market supervisory authority or otherwise offer the necessary assurances of proper business conduct, and must act for the account of one or more unrelated parties. They must also be able to provide evidence of the names, addresses and holdings of the beneficial owners of the shares. In accordance with this provision, the Board of Directors has issued regulations governing the entry of fiduciaries and nominees in the Swisscom share register. The entry of fiduciaries and nominees as shareholders with voting rights is subject to application and the conclusion of an agreement specifying the entry restrictions and the disclosure obligations of the fiduciary or nominee. In particular, each fiduciary or nominee undertakes, within the percentage limit of 5%, not to request entry as a shareholder with voting rights for the account of an individual beneficial owner for any more than 0.5% of the registered share capital of Swisscom AG entered in the commercial register.

No exceptions for fiduciary entry of registered shares with voting rights above the aforementioned percentage limit were granted in fiscal 2006.

Convertible bonds and options

Swisscom AG has no outstanding convertible bonds as at December 31, 2006. The participation programs for employees and management of Swisscom AG are described in Note 9 to the consolidated financial statements.

4 Board of Directors

Members of the Board of Directors

The Board of Directors of Swisscom AG currently comprises nine members, none of whom has an executive role within the Swisscom Group or has held one in any of the three business years prior to the period under review. The board members have no substantial commercial links with Swisscom AG or the Swisscom Group.

The list below gives an overview of the composition of the Board of Directors at December 31, 2006, the functions of each member within the Board of Directors, their nationality, year first elected and remaining tenure. In addition, details of their career and education as well as other activities and interests such as mandates in important companies, organizations and foundations, and permanent functions in important interest groups, are included.

Name	Born	Position	Appointed	Appointed until
Anton Scherrer ¹²³⁴	1942	Chairman	2005	2008
Fides P. Baldesberger ¹	1953	Member	2005	2007
Hugo Gerber ²	1955	Member, employee representative	2006	2008
Michel Gobet ²	1954	Member, employee representative	2003	2007
Torsten G. Kreindl ¹³	1963	Member	2003	2007
Catherine Mühlemann ¹	1966	Member	2006	2008
Felix Rosenberg ²³	1941	Member, government representative	1998	2007
Richard Roy ⁴	1955	Vice Chairman	2003	2007
Othmar Vock ³⁴	1943	Member	2005	2007

¹ Member of the Finance Committee.

² Member of the Personnel and Organization Committee.

³ Member of Compensation Committee.

⁴ Member of the Audit Committee.

Markus Rauh and the employee representative Jacqueline Françoise Demierre have retired from the Board of Directors since the Shareholders' Meeting in 2006, having completed the maximum eight-year term of office allowed by law. At the same meeting Anton Scherrer was appointed Chairman of the Board of Directors for a term of two years and Catherine Mühlemann and Hugo Gerber were newly elected to the Board of Directors, the latter as employee representative.

Anton Scherrer



Swiss citizen

Education: Swiss diploma in food technology ETH; Dr. sc. techn. ETH

Career: Research, consultancy and management in several industrial companies and breweries in Switzerland and abroad; 1984–1991 delegate of the Board of Directors of Hürlimann Holding AG; 1991–2001 Managing Director of Migros co-operative, with responsibility for 14 industrial enterprises and the entire logistics; 2001–2005 Chairman of the Head Office and of the operative committee of retail trade of the Migros co-operative; until end of June 2005 Chairman of Migros-bank Board of Directors, Globus magazine and the international travel company Hotelplan.

Other mandates: Member of the executive committee of economiesuisse; member of the advisory committee of the corporate group Theo Müller GmbH & Co., KG, Aretsried (D); member of the Advisory Board of Digma Management Consulting AG, Zurich; member of the Executive Committee of the Institute for Marketing and Trade at the University of St. Gallen

Fides P. Baldesberger

Swiss citizen

Education: lic. phil. I; diploma in gemmology (GG. GIA)

Career: since 1985 CEO and since 1987 also president of the Board of Directors of Outils Rubis SA

Other mandates: Member of the foundation committee of the W.A. de Vigier foundation for the promotion of young Swiss entrepreneurs; member of the foundation for the International Red Cross Committee

Hugo Gerber

Swiss citizen

Education: diploma in postal services; management diploma IMAKA, Personnel & organizational development Solothurn University of Applied Sciences, North-West Switzerland

Career: 1986–1990 General Secretary ChPTT; 1991–1999 General Secretary VGCV; 2000–2003 General Secretary of the Transfair union; since 2003 President of the Transfair union.

Other mandates: Member of SUVA Board of Directors; member of Publica cash commission; Member of Worklink Board of Directors; Vice President of the support fund for federal employees; president of the foundation council of ARC education institute; member of the Board of Travail.Suisse and President of the Forum Politique Suisse

Michel Gobet

Swiss citizen

Education: Degree in history

Career: Central Secretary and Vice General Secretary of the PTT Union; since 1999 Secretary of the Union Communication

Other mandates: Member of Union Network International; Vice President of the European Executive Committee for Telecommunications

Torsten G. Kreindl

Austrian citizen

Education: Degree in industrial engineering; Dr. sc. techn.

Career: Chemie Holding AG; W. L. Gore & Associates Inc.; Member of the Management Board of Booz Allen & Hamilton, Germany; 1996–1999

Head of Broadband Cable Business Deutsche Telekom AG and Chief Executive Officer of MSG Media Services; 1999–2005 Partner at Copan Inc.; since 2005 Partner of Grazia Equity GmbH

Other mandate: member of the Supervisory Board of VoiceTrust AG

Catherine Mühlemann

Swiss citizen

Education: lic. phil I; certified Public Relations consultant

Career: 1994–1997 Head of Media Research Swiss Television DRS; 1997–1999 program manager SF1 and SF2; 1999–2001 program director TV3; 2001–2003 General Manager of MTV Central; 2003–2005 General

Manager of MTV Central & Emerging Markets; since 2005 General Manager of MTV Central & Emerging Markets and Viva Media GmbH (Viacom)

Other mandates: Chairman of the Supervisory Board of Z+ Broadcasting Company Budapest; President of the Board of Directors of S Media Vision AG, Zürich; Member of Friedrich Ebert Foundation

Felix Rosenberg

Swiss citizen

Education: Degree in law (lic. iur.)

Career: 1968–1969 Clerk to the local court in Baden; 1969–1974 Secretary of the Finance,- Forest and Military Department of the Canton Thurgau; 1974–1989 Member of the Cantonal Government of Thurgau; 1989–1997 Member of the PTT Executive Board; 1989–1998 Chief Executive Officer of Telecom PTT and, until end of March 1998, of Swisscom

Other mandates: Chairman of the Board of Directors of Voigt AG and De Martin AG; Member of the Board of Directors of Huser & Peyer AG; President of the Board of Trustees of the Swiss Pro Patria Foundation

Richard Roy

German citizen

Education: Degree in engineering (university of applied sciences)

Career: Hewlett Packard (HP); 1995–1997 Member of the Executive Board of Siemens Nixdorf Informationssysteme AG; 1997–2001 Chief Executive Officer of Microsoft GmbH (Germany); 2001–2002 Vice President of the Corporate Strategy Division of Microsoft EMEA (Paris, F); since 2002 independent management consultant

Other mandates: Chairman of the Supervisory Board of Balda AG, Bad Oeyenhausen (D); Vice-President of the Supervisory Board of Premiere AG, Unterföhring (D); member of the Supervisory Board of Update Software AG, Vienna.

Othmar Vock

Swiss citizen

Education: Commercial diploma; MBA IMD, Lausanne; diploma in export management Career: 1975–1983 Commercial Financial Director of Ciba-Geigy Group; 1984–1990 Financial Director of Tax/Controlling of the Roche Group; 1990–1993 Director of Internal Auditing for the Roche Group; 1993–2004 Chief Financial Officer of Givaudan SA (formerly fragrance/flavors business unit, subgroup of the Roche Group)

Other mandates: Member of the Admission Office of SWX Swiss Exchange; Member of the Board of Directors of Ivoclar-Vivadent, Schaan; Member of the Board of Directors of Cytos AG, Schlieren; Member of the Board of Directors of Balda AG, Bad Oeynhausen (D)

Cross-involvement

There is no cross-involvement of the Board of Directors of Swisscom AG and the Board of Directors with any other listed company. Positions held by members of the board of Swisscom AG in the management committees of other listed companies are listed in the information on each individual board member.

Composition, election and term of office

With the exception of the government representative, the Board of Directors of Swisscom AG is elected by the General Meeting of Shareholders. It currently comprises nine members but according to the terms of the Articles of Incorporation may comprise between seven and nine. The members are elected individually for two years. The maximum term of office is eight years. Members who reach the age of seventy retire from the Board on the date of the next General Meeting.

Under the Articles of Incorporation of Swisscom AG, the Federal Government is entitled to appoint two representatives to the Board of Directors of Swisscom AG. Felix Rosen-

berg is currently the sole government representative. The representative of the Federal Government is not subject to the maximum term of office. Under the Swiss Telecommunications Enterprise Act (TUG), the employees must have appropriate representation on the Board of Directors of Swisscom AG. The Articles of Incorporation state that the Board of Directors must include two employee representatives. These are currently Hugo Gerber and Michel Gobet.

Internal organization, powers and responsibilities

The Swiss Telecommunications Enterprise Act (TUG) makes reference to the Swiss Code of Obligations in respect of the non-transferable and irrevocable duties of the Board of Directors of Swisscom AG. The Board of Directors is thus responsible for overall management and for supervision of the Executive Board of Swisscom AG. It determines strategic, organizational, budgeting and accounting guidelines, taking into account the four-year targets laid down by parliament in accordance with the TUG which the Confederation, as majority shareholders, wants to reach. The Board of Directors has delegated day-to-day business management to the CEO in accordance with the TUG, the Articles of Incorporation, and the Organizational Regulations.

The Board of Directors convenes as often as business requires. In fiscal 2006 it convened for seven meetings, three of which lasted two days. Five telephone conferences were also held. The Board of Directors also attends the annual management meeting of the Swisscom group which lasts a whole day. The new members of the Board of Directors attended a seminar to introduce them to their new function.

The Board of Directors is convened by the Chairman. Should the Chairman be unavailable, the Vice Chairman convenes the meeting. The CEO, CFO and CSO of Swisscom AG are always invited to the meetings of the Board of Directors. The Chairman sets the agenda for the meetings of the Board of Directors. Any board member may request the inclusion of further items on the agenda. Board members receive documents prior to the meeting to allow them to prepare their responses to items on the agenda. The Board of Directors may invite members of the Executive Board, senior employees of Swisscom AG, auditors or other specialists to participate in its meetings, thereby ensuring appropriate reporting to the members of the board. Furthermore, the Chairman of the Board of Directors and the CEO report to each meeting of the Board of Directors on the general course of business and major business transactions, as well as on any measures implemented. On average 98% of members were present at the meetings of the Board of Directors.

