

Interim Report

January – June 2006

Key figures

CHF in millions, except where indicated		30.06.2006	30.06.2005
Swisscom Group			
Net revenue		4 773	4 912
Operating income before interest, taxes, depreciation and amortization (EBITDA)		1 814	2 199
As % of net revenue	%	38.0	44.8
Operating income (EBIT)		1 111	1 496
Income from continuing operations		889	1 238
Net income		921	1 297
Net income attributable to equity holders of Swisscom AG		759	1 116
Equity		6 236	7 114
Equity ratio ¹	%	48.7	51.1
Number of full-time equivalent employees ²	FTE	16 739	15 307
Average number of full-time equivalent employees ³	FTE	16 562	15 342
Revenue per employee	CHF in thousands	288	320
EBITDA per employee	CHF in thousands	110	143
Net cash provided by operating activities		1 463	1 876
Equity free cash flow ⁴		476	1 533
Capital expenditure		526	431
Net funds ⁵		1 202	2 669

¹ Equity as a percentage of total assets.

² Excludes 490 and 495 full-time equivalent employees of the employment company Worklink at June 30, 2006 and 2005, respectively.

³ Excludes 506 and 490 full-time equivalent employees of the employment company Worklink in the first six months of 2006 and 2005, respectively.

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

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

Financial Review

Summary

Business development in the first half of 2006 was strongly influenced by one-off items. Price reductions for mobile termination rates and the creation of additional provisions for interconnection proceedings had a particularly negative effect on the result. Compared with prior year Swisscom reported a decline in net revenue of 2.8% to CHF 4,773 million and a decline in operating income before interest, taxes, depreciation and amortization (EBITDA) of 17.5% to CHF 1,814 million. As a result net income fell by 29.0% to CHF 921 million. Equity free cash flow amounted to CHF 476 million, CHF 1,057 million lower than previous year.

Adjusted by these one-off items, net revenue increased year-over-year by 1.0% and EBITDA declined by 5.4%. The decline is mainly attributable to a lower operating income contribution of Swisscom IT Services.

In view of keen competition and price reductions at Mobile and Fixnet, Swisscom expects net revenue of around CHF 9.5 billion for the 2006 financial year. The operating result (EBITDA) is expected to be approximately CHF 3.7 billion (previously CHF 4.0 billion). The reduction is due to provisions which had to be increased by CHF 180 million for the current interconnection proceedings and a lower operating income contribution from Swisscom IT Services.

CHF in millions, except where indicated	30.06.2006	30.06.2005	Change
Net revenue	4 773	4 912	-2.8%
Other income	154	98	57.1%
Goods and services purchased	(875)	(893)	-2.0%
Personnel expenses	(1 149)	(1 091)	5.3%
Other operating expenses	(1 089)	(827)	31.7%
EBITDA	1 814	2 199	-17.5%
Depreciation and amortization	(703)	(703)	–
EBIT	1 111	1 496	-25.7%
Net financial result	(22)	31	–
Equity in net income of affiliated companies	13	6	116.7%
Income before income taxes	1 102	1 533	-28.1%
Income tax expense	(213)	(295)	-27.8%
Income from continuing operations	889	1 238	-28.2%
Income from discontinued operation (debitel)	32	59	-45.8%
Net income	921	1 297	-29.0%
Net income attributable to equity holders of Swisscom AG	759	1 116	-32.0%
Net income attributable to minority interests	162	181	-10.5%
Average number of shares outstanding (in thousands)	56 716	61 284	-7.5%
Earnings per share (in CHF)	13.38	18.21	-26.5%

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

Net Revenue declined year-over-year by CHF 139 million (2.8%) to CHF 4,773 million. EBITDA declined by CHF 385 million (17.5%) to CHF 1,814 million and EBITDA margin decreased from 44.8% to 38.0%. These decreases can be primarily attributed to the following items: price reductions for mobile termination rates, transfer of international carrier services activities to a joint venture with Belgacom as of July 1, 2005, retroactive price adjustments of international roaming tariffs and the acquisition of Antenna Hungária at the end of October 2005.

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

CHF in millions	Net revenue	EBITDA
Interim financial statements as of June 30, 2006	4 773	1 814
Interim financial statements as of June 30, 2005	4 912	2 199
Change to the previous year	(139)	(385)
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 a joint venture	(109)	–
Effect of retroactive price adjustments of roaming tariffs	(28)	12
Effect of acquisition of Antenna Hungária	80	23
Other changes excluding one-off items	46	(112)

Disregarding the afore-mentioned one-off items, net revenue increased year-over-year by CHF 46 million or 1.0%. The Fixnet segment contributed to this increase in the area of access revenue thanks to a higher number of ADSL subscribers. This was partially offset by a decrease in traffic revenue. Excluding the effect of price reductions for mobile termination rates, revenue at Mobile remained at last year's level, thanks to a higher number of subscribers and higher revenue from new data services. The decrease in revenue in the Solutions segment is a result of continuing keen competition and pressure on prices. The segment Other increased revenue, mainly as a result of higher revenue from Swisscom IT Services and the acquisition of Comit at the beginning of 2006.

Adjusted by one-off items EBITDA declined by 5.4% or CHF 112 million. The decline is mainly attributable to a lower operating income contribution of Swisscom IT Services.

In the field of corporate business Swisscom IT Services and Swisscom Solutions reported successes in the first six months of 2006, following the acquisition of new customers and the renewal of long-term contracts with a total order volume of CHF 192 million.

Other Income

Other income increased by CHF 56 million to CHF 154 million which is mainly attributable to the increase in capitalized costs and work-in-progress at Solutions and Swisscom IT Services. Capitalized costs increased primarily as a result of further developments in network infrastructure, especially the introduction of the new VDSL broadband technology at Fixnet.

Operating expenses

Expenditure on goods and services purchased decreased slightly year-over-year. This decline is due to the transfer of international carrier services activities and the retroactive adjustment of international outbound roaming tariffs.

Personnel expenditure rose by CHF 58 million. The main causes of the increase are acquisitions (Antenna Hungária, Comit, Cybernet, Core Communications and business fields from Siemens). The year-over-year increase in headcount by 1,432 full-time equivalent employees also primarily stems from these acquisitions.

Other operating expenses rose year-over-year by CHF 262 million. The main reason is the creation of additional provisions of CHF 180 million for interconnection proceedings as a result of the recent court decision. Swisscom IT Services created provisions of CHF 49 million for contractual risks. The various acquisitions account for the remaining part of the increase.

Net financial result

Net financial result fell by CHF 53 million year-over-year because the net interest result decreased by CHF 18 million and the foreign exchange result was CHF 24 million lower compared with the previous year.

Income tax expense

Income tax expense amounted to CHF 213 million (previous year: CHF 295 million), which corresponds to an effective income tax rate of 19.3% (previous year: 19.2%).

Discontinued operation (debitel)

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

Net income and earnings per share

Net income decreased year-over-year by CHF 376 million (29.0%) to CHF 921 million. The decline in EBITDA and lower net financial result led to a lower income tax expense.

As a result of last year's share buy-back scheme and the ensuing lower average number of shares, earnings per share only fell by 26.5% to CHF 13.38.

Contingent liabilities

The Federal Court has 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 the years 2000 to 2003. As a result of the Federal Courts 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 June 30, 2006 provisions amounted to CHF 537 million.

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

Financial Review

Review of the Segments

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

CHF in millions	Net revenue ¹			EBITDA		
	30.06.2006	30.06.2005	Change	30.06.2006	30.06.2005	Change
Fixnet	2 533	2 750	-7.9%	848	1 065	-20.4%
Mobile	1 960	2 107	-7.0%	891	1 001	-11.0%
Solutions	587	628	-6.5%	37	49	-24.5%
Other	638	501	27.3%	29	91	-68.1%
Corporate	329	340	-3.2%	21	(4)	–
Intercompany	(1 274)	(1 414)	-9.9%	(12)	(3)	–
Total	4 773	4 912	-2.8%	1 814	2 199	-17.5%

¹ Includes intersegment revenue.