The Board of Directors has four standing committees and one ad hoc committee to carry out detailed examinations of important issues. Each committee generally comprises two to four members. Each member of the Swisscom Board of Directors also sits on one of the standing committees. The Chairman is a member of all standing committees; with the exception of the compensation board, however these are chaired by other board members. The duties and responsibilities of the standing committees are laid down in regulations. All minutes of the meetings of the standing Finance, Audit and Personnel and organization committees are distributed to all members of the Board of Directors in order to ensure transparency.

Finance committee

This committee is chaired by Torsten G. Kreindl. The other members are Fides P. Baldesberger, Catherine Mühlemann, and Anton Scherrer. The CEO, CFO and the CSO regularly attend the meetings of the Finance committee. The committee met on five occasions in fiscal 2006. On average 95% of members were present at the meetings. The committee prepares for the attention of the Board of Directors all financial transactions, such as the establishment or winding up of major group companies, the formation or sale of important holdings, the formation or termination of strategic alliances, medium-term budgeting, and major investments or disposals, as well as giving consent to all important purchases, contracts, guarantees and letters of comfort. The Finance committee has the last say in approving important loans, credits and financing.

Personnel and organization committee

This committee is chaired by Felix Rosenberg. The other members are Hugo Gerber, Michel Gobet, and Anton Scherrer. The CEO and CPO also regularly attend the meetings. The committee met on six occasions in fiscal 2006 and all members were present at the meetings. One decision was passed via a circular resolution. The committee prepares for the attention of the Board of Directors all organizational issues concerning the Group structure and matters relating to corporate policy, personnel and salary policy, the collective employment agreement, and major restructuring projects. The personnel and organization committee has the last say in approving statutes and organizational regulations passed by the strategic and important group companies, general conditions of employment for Swisscom AG top management, management and employee participation schemes and profit sharing schemes, basic principles of pension funds and social benefits, as well as the election of the employer representative on the pension fund.

Audit committee

This committee is chaired by Othmar Vock. The other members are Richard Roy and Anton Scherrer. The CEO, CFO, Head of Group Accounting & Reporting, Head of Internal Audit and the external auditors also regularly attend the meetings. The committee met on eight occasions in fiscal 2006 and all members were present at the meetings. The members are classified as independent and have relevant specialist skills. Othmar Vock is considered a „Financial Expert“ in accordance with the US Sarbanes-Oxley Act of 2002 due to his specialist knowledge in the field of finance. The committee covers all internal and external audit work as well as all subjects dealt with by the Board of Directors that require specialist financial know-how and thus constitutes the central controlling instrument of the Board of Directors. It prepares for the attention of the Board of Directors the following areas of businesses: the organization of accountancy, financial controls and financial planning, appointing the auditors, reviewing the course of business, including quarterly statements and forecasts, the management report and applications for registering shares. It is responsible for assessing the qualifications, independence and performance of the external auditors, managing the share register, monitoring organization and processes of the internal control system and ensuring that an adequate risk management system is in place. It decides whether the independence of the auditors would be impaired if they did not manage the audit, as allowed by law. In addition, the committee has approved a procedure for handling complaints in connection with external accounting, internal control systems of the financial reports and auditing of the annual accounts and for whistle blowing.

Compensation committee

This committee was founded as a standing committee in November 2006. It is chaired by Anton Scherrer. The other members are Torsten G. Kreindl, Felix Rosenberg, and Othmar Vock. The committee met on two occasions in fiscal 2006 and all members were present at the meetings. The committee prepares for the attention of the Board of Directors compensation schemes for the Board of Directors and approves the remuneration of the Executive Board.

Nomination committee

This committee meets on an ad hoc basis in order to prepare for the election of new members of the Board of Directors and the Executive Board. The committee met on three occasions in fiscal 2006 and all members were present at the meetings.

The regulations of the Board of Directors and all committees of the Board of Directors can be found under <http://www.swisscom.com/corporate-governance>.

Board of Directors' management, information and controlling instruments

The President and the CEO meet on average twice a month in order to discuss fundamental issues concerning Swisscom AG. At the beginning of each month, the CEO gives the Board of Directors a report on the main events over the past month, structured on the basis of positions. When the quarterly period under review has ended, the CEO shall serve interim balances on the Board of Directors, including the corresponding annotations and the other important key figures. Moreover, each member of the Board of Directors is entitled to demand information on all matters of Swisscom AG at any time.

Furthermore, every quarter, the Board of Directors receives detailed information on the course of business and on the assets, financial and earning position of the Group, the segments and the major Group companies. Forecasts of the income statement, cash flow statement and balance sheet for the current fiscal year are produced on a quarterly basis. Internal financial reporting is carried out in accordance with the same accounting principles and standards as external reporting. The reporting includes key non-financial information for controlling and steering purposes. Limited monthly reporting is also carried out.

Swisscom AG has also decided to set up a comprehensive risk management system within the scope of corporate governance. This is intended to enhance risk transparency and risk awareness, thereby ensuring that opportunities can be consistently utilized and risks controlled. The risk and security management unit (incl. crisis management) has been allocated to the finance department since January 1, 2006.

In addition to its risk management responsibilities, the internal audit department also has a supervisory and controlling function. Its purpose is to identify weaknesses in the internal controlling system, propose appropriate measures and contribute to improving the efficiency and effectiveness of the supervisory and controlling processes. With a view to achieving maximum independence, the internal audit function reports to the Board of Directors.

5 Executive Board

Members of the Executive Board

Under the Articles of Incorporation, the Executive Board must comprise one or more members, who may not simultaneously be members of the Board of Directors. In exceptional circumstances only, temporary membership of the Board of Directors is permitted.

Accordingly, the Board of Directors has delegated responsibility for overall executive management of Swisscom AG to the CEO. The CEO is entitled to delegate his powers to a subordinate, in particular to other members of the Executive Board.

The members of the Executive Board are appointed by the Board of Directors. The Executive Board comprises the CEO of Swisscom AG, the CEOs of the strategic Group companies and the heads of the GHQ divisions.

On March 8, 2006, management decided to make several changes within management: Adrian Bult was appointed successor to Carsten Schloter as CEO of Swisscom Mobile AG. New CEO of Swisscom Fixnet AG is the former CFO of Swisscom AG, Ueli Dietiker. Mario Rossi, former CFO of Swisscom Fixnet AG, became new CFO of Swisscom AG. René Fischer, former CEO of Swisscom Solutions AG, left the company in March 2006. His successor is Urs Schaeppi, previously in charge of Commercial Business at Swisscom Mobile AG.

The new Chief Strategy Officer and member of the Executive Board, replacing Christoph Brand who withdrew from the company in mid 2006, is Daniel Ritz from the Board of Directors. He took up his post on September 1, 2006.

Members of the Executive Board at December 31, 2006:

Name	Born	Position	Appointed ⁹⁾
Carsten Schloter	1963	CEO of Swisscom AG	January 2006
Adrian Bult	1959	CEO of Swisscom Mobile AG	March 2006
Ueli Dietiker	1953	CEO of Swisscom Fixnet AG	March 2006
Urs Schaeppi	1960	CEO of Swisscom Solutions AG	March 2006
Stefan Nünlist	1961	CCO of Swisscom AG	July 2001
Günter Pfeiffer	1958	CPO of Swisscom AG	June 2004
Daniel Ritz	1966	CSO of Swisscom AG	September 2006
Mario Rossi	1960	CFO of Swisscom AG	March 2006
Jürg Rötheli	1963	CEO of management division Related Business	April 2005
Michael Shipton	1956	CEO of Swisscom IT Services AG	August 2005

⁹⁾ Member of the Executive Board of Swisscom: Adrian Bult since 1998; Carsten Schloter since 2000; Ueli Dietiker, Stefan Nünlist, Jürg Rötheli and Michael Shipton since 2001; Günter Pfeiffer since 2004; Daniel Ritz, Mario Rossi and Urs Schaeppi since 2006.

Carsten Schloter



German citizen

Education: degree in business administration

Career: 1985–1993 various positions at Mercedes Benz France SA; 1992–1994: Member of the Management Board at debitel France SA; 1995–1999 various positions at debitel Germany; 1999 Member of the Management Board at debitel AG; 2000–2001 Head of Public Com and Head of Mobil Com of Swisscom; 2001–January 2006 Chief Executive Officer at Swisscom Mobile AG, since January Chief Executive Officer at Swisscom AG

Since March 2000 member of the Executive Board of Swisscom

Other mandates: Member of Supervisory Board of Vodafone D2 GmbH

Adrian Bult



Swiss citizen

Education: degree in business administration (lic. oec.)

Career: 1984–1997 IBM Switzerland; during that time 1993–1994, Business and Unit Manager of Swiss banks, and 1995–1997 Regional Manager of IBM Switzerland, as well; 1997–2000 Head of IT of Telecom PTT; then head of Consumer Communications (now called Fixnet); October 2001–March 2006 Chief Executive Officer of Swisscom Fixnet AG; since March 2006 Chief Executive Officer of Swisscom Mobile AG

Since January 1998: member of the Executive Board of Swisscom

Other mandates: Member of the Management Board of the marketing society, Member of the Board of Directors of Swissgrid nationale network association

Ueli Dietiker



Swiss citizen

Education: Swiss certified public accountant

Career: 1972–1988 ATAG Ernst & Young; 1988–1994 various positions with Motor Columbus AG, finally Chief Financial Officer; 1995–December 1998 Chief Financial Officer of Cablecom Holding AG; January 1999–June 2001 Chief Executive Officer of Cablecom Holding AG; September 2001–March 2002 Head of Strategic Growth and Related Businesses of Swisscom AG; July 2003–June 2004 Head of Group Human Resources of Swisscom AG; April 2002–March 2006 Chief Financial Officer and vice Chief Executive Officer of Swisscom AG, since March 2006 Chief Executive Officer of Swisscom Fixnet AG and Vice Chief Executive Officer of Swisscom AG

Since September 2001 member of the Executive Board of Swisscom

Other mandate: Member of the Board of Directors of Zuckermühle Rapperswil AG

Stefan Nünlist



Swiss citizen

Education: Degree in law (lic. iur.), attorney and notary; Wharton Advanced Management Program (University of Pennsylvania, Philadelphia, USA)

Career: 1991–1996 Federal Department of Foreign Affairs (DFA); 1997–1998 Federal Department of Economic Affairs (DEA); 1999–2000 Atel AG; since January 2001 Head of Group Communications at Swisscom AG

Since July 2001 Member of the Executive Board of Swisscom

Other mandates: Member of the Management Board of the Swiss Advertisers' Federation; Member of the Swiss Tourism Council; Member of Olten Municipal Council

Günter Pfeiffer

German citizen

Education: Dr. rer. pol; business administration (University of Cologne)

Career: 1988–1995 Detecon, Director of Holding Projects; 1995–1996 T-Mobile, Senior Director International; 1997–1999 VEBA-Telekom, Vice Marketing Chairman; 2000–2004 Head of Participation Management at