Fixnet

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

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

The development of Fixnet is presented in the following table:

	30.06.2006	30.06.2005	
CHF in millions			Change
Local and long-distance traffic	189	203	-6.9%
Fixed-to-mobile traffic	180	225	-20.0%
Internet traffic	28	40	-30.0%
International traffic	101	108	-6.5%
Total retail traffic	498	576	-13.5%
Wholesale traffic	195	296	-34.1%
Other traffic	54	66	-18.2%
Access	1 031	981	5.1%
Other revenue	332	316	5.1%
Revenue from external customers	2 110	2 235	-5.6%
Intersegment revenue	423	515	-17.9%
Net revenue	2 533	2 750	-7.9%
Segment expenses (incl. intercompany)	(1 685)	(1 685)	–
EBITDA	848	1 065	-20.4%
<i>Margin as % of net revenue</i>	<i>33.5</i>	<i>38.7</i>	
Depreciation and amortization	(381)	(409)	-6.8%
EBIT	467	656	-28.8%
Number of lines in thousands			Change
PSTN lines	2 911	2 951	-1.4%
ISDN lines	878	919	-4.5%
Total number of lines PSTN / ISDN	3 789	3 870	-2.1%
ADSL retail lines	846	603	40.3%
ADSL wholesale lines	407	345	18.0%
Total number of ADSL lines	1 253	948	32.2%
Retail traffic volume in millions of minutes			Change
Local and long-distance traffic	3 258	3 410	-4.5%
Fixed-to-mobile traffic	463	464	-0.2%
Internet traffic	845	1 237	-31.7%
Total national traffic	4 566	5 111	-10.7%
International traffic	457	472	-3.2%
Total retail traffic	5 023	5 583	-10.0%
Wholesale traffic volume in millions of minutes			Change
National traffic	8 446	9 104	-7.2%
International traffic	–	755	–
Total wholesale traffic	8 446	9 859	-14.3%
CHF in millions or number			Change
Capital expenditure	239	210	13.8%
Number of full-time equivalent employees at end of period	7 066	7 286	-3.0%

Revenue from Fixnet with external customers decreased by 5.6% to CHF 2,110 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 848 million, however, was CHF 217 million or 20.4% down on last year, due to the creation of additional provisions for interconnection proceedings of CHF 180 million. The increase in capital expenditure is mainly due to the development of the network infrastructure for VDSL technology.

Revenue from retail traffic fell by 13.5% to a total of CHF 498 million. The decline in local and long-distance traffic and Internet traffic is, above all, attributable to the pressure of competition with cable network companies and the continuing migration of Internet traffic to ADSL. Revenue in fix-to-mobile declined mainly as a result of price reductions in connection with lower termination prices.

Revenue from wholesale traffic in the first six months of 2006 amounted to CHF 195 million (previous year: CHF 296 million). The decrease is mainly due to the transfer of international carrier services activities with low margins as well as price reductions in regulated national interconnection tariffs.

Access revenue rose by 5.1% to CHF 1,031 million. On the one hand there was an increase in the number of ADSL lines and on the other hand a decrease in the number of analogue and digital access lines (PSTN/ISDN). The number of ADSL lines increased year-over-year by 32.2% to 1,253,000 lines. This business included 846,000 lines subscribed to by retail customers and 407,000 by the customers of other providers. The number of analogue and digital access lines (PSTN/ISDN) decreased by 2.1% to 3,789,000, mainly as a result of competition of cable network companies and substitution through mobile telephony.

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

Fixnet's total segment expenses remained stable year-over-year at CHF 1,685 million. Decreases in expenses as a result of the transfer of international carrier services activities and the reduction in termination prices from Mobile are offset by the creation of additional provisions of CHF 180 million for the interconnection proceedings.

EBITDA decreased year-over-year by 20.4% to CHF 848 million. This is mainly attributable to the increase in provisions for interconnection proceedings. Adjusted to take into account this one-off item of CHF 180 million the decline in operating result was only CHF 37 million.

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

Mobile

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

The development of Mobile is presented in the following table:

	30.06.2006	30.06.2005	
CHF in millions			Change
Connectivity voice	994	1 122	-11.4%
Connectivity data and value added services	322	292	10.3%
Base fees	322	339	-5.0%
Other revenue	83	70	18.6%
Revenue from external customers	1 721	1 823	-5.6%
Intersegment revenue	239	284	-15.8%
Net revenue	1 960	2 107	-7.0%
Segment expenses (incl. intercompany)	(1 069)	(1 106)	-3.3%
EBITDA	891	1 001	-11.0%
<i>Margin as % of net revenue</i>	<i>45.5</i>	<i>47.5</i>	
Depreciation and amortization	(187)	(190)	-1.6%
EBIT	704	811	-13.2%
Number of subscribers in thousands			Change
Postpaid	2 703	2 559	5.6%
Prepaid	1 766	1 485	18.9%
Total	4 469	4 044	10.5%
In CHF, minutes or millions			Change
ARPU in CHF	65	78	-16.7%
AMPU in minutes	122	116	5.2%
Number of SMS messages in millions	1 032	986	4.7%
CHF in millions or number			Change
Capital expenditure	111	133	-16.5%
Number of full-time equivalent employees at end of period	2 404	2 466	-2.5%

Mobile's revenue with external customers fell year-over-year by 5.6% to CHF 1,721 million. The decline in revenue due to price reductions for termination and roaming could not be completely offset by a higher number of subscribers and increased revenue from new data services. EBITDA fell by 11.0% to CHF 891 million. EBITDA margin was 45.5% (previous year 47.5%). Capital expenditure decreased by 16.5% to CHF 111 million. The decrease in capital expenditure was due to lower expenditure compared with the previous year in connection with the development of a national mobile broadband network, especially EDGE.

With effect from June 1, 2005 Swisscom Mobile reduced the price for termination on its network by 40%. These price reductions for termination affected revenue and operating result (EBITDA) in the result as per June 30, 2006 by an amount of CHF 128 million. In the first quarter of 2006 new roaming agreements were concluded with a number of foreign mobile phone providers. These new agreements include a reduction in prices for international roaming traffic among the network providers, effective retrospectively as of April 2005. The retrospective price adjustments led to a decrease in revenue from incoming roaming traffic of CHF 28 million and a decrease in expenditure on outgoing roaming traffic of CHF 40 million in the financial statements as at June 30, 2006.

The number of subscribers increased year-over-year by a net total of 425,000 (10.5%) to 4,469,000. 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 June 2006 the Liberty family had 1,191,000 subscribers and M-Budget Mobile, a pre-paid product launched in the third quarter of 2005, 206,000 subscribers.

Revenue from Connectivity Voice declined by 11.4% to CHF 994 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 116 minutes to 122 minutes. Due to lower prices and a higher share of prepaid subscribers, average revenue per subscriber fell from CHF 78 to CHF 65.

Revenue from Connectivity Data and Value Added Services rose year-over-year by 10.3% to CHF 322 million as a result of increased use and the launch of new data services. The number of SMS messages sent increased by 4.7% compared with the previous year reflecting the increased number of subscribers.

Intersegment revenue fell by 15.8% to CHF 239 million as a result of the price reductions for termination.

Mobile segment expenses fell by 3.3% to CHF 1,069 million year-over-year. The decrease was mainly a result of price adjustments for outgoing roaming traffic, effective retrospectively as of April 2005, and reduced personnel costs due to the lower headcount.