Swisscom AG; since June 2004 Head of Group Human Resources of Swisscom AG

Since June 2004 Member of the Executive Board of Swisscom

Daniel Ritz

Swiss citizen

Education: Dr. oec. HSG (business administration)

Career: 1988 Internship, Ciba-Geigy (now Novartis); 1992–1993 Project Manager, University of St. Gallen; 1994–2001 consultant, Boston Consulting Group AG; 2001–2006 Partner, Boston Consulting Group AG; since

September 2006 Chief Strategy Officer Swisscom AG

Since September 2006 Member of the Executive Board of Swisscom

Mario Rossi

Swiss citizen

Education: Swiss certified public accountant

Career: 1998–1992 Controller Elco Looser Group; 1992–1994 Corporate Controller Lindt & Sprüngli AG; 1994–1998 Chief Financial Officer of Karl Steiner Group; 1998–2002 Head of Reporting and Controlling Swisscom

AG; 2002–March 2006 Chief Financial Officer of Swisscom Fixnet AG; since March 2006 Chief Financial Officer of Swisscom AG

Since March 2006 Member of the Executive Board of Swisscom

Jürg Rötheli

Swiss citizen

Education: Doctorate in law (Dr. iur.); attorney and notary; Wharton Advanced Management Program (University of Pennsylvania, Philadelphia, USA)

Career: 1993–1999 (partner since 1996) Stampfli, Keller & Partner, Solothurn; 1995–1999 General Counsel Interdiscount Holding AG, Simeco Holding AG; January 1999–June 2001 Head of Legal Department of Swisscom AG; July 2001–March 2005 Head of Group Operations & Related Businesses of Swisscom AG; since April 2005 Chief Executive Officer of Management division Related Business

Since July 2001 Member of the Executive Board of Swisscom

Urs Schaeppi

Swiss citizen

Education: Dipl. Ing. ETH; lic. oec. HSG (business administration)

Career: 1987–1991 Iveco Motorenforschungs AG; 1991–1994 Head of Marketing Electronics Ascom AG; 1994–1998 plant manager Biberist Paper Factory; 1998–March 2006 Head of Commercial Business and Member of the Executive Board of Swisscom Mobile AG; since March 2006 Chief Executive Officer of Swisscom Solutions AG

Since March 2006 Member of the Executive Board of Swisscom

Other mandates: Member of the Board of directors of the BV Group, Berne

Other mandates: Member of the Board of directors of the BV Group, Berne

Michael Shipton

British and Swiss citizen

Education: BSc; PhD

Career: 1980–1983 British Telecom plc; 1983–1989 Hasler AG; 1989–1994 Head of the Product Development Department at Ascom AG; 1994–1997 Member of the Management Board of the Telecom IT Division, Telecom PTT; January 1997–December 2000 Head of the Business Steering Network Services; January 2001–July 2005 Chief Strategy Officer at Swisscom AG; since August 2005 Chief Executive Officer of Swisscom IT Services
Since July 2001 Member of the Executive Board of Swisscom

Management contracts

The Swisscom Group has not entered into any management contracts with third parties on behalf of subsidiaries belonging to the consolidated group.

6 Compensation, shareholdings and loans of the Board of Directors and the Executive Board**Content and method determining the compensation and the share-ownership programs**

The members of the Board of Directors are entitled to reimbursement of any expenses incurred in the interests of the company, as well as to compensation commensurate with their work and responsibility, as specified by the Board of Directors itself in accordance with the Articles of Incorporation.

The Board of Directors has issued a compensation plan based on a recommendation made by the Personnel and Organization Committee as part of its constitutive work in January 1998. This remained in force without amendment for four years. The first change in compensation levels was made on January 1, 2002. The compensation plan provides for a basic fee together with allowances for specific duties. Meeting attendance fees are also paid. Expenses are paid on the basis of actual expenditure.

The pay for members of the Executive Board consists of a basic salary component and a performance-related component (bonus). This is based on the market rate for the position, the respective grade and the employee's performance and experience. Targets used to calculate the bonus reflect the general requirement to continuously increase the value of the company per share. In the reporting period the main budgeted financial and non-financial targets were: net revenue, EBITDA margin, the operating free cash flow and the perception of Swisscom as a customer-friendly company. The size of the bonus paid depends on the degree to which targets have been met and the total amount specified annually by the Board of Directors for bonuses. If targets are met, the full bonus is paid. If targets are exceeded, additional remuneration up to a maximum of double the bonus figure may be paid. The basis for the wording of the individual target agreement, the performance appraisal and the size of the bonus are the bonus regulations issued by the Board of Directors. The Board of Directors defines the targets for the Swisscom Group at the request of the CEO, who agrees on said targets with the members of the Executive Board. The management and employee participation schemes of Swisscom AG are described in Note 9 to the consolidated financial statements.

Compensation for acting members of governing bodies

Compensation for the members of the Board of Directors in 2006 and 2005 amounted to CHF 2.1 million and CHF 2.0 million, respectively. Compensation for the members of the Executive Board amounted in 2006 to CHF 9.8 million (previous year CHF 8.2 million). 2006 included CHF 2.7 million from contractual obligations to members who have withdrawn from the Executive Board. The total compensation paid to the CEO in 2006 and 2005 amounted to CHF 1.5 million and CHF 1.6 million, respectively. This includes allocated 407 shares in 2006 and 522 shares in 2005. No call options were allocated since fiscal year 2004.

The figures shown include fees, salary payments, bonuses, additional payments, staff pension plan contributions and other contractual obligations. 25% of the bonuses for members of the Executive Board were paid in the form of shares and options. 25% of the fixed fees for the Board of Directors are in principle paid out in the same way. Since 2003, the same program has been used for both the Board of Directors and the Executive Board.

Compensation for former members of governing bodies

In the year under review, as in the previous year, no compensation was paid to former members of governing bodies.

Share allotment in the year under review

During fiscal 2006, the members of the Board of Directors and the Executive Board invested 25% of their fees or individual annual bonus within the framework of a Management Incentive Plan (MIP). The number of allocatable shares is calculated on the basis of the tax value. In the year under review, a total of 3,832 shares were acquired by the members of the Board of Directors and Executive Board within the framework of the MIP. Swisscom AG did not allocate any shares to persons, i.e. third parties, closely associated with members of the Board of Directors or the Executive Board.

Share ownership and options

At December 31, 2006, the members of the Board of Directors and persons close to them held a total of 2,608 shares, while the members of the Executive Board and persons close to them held a total of 6,686 shares as at the same date. No options have been allocated since 2004. At December 31, 2006, the members of the Board of Directors held no options. Share options allocated and held by the members of the Executive Board at December 31, 2006, are as follows: 1)

	2002	2003
Maturity	09.04.2007	25.04.2008
Blocking period	09.04.2005	30.04.2006
Exercise period	10.04.2005 -09.04.2007	01.05.2006 -25.04.2008
Exchange ratio ²	1:1	100:1
Number of options allocated	5,290	798,000
Number of options held at 31.12.	3,120	98,000
Exercise price in CHF	565.33	414.62

¹ This table contains options held by members of the Executive Board who were in office at December 31, 2006. In addition, to the options listed above, members of the Executive Board still hold 32,000 options (exchange ratio 100:1) which they acquired under other management stock option schemes prior to their election to the Executive Board.

² Exchange ratio: number of options required to purchase one share.

Additional fees and remuneration

Neither the members of the Board of Directors and persons close to them, nor to members of the Executive Board and persons close to them received fees or other remuneration in fiscal 2006 for additional services performed for the benefit of Swisscom.

Loans to members of governing bodies

During fiscal 2006 Swisscom AG did not provide guarantees or grant loans, advances or credit facilities of any kind either to members of the Board of Directors and persons close to them, nor to members of the Executive Board and persons close to them. Nor are there any receivables of any nature whatsoever outstanding.

Maximum total compensation paid to the Board of Directors

Total compensation paid to the Chairman of the Board of Directors in 2006 amounted to CHF 411,000 (proportionately as a member and from April 25, 2006 as Chairman of the Board of Directors). This included the allocated shares and options. In the year under review he was allocated 148 shares. No further options were allocated.

Compensation for members of the Board of Directors

A member of the Board of Directors without any special function receives an annual amount of CHF 110,000 and an attendance fee of CHF 750 per day. The chairmen of the committees receive an additional amount of CHF 20,000 for additional expenses. The vice-president is also entitled to a remuneration of CHF 20,000. Furthermore, the state representative receives a fixed remuneration for the special tasks related to his function. Expenses related to the function are compensated with an average of CHF 40,000. In addition a lump sum of CHF 150 per month is paid for Swisscom services taken advantage of.

7 Shareholders' participation**Voting rights and representation restrictions, registration of nominees**

Each registered share entitles the holder to one vote. Voting rights can only be exercised if the shareholder has been entered with voting rights in the Swisscom AG share register. The Board of Directors may refuse to recognize an acquirer of shares as a shareholder or beneficial owner with voting rights if the latter's total holding, when the new shares are added to any voting shares already registered in his/her name, would then exceed the limit of 5% of all registered shares entered in the commercial register. The acquirer is entered in the register as a shareholder or beneficial owner without voting rights for the remaining shares. This restriction of voting rights also applies to registered shares acquired through the exercise of subscription, option, or conversion rights. A group clause applies to the calculation of the percentage restriction.

The voting right restriction of 5% does not apply to the Swiss Federal Government which, under the Telecommunications Enterprise Act (TUG), must hold the capital and voting majority.

The Board of Directors may recognize an acquirer of shares with more than 5% of all registered shares as a shareholder or beneficial owner with voting rights, in particular in the following exceptional cases:

- where shares are acquired as a result of an amalgamation or corporate merger
- where shares are acquired as a result of a contribution in kind or exchange of shares
- where shares are acquired to establish a long-term collaboration or strategic alliance

In addition to the percentage restriction on voting rights, the Board of Directors may refuse to recognize and enter as a shareholder or beneficial owner with voting rights any acquirer of shares who fails to expressly declare upon request that he/she has acquired the shares in his/her own name and for his/her own account. Should an acquirer of shares refuse to make such a declaration, he/she will be entered as a shareholder without voting rights.

In addition, where an entry has been made on the basis of false statements by the acquirer, the Board of Directors may, after consulting the party concerned, delete its share register entry as a shareholder with voting rights and enter it as a shareholder without voting rights. The acquirer must be notified of the deletion immediately.

Statutory quorum requirements

The General Meeting of Shareholders of Swisscom AG adopts its resolutions and holds its elections by absolute majority of valid votes cast. In addition to the specific quorum requirements under the Swiss Code of Obligations, the Articles of Incorporation require a two-thirds majority in the following cases:

- introduction of restrictions on voting rights
- conversion of registered shares to bearer shares and vice versa
- changes to the above-mentioned statutory quorum requirements

The statutory restrictions on voting rights may be lifted by resolution of the General Meeting, for which an absolute majority of valid votes cast would be required.

Convocation of shareholders and agenda

The Board of Directors must convene the General Meeting at least 20 days prior to the date of the meeting by means of an announcement in the Swiss Commercial Gazette. The meeting can also be convened via unregistered or registered letter to all registered shareholders.

Shareholders representing shares with a par value of at least CHF 40,000 may request that an item be placed on the agenda. This request must be submitted to the Board of Directors at least 45 days prior to the General Meeting, stating the agenda item and the proposal.

Representation at the General Meeting

Shareholders may be represented at the General Meeting by another shareholder with voting rights who has a written power of attorney. Shareholders may also be represented by a legal proxy, a custody proxy, the corporate proxy or an independent voting proxy required by Swiss company law and appointed by Swisscom AG.

Registrations

The voting shares entered in the register have voting rights in the General Meeting of Shareholders. Previously the register has always closed three days prior to the General Meeting of Shareholders. No mutations were executed thereafter. The register will not be closed prior to the General Meeting of Shareholders for 2006. Those shareholders who have registered their voting rights in the register by 4 p.m. on April 20, 2007 are entitled to vote.

8 Clauses on changes of control

Obligatory offer

Provision is made in the Telecommunications Enterprise Act (TUG) for the Swiss government to hold the capital and voting majority in Swisscom AG. A takeover bid within the meaning of the Federal Act on Stock Exchanges and Securities Trading (SESTA) would thus not be possible without an amendment to the TUG. As a result, there are no regulations concerning „opting out“ or „opting up“ (SESTA art. 22).

Clauses on takeover of control

In addition to the statutory benefits in their employment contract, members of the Executive Board are entitled to a termination payment equal to their annual salary (including bonus), if a new majority shareholder and/or a new Chairman of the Board of Directors terminates the employment relationship within twelve months of the takeover. Those members who were elected to the Executive Board as CEO of a strategic Group company are, in addition to the statutory benefits in their employment contract, entitled to such a termination payment if a new majority shareholder and/or a new Chairman of the Board of Directors of the Group company in question terminates the employment relationship within twelve months following the takeover.

9 Auditors

Duration of the mandate and term-of-office of the chief auditor

The statutory and Group auditors are appointed annually by the General Meeting. In accordance with the requirements of the Sarbanes-Oxley Act 2002, the auditor in charge must rotate every five years.

KPMG Klynveld Peat Marwick Goerdeler SA, Gümligen-Berne (Switzerland) has been the statutory and Group auditor of Swisscom AG since January 1, 2004. The auditor in charge of KPMG Klynveld Peat Marwick Goerdeler SA who is responsible for the auditing mandate, Hanspeter Stocker, has been in office since 2004.

Auditing remuneration and additional remuneration

The remuneration for the auditing services provided by KPMG Klynveld Peat Marwick Goerdeler SA in 2006 amounted to CHF 9.7 million. The remuneration for additional services relating to auditing as well as for tax advice and other consultation services in 2006 amounted to CHF 0.8 million.

The Audit Committee of the Board of Directors has specified that the auditors may not provide Swisscom with any of the following services, due to legal restrictions:

- Accounting services
- Payroll administration
- Valuation and assessment services, fairness opinions
- Actuarial services
- Management tasks
- Financial services (broker dealer services)
- Internal auditing
- Development and introduction of financial information systems
- Legal advice
- Personnel services, executive recruitment
- Fiscal services such as „Aggressive Tax Position Transactions“, „Confidential Transactions“ and „Tax Consultancy Services for Employees in a Financial Reporting Oversight Role“

The statutory auditors are permitted to provide other services to the Swisscom Group. However, all additional mandates (audit services and permitted non-audit services) are subject to the pre-approval of the Audit Committee.

Supervision and controlling instruments for evaluating the auditors

It is the responsibility of the Audit Committee to define the supervisory and controlling instruments to evaluate the statutory auditors. These instruments are reassessed yearly.

The external auditors participate in the meetings of the Audit Committee, where they report on the performance and results of their activities. In particular they report on the findings of their review half-yearly and yearly.

10 Information policy

Swisscom pursues an active and open information policy vis-à-vis the general public and the financial markets. Swisscom publishes consistent, comprehensive and transparent financial information on a quarterly basis.

Swisscom meets investors regularly throughout the year, presents its financial results at analysts' meetings and road shows, attends selected conferences for financial analysts and investors, and keeps its shareholders regularly informed about its business through press communiqués and shareholders' letters.

Results will be published on the dates below:

First quarter: May 9, 2007

Second quarter: August 8, 2007 (half-year report)

Third quarter: November 7, 2007

Fourth quarter: in March, 2008 (Annual report)

The General Meeting of Shareholders will be held on:

April 24, 2007

April 22, 2008

The interim reports and the annual financial statements and management report can be found on the Swisscom homepage under Investor Relations (www.swisscom.com/ir) or may be ordered directly from Swisscom. Press releases, presentations and the latest financial calendar are also available on the homepage.

Information about push and pull links for the distribution of ad-hoc communications: http://www.swisscom.com/GHQ/content/Investor_Relations/News_und_Events/AdHoc_Meldungen/

Swisscom Group Five year review

CHF in millions, except where indicated		2002	2003	2004	2005	2006
Net revenue		10,415	10,026	10,057	9,732	9,653
Operating income before depreciation and amortization (EBITDA)		4,237	4,487	4,388	4,171	3,787
Net revenue	%	40.7	44.8	43.6	42.9	39.2
Operating income (EBIT)		2,577	2,808	2,695	2,777	2,352
Net income from continuing operations		2,060	2,319	2,191	2,337	1,869
Net income attributable to equity holders of Swisscom AG		826	1,571	1,596	2,022	1,599
Net income		1,127	1,911	1,948	2,346	1,905
Equity		8,185	8,507	7,453	6,624	4,503
Equity ratio ¹	%	48.9	52.1	52.4	49.4	28.9
Number of full-time equivalent employees at end of period ²	FTE	17,171	16,049	15,477	16,088	17,068
Average number of full-time equivalent employees ³	FTE	17,426	16,506	15,664	15,455	16,734
Revenue per employee	CHF in thousand	598	607	642	630	577
EBITDA per employee	CHF in thousand	243	272	280	270	226
Cash provided by operating activities		3,698	4,708	4,066	3,432	3,264
Equity free cash flow ⁴		1,119	2,913	2,913	2,203	1,417
Capital expenditure		1,127	1,165	1,136	1,087	1,324
Net debt (net funds) ⁵		540	(1,880)	(2,518)	(1,632)	4,379
Key figures per share						
Par value per share at end of period	CHF	9.00	1.00	1.00	1.00	1.00
Weighted-average number of shares outstanding	In million	67.648	66.200	64.716	59.836	55.299
Price per share (high/low)	CHF	590.00 / 360.00	438.50 / 367.00	454.75 / 382.50	470.00 / 399.25	466.50 / 388.00
Net income from continuing operations	CHF	30.45	35.03	33.86	33.64	28.27
Net income	CHF	12.21	23.73	24.66	33.79	28.92
Equity	CHF	109.45	117.46	104.92	100.29	80.21
Dividend	CHF	12.00	13.00	14.00	16.00	17.00
Capital reduction	CHF	8.00	–	–	–	–
Pay-out ratio ⁶	%	163.80	54.78	56.77	47.35	58.79
Market capitalization at end of period ⁷		26,514	27,011	27,543	23,523	23,894

* In accordance with the proposal of the Board of Directors to the General Meeting of Shareholders.

¹ Equity as percentage of total assets.

² Excluding 252, 360, 475, 512 and 429 Worklink full-time equivalent employees at December, 31, 2002, 2003, 2004, 2005 and 2006, respectively.

³ Excluding 218, 295, 433, 498 and 471 Worklink full-time equivalent employees in 2002, 2003, 2004, 2005 and 2006, respectively. See Note 9.

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

⁵ Definition of net debt (net funds): financial liabilities and liabilities from collecting activities (Accarda Group) less cash and cash equivalents, other current financial assets, receivables from collecting activities (Accarda Group), financial assets from cross-border tax lease arrangements and non-current derivative financial instruments.

⁶ Representing gross dividend and capital reduction as a percentage of net income per share.

⁷ Closing price at end of periode multiplied with the number of shares outstanding at end of period.

Cautionary statement regarding forward-looking statements

The financial review is published in German and English. The German version is binding.

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.

Swisscom as a sustainable company

Studies confirm the importance that Swisscom has long attached to corporate responsibility: 72 percent of the Swiss population expect Swisscom to do more than merely generate profit and comply with laws and ordinances: they expect us to treat employees fairly, contribute to environmental protection, and display a strong commitment to the community. To meet these expectations, Swisscom is bringing its corporate responsibility activities into line with the company's brand values and business fields.

Sustainable enterprises, i.e. businesses that are consistently successful, socially responsible and environmentally aware, have two defining characteristics: – stability and continuity. Stability and continuity are required wherever the priority is on responsibility and good relations, be it towards employees, customers, or other target groups. Conversely, a high degree of flexibility is called for when it comes to introducing new, environmentally compatible technologies, adjusting business fields, or changing the direction of the company as a whole. We know that our target groups value continuity and reliability, but can count on Swisscom to respond swiftly to change.: the new strategy, the code of conduct enshrined in our new mission statement, and customer focus are all core elements on which our company's further development depends.

Positive feedback from the public shows that we are on the right track. Swisscom also scores consistently high marks in the ratings for corporate responsibility. In the international survey regularly conducted by oekom research AG, Swisscom remains second in a field of 26 telecommunications companies. Swisscom also scores high in the ETHOS/SiRi, INRate, SAM Group and Vigeo ratings. As a result, the Swisscom share is listed in a number of sustainability indexes, including the Dow Jones Sustainability Index, the Ethibel Sustainability Index, and the FTSE4Good-Index, as well as in several sustainability funds.

How does Swisscom achieve sustainability?

Swisscom applies several instruments that support its reputation as a sustainable enterprise:

- at the basis are a mission statement and a clear system of values
- a code of conduct serves as a guideline for employees
- close contact with various target groups and stakeholders enables us to keep our finger on the public pulse
- quality and environmental management systems ensure that products and services are factored into sustainability management
- a dynamic environmental team sees to it that our environmental efforts are continually improved
- a strategic team coordinates corporate responsibility and makes sure that no aspects are overlooked

External engagements

In line with Swisscom's commitment to achieving maximum efficiency in terms of sustainable management, Swisscom works with external associations and organizations that pursue the same goals. In terms of corporate responsibility, these are:

- ETNO (European Telecommunications Network Operators' Association), the Sustainability Working Group and signatory to the Sustainability Charter
- ÖBU (Swiss Association for Environmentally Conscious Management)
- Transparency International Switzerland

and for environmental issues:

- EnAW (Energy Agency for Industry): Universal target agreement for CO₂ reduction and increased energy efficiency
- Association for Environmentally Sound Electricity (VUE)
- WWF Climate Group

In October 2006, Swisscom joined the WWF Climate Group, whose members pledge to achieve significant reductions in their CO₂ emissions. Swisscom's membership of this group reflects the importance it attaches to this issue, both for the company and for the community as a whole.