EBITDA declined as a result of these effects by 11.0% to CHF 891 million. EBITDA margin fell from 47.5% to 45.5%.

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

Solutions

"Solutions" comprises primarily fixed-line domestic and international voice telephony services to business customers, networking which includes primarily leased lines, intranet services, management of communication infrastructures and planning, construction and operation of comprehensive communication solutions.

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

The development of Solutions is presented in the following table:

CHF in millions	30.06.2006	30.06.2005	Change
Local and long-distance traffic	39	47	-17.0%
Fixed-to-mobile traffic	39	55	-29.1%
International traffic	26	29	-10.3%
Total traffic	104	131	-20.6%
Leased lines	61	76	-19.7%
Intranet Services	71	77	-7.8%
Other revenue Service Business	109	122	-10.7%
Solution Business	142	126	12.7%
Other revenue	23	28	-17.9%
Revenue from external customers	510	560	-8.9%
Intersegment revenue	77	68	13.2%
Net revenue	587	628	-6.5%
Segment expenses (incl. intercompany)	(550)	(579)	-5.0%
EBITDA	37	49	-24.5%
<i>Margin as % of net revenue</i>	<i>6.3</i>	<i>7.8</i>	
Depreciation and amortization	(15)	(20)	-25.0%
EBIT	22	29	-24.1%

Traffic volume in millions of minutes	30.06.2006	30.06.2005	Change
Local and long-distance traffic	800	865	-7.5%
Fixed-to-mobile traffic	125	131	-4.6%
Total national traffic	925	996	-7.1%
International traffic	175	184	-4.9%
Total national and international traffic	1 100	1 180	-6.8%

CHF in millions or number	30.06.2006	30.06.2005	Change
Capital expenditure	19	7	171.4%
Number of full-time equivalent employees at end of period	1 954	1 820	7.4%

Revenue from external customers dropped by 8.9% to CHF 510 million compared with the previous year as a result of keen competition and price pressure. EBITDA fell by 24.5% to CHF 37 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.

Traffic revenue decreased by 20.6% to CHF 104 million, mainly as a result of downward market trends due to migration effects, price reductions in connection with lower termination charges and continuing competitive pressure.

The drop in leased line revenue of 19.7% to CHF 61 million was mainly due to the migration of existing products to Internet (IP) based services with lower prices and optimization of customer networks.

The fall in revenue from Intranet Services of 7.8% is attributable to lower prices due to competitive pressure.

The increase in revenue in the Solution Business segment of CHF 16 million was a result of increased revenue in the business fields system integration, partly as a result of the acquisition of Siemens Switzerland.

The decrease in other revenue of 17.9% to CHF 23 million stems principally from lower revenue due to the declining number of rental agreements for private branch exchanges.

Segment expense decreased in comparison with the previous year by 5.0% to CHF 550 million, mainly due to revenue-related lower purchasing volumes from other segments.

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

Other

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

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

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

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

	30.06.2006	30.06.2005	
CHF in millions			Change
Swisscom IT Services	164	120	36.7%
Swisscom Broadcast	75	75	–
Antenna Hungária	80	–	–
Accarda Group	58	53	9.4%
Swisscom Eurospot	25	13	92.3%
Other revenue	1	–	–
Revenue from external customers	403	261	54.4%
Intersegment revenue	235	240	-2.1%
Net revenue	638	501	27.3%
Segment expenses (incl. intercompany)	(609)	(410)	48.5%
EBITDA	29	91	-68.1%
Margin as % of net revenue	4.5	18.2	
Depreciation and amortization	(96)	(65)	47.7%
EBIT	(67)	26	–
CHF in millions or number	30.06.2006	30.06.2005	Change
Capital expenditure	87	49	77.6%
Number of full-time equivalent employees at end of period	4 437	2 830	56.8%

Revenue with external customers rose year-over-year by 54.4% to CHF 403 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 68.1% to CHF 29 million. This is mainly attributable to a decline in EBITDA at Swisscom IT Services. EBITDA decreased by CHF 94 million as a result of costs for expanding into new markets. This also includes provisions for contractual risks for project related businesses 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 needed measures have been addressed and with alterations to management and processes already been implemented. The afore mentioned costs and provisions are not related to the core business of Swisscom IT Services, such as the financial services industry. The development in this business field is promising and several projects have been accomplished successfully.