Swisscom and its customers

Our customers value Swisscom's wide range of offerings, but increasingly they want to purchase everything from a single source, to reach the right Swisscom contact the first time they call, and to have a single point of contact for all correspondence. In the year under review, Swisscom laid the foundations for a new organization that will cater to these wishes.

In its conversations with customers, Swisscom has identified gaps between its mission to deliver offerings that make life simpler for customers and the reality as viewed by them. Senior management has come up with solutions that will bring the intention closer to reality. Firstly, by making some minor behavioral adjustments: since mid-2006, all employees now answer the telephone in the same way – greeting callers with "Swisscom" rather than the Group company name, followed by their own name – and use the Swisscom jingle as a ringtone on their business mobile phones. Secondly, by making some organizational adjustments: Swisscom Shops have been integrated within Swisscom Mobile. This is a logical step since most of the products they sell are for mobile applications. In addition, the SME customer segment is now concentrated within Swisscom Fixnet, while corporate customers are now served by Swisscom Solutions.

Customer loyalty: a Group-wide objective for all employees

Across all Group companies, employees are enthusiastically working towards the Group-wide objective of "customer loyalty". For 2007, Swisscom has given this a weighting of at least 30 percent in all employees' performance objectives, with the aim of being perceived as the company that provides the best customer service in Switzerland by 2008. Surveys among Swisscom Mobile and Swisscom Fixnet customers in 2006 showed a year-on-year increase of 0.26 points for customer loyalty.

At the end of December 2006, Swisscom Mobile scored 8.4 points for customer satisfaction and 8.0 points for customer service, coming top in the Swiss mobile communications market on both counts. This has had a positive impact: on the one hand, more and more customers are recommending Swisscom Mobile, and on the other, we are seeing a drop in the number of customers contemplating switching to another provider. We also did well in the first "Kundenmonitor" ("customer monitor") survey on customer relations to be conducted in Switzerland, in which Swisscom Mobile ranked first among mobile communications providers. Customers repeatedly award top marks to Swisscom's telephone points of contact.

In 2006, Swisscom Fixnet not only launched new products on the market, but also made a concerted effort to improve customer care. Customers can now receive technical assistance for networking their home. On request, technicians from Home Networking Services will solve all their PC and IT infrastructure problems, ranging from software installation and configuration to data archiving and cabling. And all subscribers to Bluewin TV automatically have digital TV installed in their own homes by a qualified expert.

These are customer services we provide in addition to our proven points of customer contact – Swisscom Shops, the Online Shop, telephone advice and information. Record statistics were scored by the services within Swisscom that provide general support for residential customers, sell services and process fault reports: more than 2.7 million calls were made to the toll-free hotline 0800 800 800, some 620,000 to number 175, and around 1.66 million to the telephone line for Bluewin products and services. Professional, courteous and friendly service is also appreciated in our written correspondence with customers by e-mail, fax or post: in the course of 2006, Swisscom Fixnet received 1.88 million written communications.

Swisscom Shops enjoyed even greater popularity in 2006, increasing customer satisfaction and gaining market share. With the opening of four new franchise shops and six

latest-generation shops, customers now have a choice of 106 Swisscom Shops across Switzerland. In the year under review, the 580 staff in the Swisscom Shops served a total of 4.6 million customers, for whom the average waiting time was four minutes. The Swisscom Online Shop has become even more attractive, recording a 20 percent rise in virtual visits thanks to improved service focus.

Improvements for small and medium-sized enterprises

In 2006 Swisscom Fixnet redoubled its efforts to improve the level of service for small and medium-sized enterprises (SMEs). In the future, SMEs will have a single point of contact for all their needs, simplifying procedures and facilitating communication. Swisscom supports a broad network for partners in the sales and solution business. And this pays off: the market share for business customers is slightly up on last year. Swisscom Solutions also scored a higher Rating than anticipated for customer satisfaction in 2006 (8.26).

Enhancements for business customers

Swisscom Solutions also succeeded in maintaining a high level of customer satisfaction in 2006. With an overall rating of 8.0 on a scale of 10, the service specialist is on the right path. Product price-performance posted the biggest gain compared with the previous year. On January 1, 2007 Swisscom Solutions aligned its business model and organization more closely to the needs of corporate customers in Switzerland. All business customers are now served by a personal contact partner and receive comprehensive advice based on the entire portfolio.

Swisscom's 50 largest business customers are managed by Group Client Management (GCM). The results of the customer satisfaction survey conducted in 2006 show that Swisscom has made progress, particularly in the categories "strategic account relations" and "identification of customer needs". For 2007, GCM has decided to act increasingly as an internal center of competence for various sectors in order to further expand Swisscom's knowledge of corporate customer business and, in so doing, contribute to the development of value-adding solutions.

Innovation as a customer benefit

While telecommunication has made a great many things possible, not every application makes life simpler for the customer. According to a study conducted by Swisscom Innovations, even young people who embrace technology rapidly discard telecommunications applications that offer them no benefits. This finding has prompted Swisscom Innovations to set up a "customer observatory", with the aim of involving potential customers in the development process from the outset, in order to tailor future services to meet customer needs as accurately as possible.

Swisscom Mobile Labs pursue similar objectives: customers can try out selected projects as a "beta version" ahead of the official market launch, and contribute their feedback and ideas to the development process. Again, this allows us to tailor new services accurately to customers' needs.

Our employees – a key factor in the Swisscom strategy

Swisscom can only achieve its strategic objectives by deploying its staff and management in the most effective way. In the year under review, Human Resources placed its priority on the development of senior management and on instilling a consistently customer-focused approach. Having the right people in the right place is becoming increasingly key to corporate success. In 2006, essential efficiency enhancements in our traditional core business resulted in a workforce reduction of 256 full-time jobs. Overall, however, the number of full-time positions rose from 16,088 to 17,068 due to acquisitions and job creation in expanding areas.

Swisscom's consistent focus on customers, coupled with its concentration on its three strategic pillars "Maximize", "Enlarge" and "Expand", was communicated to employees by management at all levels. This direct transfer of knowledge was supported by written documentation, presentations and intranet platforms. Among senior management the priority was on managing cultural change and what is referred to as "disruptive change", i.e. change that forces companies to radically revise their business model.

Staff and management development in the interests of service orientation

In 2006, senior management development activities were aimed at strengthening customer focus. The goal: all customers should experience the same excellent service from Swisscom. Swisscom must be universally perceived as customer-friendly and service-oriented. It is now up to senior management to get their employees fit to deliver top service. A standard system of values will instill in all employees a consistent approach to all our stakeholders, particularly in terms of customer focus. The foundations of this system are in place, and 2007 will see its implementation.

Swisscom has created a platform for high customer satisfaction by introducing the customer charter at customer interfaces, such as Swisscom Shops and customer service centers. The charter is at the forefront of our employees' minds in their day-to-day work, and serves as a guide to their dealings with customers. It also provides a basis for regular monitoring the quality of our customer relations. The code of conduct will be further standardized in 2007, to ensure that customers gain a cohesive image of Swisscom in all their dealings with us.

In keeping with our business, our managers are highly flexible and mobile: in 2006, one third of senior management changed position and took on new responsibilities, 80 percent of them within Swisscom.

Human resources management: a business partner for line staff

Swisscom has developed a new cooperation model for human resources management, based on the guiding principle of enhancing quality of performance while reducing costs. The aim of the basic model is to concentrate human resources services in the most practical manner, on the one hand by creating standard administrative services, and on the other by setting up expert personnel services units and pooling knowledge-intensive services within centers of competence.

The newly established HR Shared Service Center went into operation on January 1, 2007, as a provider of administrative services related to human resources. The Center is responsible for payroll processing and time management, and provides basic services for HR reporting and recruitment. These processes are supported by a state-of-the-art IT infrastructure with self-service platforms and modern call center technology, allowing employees and their line managers to obtain information, issue staff-related orders and submit queries round the clock.

Human resources activities are consolidated within the business units, since under the new model such activities are no longer combined with administrative tasks. Local human

resources departments can concentrate on providing direct support for management and employees (business partnering) during change processes.

Swisscom will continue developing this model further to optimize its impact on strategy. Finally, Swisscom customers will feel the benefits of this optimized internal service culture.

Swisscom – an attractive high-profile employer

Swisscom relies on its employees' sense of responsibility, offers room for development and opens up future career opportunities: employees are encouraged to embrace change and develop skills which they will be able to apply in the future. After all, new customer requirements and technologies are paving the way for new fields of activity. Many of our employees are able to take on additional project responsibilities, make horizontal or vertical career moves and perform expert tasks. Our employees value these opportunities to enhance their employability both internally and externally, as demonstrated by the high percentage of internal recruitments. Swisscom continues to be regarded as an attractive employer, judging by the 2,700 or so persons who joined our company in 2006.

In the annual employee satisfaction survey conducted by the Group companies, "team satisfaction" and "satisfaction with line managers" once more received the best ratings. Across all Group companies, working conditions were rated slightly lower than in 2005, while "prospects for personal development", rated below average in 2005, received a higher score in 2006. The individual Group companies have taken targeted steps in response to past employee satisfaction surveys. For example, in response to the ratings scored by "prospects for personal development" and "successor planning", Swisscom Fixnet introduced measures for the further training and development of key members of staff, and Group Headquarters expanded its services aimed at promoting staff health. In 2006, more than 4,000 employees took part in the Group-wide Move! exercise program. And 5,000 people will take part in the forthcoming Swisscom Games, the corporate sports event for all employees. The qualifying rounds will take place in the first half of 2007, followed by the finals in September.

Work/life balance

Swisscom helps to create the right conditions for striking a healthy work/life balance. The key criteria are opportunities for flexible working hours, five weeks annual vacation, maternity and paternity leave, and the payment of pension fund contributions for unpaid leave of up to three months subject to the approval of line management. As a family-friendly employer, Swisscom provides support for external childcare facilities, pays a child allowance and education allowance of CHF 240, even to part-time employees, and grants leave on family-related grounds.

Swisscom recognizes customer focus and performance

Swisscom's incentive system is an effective instrument in implementing our strategy. Whereas formerly the main priority for employees was individual and/or Group company objectives, in future incentivization will focus more strongly on accomplishing overriding Group objectives such as convergence and customer orientation. As a result, performance appraisals will also take into account our employees' contribution to Group objectives.

New prospects despite redundancy

In 2006, Swisscom once more responded to sustained cost pressures by introducing efficiency enhancements and shedding 256 full-time equivalent positions, primarily at Swisscom Fixnet, Swisscom Mobile, and Swisscom Solutions. Of the employees affected

by these moves, 31 percent quickly found alternative employment within the company. Swisscom Fixnet has been actively promoting redeployment for some years, and has proved successful in its efforts thanks to a variety of factors: in our experience the time factor is of the essence, alongside personal initiative, a positive attitude, and active support from line managers and human resources. The more time affected employees are given to adjust to their new situation, the better the prospect of finding another position within or outside the company. An ideal example of how these factors can be successfully leveraged is the site optimization procedure for Financial Accounting in Lausanne, where the average redeployment ratio was significantly exceeded thanks to a finely-tuned set of measures.

Employees who are unable to find new employment are entitled to a well-developed social plan. The provisions agreed with the unions (including Group replacement on full pay, the Worklink employment agency and the startup program) have proved effective. Since 1999, the social plan programs outside Swisscom's internal mobility management scheme have consistently recorded a success rate of more than 90 percent.

In the year under review, twelve employees founded three companies with the aid of the Swisscom Venture Fund, which provides start-up capital for employees interested in taking over discontinued non-core activities. PersPec AG, at present a fully-owned Swisscom subsidiary which acts as the competence center for replacement and rehabilitation case management, will be taken over on April 1, 2007, in the form of a management buyout, thereby gaining autonomy from Swisscom and paving the way for business opportunities on the open market. On January 1, 2007, Swisscom took over a 100 percent stake in Worklink, the employment agency operated by Manpower, the unions, and Swisscom. The agency specializes in finding positions within and outside Swisscom for long-serving employees once they have gone through the job market centers.

Convergent learning

In 2006, 279 young people from all over Switzerland started their apprenticeship with Swisscom. With some 850 allocated to six vocational areas, the number of apprentices remains stable, and they continue to account for around 6 percent of the workforce. The new entrants are following in the footsteps of the 258 newly qualified apprentices in IT, mediamatics, electronics, retail, commerce, and telematics. Around 40 percent found a job within the company, thanks in part to Job Bridge: a transitional solution for newly qualified apprentices who have not yet found a job or opted for further study.

Because the apprentices work in project teams within the Group companies, they not only increase their expertise in different business fields but also learn how to think in terms of the Group as a whole, and in so doing help to achieve closer collaboration across the Group. This system also instills in our apprentices the flexible, mobile mindset that today's employment market demands. Young people undergoing vocational training at Swisscom are also encouraged to adopt a mobile approach to everyday life: all apprentices have been issued with a 2006/2007 second-class season ticket for public transport in their region.

2007 will see some innovations in vocational training: the diploma course for retail assistants, offered as a pilot course in 2006, will be reviewed to determine its applicability in other vocational areas. In organizational terms, too, there will be some changes: to address long-term trends on the employment market and ensure the current quality of hands-on training, Swisscom Vocational Training is looking to collaborate with selected external companies in the telecommunications, IT, media and entertainment markets.

As culturally diverse as Switzerland

Swisscom promotes workforce diversity as a way of better understanding and anticipating the needs of our culturally diverse customers.

For years women have been under-represented in the workforce in general and at managerial level in particular. In recognition of this situation, in 2006 members of the Executive Board personally mentored female employees as part of the "WIN WIN Mentoring Program for Women", the aim of which is to promote female employees with development potential. The program is obviously targeting the right employees: in the year under review, 30 percent of participants transferred to new functions and were promoted to management positions on account of their proven skills. This success has prompted us to continue the program in 2007, when three times as many women will take part. To promote talented young females in technical professions, Swisscom organizes technical days for young girls as well as technology weeks for high-school students, and participates in the nation-wide "Bring Your Daughter To Work Day". Nevertheless, all these promotional measures will only take effect in the long term and are not reflected in this year's statistics.

Additional measures to promote diversity, such as the Väterforum@swisscom, diversity-neutral recruitment, diversity training courses and awareness events, will be continued or launched in 2007.

comPlan

At the end of 2006 comPlan, the Swisscom pension fund of Swisscom AG, covered 18,138 insured Swisscom employees and 4,326 members drawing retirement, disability or child pensions. With the transferal of the age-group born in 1956 and before, all employees are now insured under the dual pension plan as of January 1, 2006, rendering savings more transparent for the insured parties and increasing their own responsibility. Conversely, the fund is now better able to plan members' financial requirements.

The interest on retirement savings capital remained at 3.25 percent, and existing pensions were not inflation-adjusted. According to the provisional year-end figures, comPlan reported a coverage ratio between 112 and 113 percent for 2006 compared to 108.5 percent for 2005.

In an open election held at the end of November 2006, employees appointed seven representatives (two female and five male) to the Board of Trustees for a four-year term of office. The Swisscom Board of Directors elected the employer representatives.

Personnel statistics

Personnel statistics	Unit	2004	2005	2006
Total number of employees	Full-time positions	15,477	16,088	17,068
Personnel structure/diversity in Switzerland				
Employees in Switzerland	Full-time positions	15,477	15,199	15,909
Part-time employees	Percent		20.6	19.5
Female employees	Percent	33.8	33.6	32.9
Female executives	Percent	11.2	10.2	8.8
Total number of apprenticeship positions				
	Number of positions	903	837	833
– Electronics	Number of apprentices	60	41	20
– IT	Number of apprentices	378	279	210
– Commercial	Number of apprentices	148	142	153
– Mediamatics	Number of apprentices	120	148	187
– Retail	Number of apprentices	133	164	204
– Telematics	Number of apprentices	64	63	59
Languages				
– German	Percent		79.2	79.7
– French	Percent		16.9	16.5
– Italian	Percent		3.7	3.6
– English	Percent		0.2	0.2
Nationalities				
– Switzerland	Percent		89.2	88.2
– Italy	Percent		3.4	3.5
– Germany	Percent		2.8	3.3
– Spain	Percent		1.0	1.0
– Other	Percent		3.6	4.0
Salary spread in Switzerland				
Average salary	CHF	102,600	105,900	102,600
Minimum full-time salary	CHF	45,000	45,000	45,000
Absences due to accident and sickness in Switzerland				
Work-related accidents	Number of cases	164	193	229
Total days lost due to work-related accidents	Number of days	2,124	1,607	2,173
Days lost due to work-related accidents, per FTE	Number of days	0.138	0.105	0.139
Non-work-related accidents	Number of cases	1,867	1,824	1,826
Total days lost due to non-work-related accidents	Number of days	27,124	13,499	12,132
Days lost due to non-work-related accidents, per FTE	Number of days	1.759	0.882	0.778
Total days lost due to sickness	Number of days	113,244	86,379	90,164
Days lost due to sickness, per FTE	Number of days	7.342	5.642	5.781

Suppliers – responsibility in the supply chain

In the year under review Swisscom purchased goods and services worth more than one billion francs, largely from Swiss suppliers. Yet because the supply chain can be long, particularly for telecommunications equipment (all of which Swisscom buys in), Swisscom is committed to fostering a partner relationship with suppliers that also extends to social responsibility and environmental awareness. We expect the environmental management system, social benefits and product ecology adopted by our suppliers to comply with or exceed industry standards. To ensure that this is the case, Swisscom conducts an environmental and social audit of its suppliers.

The fact that around three quarters of the procurement volume is delivered by the 20 largest suppliers makes Swisscom's audit procedure simpler. Moreover, most of the main suppliers are ISO 9000 certified, and many are also certified to the ISO 14001 environmental standard as well as safety and other relevant standards. As a rule, this high standard of quality has a positive ecological and social impact. In addition to the main suppliers, Swisscom assesses companies where there is justifiable suspicion of ecological or social deficiencies or which deliver products with inherent ecological risks, and in general all suppliers in Asia.

Swisscom's ecological audit is based on the ISO 14001 environmental standard, while social compliance is based on the International Social Accountability Standard (SA 8000) and product ecology on the ECMA-341 standard. Swisscom reserves the right to conduct audits. Suppliers are informed about the weaknesses and strengths Swisscom has identified, so that they can draw the necessary conclusions. While deficiencies may have been identified, to date Swisscom has not been obliged to exclude any supplier due to an inadequate overall assessment. The idea behind supplier assessments is to exert a positive influence on the entire supply chain: suppliers who have been assessed in turn assess their own suppliers, thereby committing them, too, to honor their ecological and social responsibilities.

On July 1, 2006, the EU Directive on the restriction of certain hazardous substances (RoHS) came into force, along with the relevant Swiss legislation, which also affects telecommunications equipment. Swisscom advised its equipment suppliers in good time in order to ensure a seamless transition.

Additional information on Swisscom's procurement management is available online under [http:// www.swisscom.com/procurement:management](http://www.swisscom.com/procurement:management).

Swisscom and the community

How does Swisscom exercise its social responsibility? Rather than constituting a single entity, the "community" consists of individual target groups with different expectations of Swisscom. With this in mind, Swisscom pursues and practices its own clear form of corporate responsibility. We are in the fortunate position that our customers represent a significant proportion of the community, so that for us, "community" and "customers" are often one and the same.

What are Swisscom's priorities for the community?

- Telecommunications for everyone: all members of the community should have access to telecommunications services and be able to use these to meet their needs.
- Safe, socially acceptable products and services: Swisscom operates the largest telecommunications network in Switzerland and sells telecoms equipment and services. We guarantee safety as well as social and environmental compatibility.
- Economic ties: technologically, financially and in terms of ideals, Swisscom has close ties with the Swiss economy and aims to foster and uphold these ties. By providing training for some 850 apprentices each year, Swisscom helps to secure a future pool of expertise and promotes the transfer of knowledge in the telecoms sector.
- Partnership ties: Swisscom supports selected charity organizations by providing them with their telecoms infrastructure and acting as telecommunications partner. Swisscom also provides support to employees who devote their leisure time to voluntary work in the community.
- Cultural and sporting ties: a community needs more than just material security. It also needs quality of life and a zest for life. Swisscom's contribution consists of a wide range of activities in the cultural and sporting arenas.

Telecommunications for everyone

If the telephone is the first thing that comes to mind when one thinks of telecommunications, one might be forgiven for thinking that the vision of telecommunications for everyone is no great challenge. But nowadays the term covers much more than the plain old telephone. It encompasses fixed-line applications such as general data communications for voice, text and video over the broadband IP network, as well as mobile communications and a combination of both. All these tools are becoming more and more commonplace, but not for everyone. The sheer variety of telecoms applications makes it increasingly difficult for some people to understand them and maintain an overview. Consequently there is a risk that some sections of the population, in particular elderly people and technophobes, will largely avoid using modern telecoms applications despite the benefits they could derive from them. On the other hand there are the hi-tech enthusiasts who are eager to try out the latest technologies and cannot get hold of new products quickly enough.

Swisscom needs to address both ends of the spectrum. Moreover, some members of the population are visually impaired, hard of hearing or mobility impaired. Modern telecoms applications can be hugely beneficial to this section of the population, but in order to use them, some equipment and services need to be specially adapted.

Basic service provision

The aim of the basic service provision mandate is the provision of analog or digital network access throughout Switzerland. This covers voice telephony including fax, Internet access and supplementary services, the provision of public payphones, emergency services, directory services, and services for the visually impaired and hard of hearing.