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

The increase in revenue at Swisscom IT Services of 36.7% to CHF 164 million can be attributed mainly to higher revenue from IT outsourcing and the acquisition of Comit. The increase in revenue at Swisscom Eurospot of CHF 12 million to CHF 25 million is primarily attributable to the increase in use of Internet connection services in hotels and conference centers by business customers.

Segment expenses rose in comparison with the previous year by 48.5% to CHF 609 million, mainly due to higher costs for outsourcing project, as well as revenue-related and due to the acquisition of Antenna Hungária and Comit.

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

Corporate

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

The development of Other is presented in the following table:

	30.06.2006	30.06.2005	
CHF in millions			Change
Revenue from external customers	29	33	-12.1%
Intersegment revenue	300	307	-2.3%
Net revenue	329	340	-3.2%
Segment expenses (incl. intercompany)	(308)	(344)	-10.5%
EBITDA	21	(4)	–
Margin as % of net revenue	6.4	-1.2	
Depreciation and amortization	(26)	(22)	18.2%
EBIT	(5)	(26)	-80.8%
CHF in millions or number	30.06.2006	30.06.2005	Change
Capital expenditure	73	32	128.1%
Number of full-time equivalent employees at end of period	879	905	-2.9%

Net revenue decreased by 3.2% to CHF 329 million as a result of lower charges between Group Headquarter divisions and the Swisscom-group companies. EBITDA increased by CHF 25 million to CHF 21 million mainly due to cost savings and gains from the sale of real estate by Swisscom Immobilien AG. The increase in capital expenditure stems from a group-wide project run by Swisscom Immobilien AG to optimize the use of buildings and design modern office workplaces.

Intersegment revenue fell by 2.3% to CHF 300 million and is attributable to a decrease in services which Group Headquarter divisions charged to other group companies.

Segment expenses decreased by 10.5% to CHF 308 million. This includes costs for workforce reduction measures of CHF 32 million (previous year CHF 20 million), including expenditure of the employment company Worklink AG.

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

Equity Free Cash Flow

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

Equity free cash flow includes the following components:

CHF in millions	30.06.2006	30.06.2005	Change
EBITDA	1 814	2 199	(385)
Changes in operating assets and liabilities and other payments or receipts from operating activities	7	(107)	114
Net interest	(14)	4	(18)
Income taxes paid	(344)	(220)	(124)
Net cash provided by operating activities	1 463	1 876	(413)
Capital expenditure	(526)	(431)	(95)
Acquisition of subsidiaries and affiliated companies	(170)	(116)	(54)
Proceeds from the sale of affiliated companies	3	–	3
Repayment of vendor loan notes from the sale of debitel	–	351	(351)
Net investments in non-current financial assets	–	230	(230)
Dividends paid to minority interests	(297)	(367)	70
Other cash flow from investing and financing activities, net	3	(10)	13
Equity free cash flow	476	1 533	(1 057)
Net investments in current financial assets	1 532	(605)	2 137
Other changes of financial liabilities	(37)	(143)	106
Dividends paid	(907)	(861)	(46)
Share buy-back	(136)	(389)	253
Other cash flow, net	452	(1 998)	2 450
Net increase (decrease) in cash and cash equivalents	928	(465)	1 393

In the first six months of 2006, equity free cash flow amounted to CHF 476 million, CHF 1,057 million lower than the previous year. Equity free cash flow decreased as a result of lower net cash provided by operating activities, increased capital expenditure in fixed and intangible assets and higher expenditure for acquisitions as well as no proceeds from the sale of investments. Net cash provided by operating activities decreased primarily as a result of lower EBITDA and higher income tax payments. The change in net current assets includes the increase in provisions in connection with interconnection proceedings of CHF 180 million. Acquisition of subsidiaries and affiliated companies includes the payment for the acquisition of the remaining 25% share in Antenna Hungária as well as payments for the acquisition of Comit, Cybernet, Medgate, Core Communications and a business field taken over from Siemens.