Basic service provision	Unit	2006	2005
Fixed network lines ¹	Million	3.7	3.8
Traffic minutes (Fixnet national traffic)	Billion	7.2	7.6
Dial-up Internet connections (connections to service providers)	Million	133	212
Public payphones		8,450	8,400
Average response time to directory enquiries	Sec.	6.6	7.4
Emergency calls (112, 117, 118, 143, 144, 147)	Million	3.5	3.3
Calls to the service for the visually impaired		439,818	428,699
Calls to the service for the hard of hearing		64,968	79,355

¹ 77.1% analog and 22.9% digital.

The basic service provision mandate that Swisscom has been performing for the federal government since 1998 expires at the end of 2007. Swisscom wishes to continue performing this mandate for Switzerland, and at the beginning of 2007 applied for the license to provide basic services from 2008 to 2017. This will entail some expansion work: the draft of the Federal Ordinance on Telecommunications Services stipulates fast Internet access for the Swiss population, with a minimum transmission speed of 600/100 kbps. It also provides for additional services for the disabled.

Help Point

How is Swisscom helping the elderly and those with an aversion to technology? Since June 2005 Swisscom has been holding Help Point courses for people who grew up in the pre-mobile phone, pre-Internet era. Weekly courses are held in training centers in Berne, Lausanne and Zurich, and Help Point training buses travel the length and breadth of Switzerland. Already more than 30,000 people have received instruction in modern communications media, and in the first half of 2007 Help Point buses will be visiting 47 cities and villages around the country.

Internet for schools

Swisscom has long been providing support at the other end of the age spectrum, where technology is eagerly embraced. Since 2001, the Group has been gradually providing free Internet access to schools throughout Switzerland, and in 2007, the 5,000th school will go online. Children and young adults who use the Internet think in more global terms and are better equipped to handle the tools of the modern workplace. According to the results of independent studies, schoolchildren are now acquiring the requisite media skills at an early age. Not only do they know how to work with computers and use the Internet; they are also able to assess and judge the quality and relevance of information, thanks in part to the teaching material Swisscom offers about the Internet, telephony and other telecoms applications. Schoolchildren also enjoy free access to "swissdox", the online Swiss newspaper archive.

Disabled persons

Basic service provision also includes a free service for the visually impaired (Tel. 1145). Moreover, Swisscom provides project materials and services in kind for the Swiss National Association for the Blind (SNAB). In 2004 the "Access for All" Foundation (Swiss Foundation for Technology Adapted to People with Disabilities) conducted a study on "Barrier-free Websites". Another study will be conducted in 2007, sponsored among others by Swisscom.

Under the basic service provision mandate Swisscom also provides a service for the hard of hearing, which is operated by the PROCOM Foundation for communications tools for the hard of hearing. From 2008, basic service provision will also offer an SMS messaging service for the hard of hearing. In addition to its basic service mandate, Swisscom is a partner of pro audito Switzerland and provides this organization with materials for people with impaired hearing.

Swisscom also supports Procap, the network for disabled. As of 2008, the basic service provision mandate will include a new directory and operator service for people with limited mobility.

Finally, Swisscom also supports FST, the Fondation Suisse pour les Téléthèses (Swiss Foundation for Electronic Aids). Swisscom has a project partnership with this organization, which from 2007 will also see the involvement of Swisscom Innovations.

Safe, socially acceptable products and services

Safety is not a matter of luck. It depends on the ability to identify and manage all types of existing or potential risks. Swisscom operates a Group-wide risk management system to ensure that risks are systematically identified, minimized, and effectively managed. At Swisscom, risk management covers a multitude of areas: personal and environmental protection, equipment and data protection, and protection of business performance. In 2006, Swisscom revised its crisis management system and appointed the CEO of Swisscom Mobile as Crisis Manager. To ensure professional management of personal injury, Swisscom engaged CareLink, an organization made up of volunteers from various companies who can be called in to assist in crisis situations. More than 40 employees volunteered for training in order to provide practical support and counseling to people who have been exposed to exceptional events or suffered a serious accident.

In terms of the telephone network, Swisscom's top priority is operational security, i.e. reliability. Our customers rightly expect nothing less. In terms of mobile communications, electromagnetic emissions are also an important priority, and one which is largely regulated by law.

The physical unit of measurement for electromagnetic emissions from mobile devices is the SAR limit (Specific Absorption Rate). Since mobile phones, like mobile communication base stations, work on dynamic power regulation, most operate at levels well below the SAR limit. Nevertheless, Swisscom indicates the SAR limits on all mobile devices so that concerned users can take this criterion into account. Swisscom customers also enjoy a wide choice of cordless DECT telephones, and the range includes six low-radiation Ecomode telephones. In addition, because electromagnetic emissions from mobile phones and other mobile devices should not be disregarded entirely, Swisscom Mobile offers concerned users tips on how to achieve minimum emissions when using a mobile phone.

Second lease of life for mobile phones

Swisscom buys in hardware products rather than manufacturing them itself. This applies to so-called end devices and equipment for our customers as well as our own infrastructure. How can Swisscom ensure that the life cycle of these products is socially and environmentally acceptable? At the manufacturing end, this is done by exerting an influence on our suppliers (see the chapter on "Suppliers – responsibility in the supply chain"). To dispose of mobile phones, Swisscom has found a special solution in the form of the "Solidarcomm" project, which combines environmental and social benefits: Most mobile phones are replaced while still in working condition, long before the end of their life cycle. From 2007, the recycling workshops run by "Réalise" will sort mobile phones returned to Swisscom Shops into defective and still-functioning devices. Defective mobile phones are disposed of, while mobiles in working order are sold to countries with a demand for second-hand mobile equipment. For each mobile phone sold, CHF 1 will be paid to "Réalise" and CHF 5 will be donated to the "Terre des Hommes" charity.

Protection for users of telecoms services

When it comes to using telecoms services, several important factors need to be considered. Firstly, there is data and privacy protection, which is provided by Swisscom. Secondly, there is the problem of unauthorized use, particularly on the Internet, and the risk of excessive use of mobile phones, especially among young people. Bluewin offers protection for Internet users in the form of virus filters, spam filters and a firewall, as well as dialer protection for customers without ADSL. An adult entertainment filter can be activated to safeguard children against accessing adult content; and to prevent running up huge mobile phone bills, customers can send a free SMS to Swisscom Mobile at any time to check the current status of their bill.

On November 1, 2006, the four largest Internet service providers in Switzerland joined ranks in the battle against spam and introduced the SMTP (Simple Mail Transfer Protocol), an authentication procedure that protects against unauthorized mailshots. At the same time, they founded the S.I.A.S. (Swiss ISPs Against Spam) and set up a jointly-operated website, www.stopspam.ch, that offers customers information and instructions on how to modify their e-mail account for effective spam protection.

Economic ties

Swisscom has many close ties with the Swiss economy: our products and services help companies in Switzerland to perform well and compete on a global scale. Direct financial payments in the form of salaries, procurement, social benefits, dividends, taxes, sponsorships and contributions to research are the fuel that drives Switzerland's economic engine. This also includes the co-financing of young Swiss technology companies, to which Swisscom contributes some CHF 20 million.

Within the space of a few years the Swiss Economic Forum has become the leading national showcase event for SMEs. Swisscom has supported this event from its inception. Knowledge transfer between the research sector and the business sector plays an essential role in the Swiss economy. In keeping with the company's commitment to knowledge transfer, Swisscom is a member of the ETH Zurich Foundation. With a view to investing in Swiss technology companies with strong growth potential, Swisscom has commissioned risk capital specialist Vinci Capital to set up an investment fund entitled "Mona Lisa".

Among the projects supported by Swisscom with the aim of promoting sustainable regional economic development is the "Competence Network for Water in Alpine Regions", which presents the annual Swiss Mountain Water Award to innovative projects for the effective use of water in alpine regions. Swisscom is on the awards jury. The "midi pile" forum, also supported by Swisscom, was established to promote an exchange of ideas on economic policy between the regions of the Bernese Oberland, Upper Valais, Lucerne, Basel-Stadt and Basel-Land, and the Jura.

Partnership ties

Swisscom has been a partner of Swiss Solidarity ("Glückskette"), the Swiss humanitarian aid appeal, from the outset. Swiss Solidarity is a trusted charity among the population, including Swisscom employees. On appeal days, Swisscom places its entire telecommunications and Internet infrastructure at the charity's disposal. In 2006, this infrastructure was upgraded and expanded to simplify the collection of donations via interactive television. Available since mid-2006, Betty TV from Swisscom is now responsible for this appeal channel and will be used for this purpose on future appeal days.

Since 2000, Swisscom has been the official communication partner of "Die Dargebotene Hand" (The Samaritans), a helpline people can turn to when in desperate need of help or advice. The number 143 is available round the clock for those seeking assistance, for whom the telephone can literally be a lifeline. The organization also offers assistance by e-mail and one-to-one chat forums.

Swisscom encourages its employees to make a personal contribution to the community through its Good Citizen Project, which was organized for the second time in 2006. A jury consisting of two external specialists, two employees and the CEOs of Swisscom Mobile and Swisscom Fixnet reviewed 104 projects of a social, cultural, ecological or sports nature in which employees were involved, selecting 35 worthy projects and donating CHF 200,000 towards these causes. To be eligible, an employee must be involved personally in a project on a voluntary basis and to a significant extent. The Good Citizen Program has its origins in an idea proposed by Swisscom Fixnet in 2005, to provide support to employees who dedicate a significant amount of their leisure time to voluntary work in community projects rather than giving Christmas presents to staff. The project will be extended to the entire Swisscom Group from 2007.

Cultural and sporting ties

Swisscom shows its close ties with the population through its involvement in cultural and sporting events. Swisscom's brand values of quality, popularity and conformity are also the criteria by which cultural and sports sponsorships are selected.

In the cultural arena, Swisscom promotes a broad range of musical genres from rock and pop to jazz, blues, classical and musicals, including Switzerland's major open-air festivals. Swisscom also supports the film media by acting as principal sponsor of the International Film Festival in Locarno and via the "Schweizer Film" slot on Bluewin TV. Swisscom is also a member of the Board of Trustees of the Museum of Communication in Berne, which organizes exhibitions on communications past, present and future, always with the emphasis on the human aspect. The museum posted record visitor numbers in 2006.

In the sporting arena, Swisscom's sponsorship commitments are concentrated on winter sports and football. For years Swisscom has supported Swiss winter sports athletes of all ages and in all disciplines, and helped them on their way to the top. Swisscom will continue its long-term partnership with the Swiss Ski Association until 2010, in the hope that this sponsorship will return Switzerland to the Number One slot among winter sports nations.

As official sponsor of the Swiss Soccer Association, Swisscom has for many years actively supported Swiss Soccer at the professional, amateur and junior levels. So it goes without saying that Swisscom will be involved in 2008 at the UEFA EURO 2008. The Swiss market leader will be providing tailor-made ICT solutions, a state-of-the-art telecommunications infrastructure, and innovative mobile services to ensure that no one is left on the sidelines at this major sporting event.

For further information on Swisscom and the community, visit www.swisscom.com/corporate-responsibility and www.swisscom.com/sponsoring

Swisscom and the environment

Environment/challenges

When it comes to the environment, today's companies are facing more challenges than ever before. There is a growing need to address climate change and the depletion of natural resources by means of clearly formulated environmental policies, accompanied by appropriate measures.

Swisscom's approach to environmental management consistently focuses on identifying areas where such measures will have the most beneficial impact, where risks and opportunities lie, and where external engagements would be most effective. Within the framework of its environmental management system, Swisscom assesses the following four areas on an annual basis:

- environmental legislation and risks
- operational environmental aspects and ecological problem areas
- ecological products and services and technology trends
- stakeholder interests

These defined areas are assessed, prioritized and addressed using the environmental management system. The Swisscom Executive Board's commitment to the conservation of natural resources provides the basis for binding, long-term engagements.

Swisscom's environmental instruments

Environmental management has a long tradition at Swisscom, and its instruments are now optimally tailored to Swisscom's business:

- a long-term environmental policy lays down the framework for the entire Swisscom Group
- a mid-term environmental strategy defines action areas and goals for the next three to four years
- annual environmental programs ensure ongoing improvements in environmental performance
- since 1998, seven Group companies have been implementing ISO 14001 certified environmental management systems
- the Swisscom Environment Committee formulates the Group's environmental strategy and environmental objectives
- environmental managers and officers in the Swisscom Group companies implement the projects and act as points of contact for employees

Priorities and main objectives

Swisscom has defined the following main environmental priorities and objectives up to the end of 2009:

– Realization Creation of ecologically-friendly products and services (green products and green services)

Green products objective: to offer in every product group a product that embodies ecological excellence.

Green services objective: systematic marketing of ecological services

– Energy savings and reduced CO₂ emissions

Energy objective: to improve energy efficiency by 17% (versus 2002)

CO₂ emissions target: to reduce CO₂ emissions by 17% (versus 2002)

– To promote renewable energies

Eco-power target: purchase of 15 million kWh of naturemade star environmentally-friendly electricity from various sources

Solar energy target: five of our own solar roofs, planned and built by Swisscom apprentices

Fuel consumption target: all Swisscom gasoline-driven vehicles to use bio-fuel (containing 5% bio-ethanol)

Where do we stand?

Ecological products and services

Swisscom Fixnet has developed five low-radiation cordless telephones whose transmission signals are interrupted as soon as the handset is replaced on the base station. This not only saves energy, but also addresses a wish expressed by Swisscom customers to keep electromagnetic emissions to a minimum. Further development is under way to produce a model that reduces the transmission signal even during calls and when several handsets are in use. Also in the pipeline is an ecologically enhanced, low-radiation mobile phone with a housing made from recycled, low-pollutant material. To promote energy-efficient devices, Swisscom works on international committees and requires its equipment suppliers to comply with the Code of Conduct promulgated by the EU Standby Initiative.

Swisscom's green services cover telecommunications services that help customers to reduce their CO₂ emissions, either through applications that circumvent the need for travel, such as teleworking and conferencing services for business customers or home entertainment for residential customers, or through "dematerialization", for example modified web hosting instead of proprietary servers, and the substitution of paper bills by online billing. Swisscom aims to raise awareness of the environmental benefits of these green services, which are powered by naturmade star eco-power.

Energy/CO₂ emissions

Swisscom has started work on the MISTRAL project (fresh air cooling system for telecommunications installations), which on completion will reduce Swisscom's electricity consumption by some 10 percent. In the year under review, however, electricity consumption increased due to work on expanding the network infrastructure. The network infrastructure is currently in a transitional phase, with two networks – the old telephone network and the new IP broadband network – co-existing. Over the next few years the latter will undergo massive expansion.

The ESPACE project to optimize building office space is in full swing. The idea is to bring units from different locations together in order to save on space and fuel. For example, Swisscom Mobile has moved into the K niz Business Park, near Berne, a building constructed to the Swiss "Minergie" standard that now houses staff from seven different locations under one roof. While fuel consumption was significantly reduced in the

year under review, the consumption of vehicle fuels rose. As a result, after falling sharply in recent years, CO₂ emissions once more rose slightly in the year under review. To reverse this trend, over the next few years Swisscom is planning to introduce various measures involving alternative fuels and propulsion methods.

Renewable energies

Swisscom remains committed to using naturemade star eco-power. In 2006, the volume purchased remained constant at 13.2 million kWh, albeit distributed among several suppliers. In 2006, Swisscom also began purchasing biomass power. As in 2005, Swisscom apprentices built another solar power plant, this time on the roof of Swisscom's headquarters in Worblaufen. The inauguration ceremony was attended by Federal President Moritz Leuenberger. These solar projects are proving highly popular with employees, and are helping to raise their awareness of energy issues. Two more solar power plants are planned for 2007.

For its vehicle fleet, Swisscom aims to extend the use of fuel containing bio-ethanol beyond the Berne region.

For more information on Swisscom and the environment, visit www.swisscom.com/umwelt.

Environmental performance indicators

	Unit	2001	2002	2003	2004	2005	2006
Performance indicators							
Employees in Switzerland (full-time equivalents) ¹	FTE	17,258	17,171	16,085	15,477	15,199	15,909
Financial added value ²	Mio. CHF	6,870	7,006	6,770	6,598	6,334	5,947
Telecom traffic	Mio. minutes	48,667	47,079	44,038	40,652	36,582	32,242
Telecom traffic	Mio. gigabits	177	192	222	309	393	567
SMS and MMS messages sent	Millions	1,317	1,650	1,847	1,986	2,016	2,107
Ground / Buildings							
Net floor space (NFS)	Mio. m ²	2.2	2.0	1.7	1.5	1.0	0.93
Paper (photocopying/printing)							
White, A4	Mio. sheets	109.0	90.5	82.2	83.3	75.6	76.4
Grey, A4	Mio. sheets	11.9	13.5	9.0	7.6	5.2	0.01
Water / wastewater							
Water consumption	m ³	483,224	480,788	450,380	433,356	425,572	446,406
Energy, electricity							
Electrical energy consumption ³	Terajoule	1,289	1,215	1,346	1,366	1,372	1,410
	GWh	358	338	374	380	381	392
Energy, heating							
Heating oil ⁴	Terajoule	246.6	222.9	188.1	185.6	152.9	151.0
Natural gas	Terajoule	85.2	84.1	66.7	48.0	36.4	30.3
Disctrict heating	Terajoule	58.7	58.5	47.3	43.8	46.5	38.7
Energy, fuels							
Gasoline	Terajoule	137.7	120.4	104.6	89.4	86.8	92.4
Diesel	Terajoule	35.2	46.1	60.0	66.8	65.5	72.5
Total vehicles	Number	4,559	4,248	3,865	3,455	3,275	3,215
Kilometers driven	Mio. km	53.2	54.4	61.3	58.1	60.7	63.5
Energy, total							
Energy consumption	Terajoule	1,852	1,747	1,812	1,799	1,760	1,795
Air emissions							
Carbon dioxide CO ₂	Tonnes	35,622	33,345	29,673	27,833	24,510	24,962
Nitrogen oxide NO _x	Tonnes	38.4	37.7	38.2	36.5	35.2	36.1
Sulphur dioxide SO ₂	Tonnes	5.2	5.0	4.8	4.8	4.3	4.5
Waste							
Waste tonnage ⁵	Tonnes	1,955	1,894	1,651	1,492	1,390	1,304

¹ Employees in Switzerland only, as per system limit for environmental indicators.

² Financial added value: EBITDA (Earnings before interest, taxes, depreciation and amortization) + personnel expenses.

³ Energy consumption: 1 terajoule (TJ) = 0.278 Gigawatt hours (GWh)

⁴ Heating oil consumption based on projections.

⁵ Based on data provided by the Swiss Waste Exchange and the Group companies, domestic waste not included.

Key dates 2007

March 13 2007	Annual Press Conference, Zurich
April 24 2007	General Meeting of Shareholders, Hallenstadion Zürich
April 27 2007	Dividend distribution
Mai 9 2007	2007 First-Quarter Report
August 8 2007	2007 Half-Year Report
November 7 2007	2007 Third-Quarter Report

Pictures

From helping and enabling through solving and inspiring to guiding – with heart and soul

Swisscom is a company of 18,242 people, whose primary mission is to make sure that you, the customer, receive

- Exactly what you need
- Simple one-stop solutions
- Unbeatable quality and service

And we'll also go that extra mile if time allows – whether helping, enabling, solving, inspiring or guiding – as illustrated in our stories.

One thing you can be sure of: our heart and soul goes into serving our customers.

Photographs by Holger Roschlaub

Holger Roschlaub graduated from the Hochschule für Bildende Künste (Academy of Fine Arts) in Hamburg with a state diploma in photography/print graphics and educational science, and has worked for 16 years as a free-lance photographer for German, American and Swiss publishing houses, advertising agencies and recording companies. His specialities are advertising, portrait photography and photojournalism. Since 2002 he has also been a lecturer in people photography at the Hamburg Institute for Design.

Portraits by Marc Wetli

Marc Wetli was born in Zurich in 1971 and has been a free-lance photographer since 1993, initially exclusively for the press but subsequently also for corporate clients and advertising agencies. For the past five years he has specialized in editorial portraits and people photography. For the third year running, he has been responsible for the executive portraits in the Swisscom Annual Report.

Publishing details

Published by
Swisscom AG,
Group Communications, Berne

Produced by
Swisscom AG,
Group Communications, Berne

Design and layout
Gottschalk+Ash Int'l

Translation (Business Review)
CLS Communication AG, Basel

Photos
Holger Roschlaub, Marc Wetli

Production
MDD Management Digital Data AG

Prepress and printing
Neidhart + Schön AG, Zurich

Printed on chlorine-free paper

© Swisscom AG, Bern

The business review and the social responsibility and environmental report of the 2006 Swisscom Annual Report are published in English, German and French.

The Financial Review is published in English and German.

Further copies of the Annual Report can be ordered from:

Swisscom AG
Group Communications
CH-3050 Berne
T +41 31 342 36 78
F +41 31 342 27 79
annual.report@swisscom.com

Financial information:
Swisscom AG
Investor Relations
CH-3050 Berne
T +41 31 342 25 38
F +41 31 342 64 11
investor.relations@swisscom.com
www.swisscom.com/ir

Social and environmental information (Sustainability Report):
Swisscom AG
Group Communications
Group Relations
CH-3050 Berne
corporate.responsibility@swisscom.com
www.swisscom.com/corporateresponsibility

General information:
Swisscom AG
Head Office
CH-3050 Berne
T +41 31 342 11 11
F +41 31 342 25 49
swisscom@swisscom.com

For the latest information, visit our website at: www.swisscom.com

The Online Version of the Annual Report is available at:

German: www.swisscom.com/bericht2006

French: www.swisscom.com/rapport2006

English: www.swisscom.com/report2006

Italien: www.swisscom.com/rapporto2006