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

Financial Review

Net debt (net funds)

CHF in millions	30.06.2006	31.12.2005	Change
Financial liability from cross-border tax lease arrangements	1 421	1 474	-3.6%
Finance lease obligation	637	681	-6.5%
Other financial liabilities	167	148	12.8%
Liabilities from collecting activities	118	154	-23.4%
Total	2 343	2 457	-4.6%
Cash and cash equivalents	(1 950)	(1 023)	90.6%
Current financial assets	(139)	(1 684)	-91.7%
Receivables from collecting activities	(367)	(390)	-5.9%
Financial assets from lease and leaseback transactions	(1 089)	(1 125)	-3.2%
Net funds	(1 202)	(1 765)	-31.9%

Net debt (net funds) consists of total financial liabilities and liabilities from collection activities less cash and cash equivalents, current financial assets, receivables from collection activities and financial assets from crossborder tax lease agreements. On June 30, 2006, net funds amounted to CHF 1,202 million.

Current financial assets include term deposits and money market investments with a term of less than one year as well as securities and derivative financial instruments. The derivative financial instruments are mainly used to hedge currency risks in connection with lease obligations. Financial liabilities consist primarily of finance lease obligations and sale and leaseback obligations relating to buildings. The financial liabilities from lease obligations reported are covered by non-current financial assets to an extent of CHF 1,089 million.

Outlook

Swisscom expects net revenue in the 2006 financial year of approximately CHF 9.5 billion in view of keen competition and price pressure at Mobile and Fixnet. The operating result (EBITDA) is expected to be approximately CHF 3.7 billion (previously CHF 4.0 billion). The reduction is due to provisions of CHF 180 million which had to be recorded for the current interconnection proceedings and a lower operating income contribution from Swisscom IT Services. Capital expenditure in 2006 in the Swisscom group will amount to approximately CHF 1.3 billion.

Consolidated income statement (condensed)

CHF in millions, except per share amount	Note	unaudited			
		1.4.-30.6.2006	1.4.-30.6.2005	1.1.-30.6.2006	1.1.-30.6.2005
Net revenue		2 398	2 467	4 773	4 912
Other income		74	66	154	98
Total		2 472	2 533	4 927	5 010
Goods and services purchased		466	462	875	893
Personnel expenses		555	532	1 149	1 091
Other operating expenses		671	432	1 089	827
Depreciation and amortization		355	346	703	703
Total operating expenses		2 047	1 772	3 816	3 514
Operating income		425	761	1 111	1 496
Net financial result	3	(12)	11	(22)	31
Equity in net income of affiliated companies		14	7	13	6
Income before income taxes		427	779	1 102	1 533
Income tax expense		(82)	(148)	(213)	(295)
Income from continuing operations		345	631	889	1 238
Income from discontinued operation (debitel)	10	32	53	32	59
Net income		377	684	921	1 297
Net income attributable to equity holders of Swisscom AG		299	596	759	1 116
Net income attributable to minority interests		78	88	162	181
Basic and diluted earnings per share (in CHF)					
- from continuing operations		4.71	8.88	12.82	17.25
- from discontinued operation (debitel)		0.56	0.87	0.56	0.96
- net income		5.27	9.75	13.38	18.21

Consolidated balance sheet (condensed)

CHF in millions	Note	unaudited	
		30.06.2006	31.12.2005
Assets			
Current assets			
Cash and cash equivalents		1 950	1 023
Current financial assets		139	1 684
Other current assets		2 655	2 537
Non-current assets held for sale	7	16	5
Total current assets		4 760	5 249
Non-current assets			
Property, plant and equipment		5 758	6 000
Goodwill and other intangible assets		852	722
Investments in affiliated companies		205	191
Non-current financial assets		1 146	1 163
Deferred tax assets		95	84
Total non-current assets		8 056	8 160
Total assets		12 816	13 409
Liabilities and equity			
Current liabilities			
Short-term financial liabilities	4	196	173
Current tax liabilities		118	229
Other current liabilities		2 421	2 333
Total current liabilities		2 735	2 735
Long-term liabilities			
Long-term financial liabilities	4	2 029	2 130
Accrued pension cost		795	805
Deferred tax liabilities		351	361
Other long-term liabilities		670	754
Total long-term liabilities		3 845	4 050
Total liabilities		6 580	6 785
Equity attributable to equity holders of Swisscom AG		5 748	6 001
Equity attributable to minority interests		488	623
Total equity		6 236	6 624
Total liabilities and equity		12 816	13 409

Consolidated cash flow statement (condensed)

CHF in millions	Note	unaudited	
		30.06.2006	30.06.2005
Cash flows from operating activities			
Operating income before interest, taxes, depreciation and amortization (EBITDA)		1 814	2 199
Change in operating assets and liabilities and other payments or receipts from operating activities		7	(107)
Net interest		(14)	4
Income taxes paid		(344)	(220)
Net cash provided by operating activities		1 463	1 876
Cash flows from investing activities			
Capital expenditure		(526)	(431)
Proceeds from sale of fixed assets		21	7
Acquisition of subsidiaries, less cash and cash equivalents acquired		(158)	(15)
Proceeds from sale of affiliated companies		3	–
Acquisition of affiliated companies		(12)	(101)
Repayment of vendor loan notes from the sale of debitel		–	351
Purchase and sale of current and non-current financial assets, net		1 531	(377)
Net cash provided by (used in) investing activities		859	(566)
Cash flows from financing activities			
Repayment of financial liabilities		(37)	(143)
Purchase of treasury stock for stock based compensation	5	(17)	(15)
Share buy-back	5	(136)	(389)
Dividends paid		(907)	(861)
Dividends paid to minority interests		(297)	(367)
Net cash used in financing activities		(1 394)	(1 775)
Net increase (decrease) in cash and cash equivalents		928	(465)
Cash and cash equivalents at beginning of year		1 023	2 387
Effect of exchange rate changes on cash and cash equivalents		(1)	3
Cash and cash equivalents at end of the period		1 950	1 925

Consolidated statement of equity (condensed)

CHF in millions	unaudited							Equity Total
	Share capital	Capital reserves	Retained earnings	Treasury stock	Other reserves	Equity attributable to equity holders of Swisscom	Equity attributable to minority interests	
Balance at December 31, 2004	66	572	8 139	(2 002)	16	6 791	663	7 454
Translation adjustments	–	–	–	–	4	4	–	4
Fair value adjustments	–	–	–	–	2	2	–	2
Gains and losses directly recognized in equity, net	–	–	–	–	6	6	–	6
Net income	–	–	1 116	–	–	1 116	181	1 297
Total recognized income and expenses for the period	–	–	1 116	–	6	1 122	181	1 303
Dividends paid	–	–	(861)	–	–	(861)	(367)	(1 228)
Purchase and sale of treasury stock, net	–	–	–	(1)	–	(1)	–	(1)
Share buy-back	–	–	–	(414)	–	(414)	–	(414)
Balance at June 30, 2005	66	572	8 394	(2 417)	22	6 637	477	7 114
Balance at December 31, 2005	61	392	7 483	(2 002)	67	6 001	623	6 624
Translation adjustments	–	–	–	–	(41)	(41)	–	(41)
Fair value adjustments	–	–	–	–	(65)	(65)	–	(65)
Gains and losses directly recognized in equity, net	–	–	–	–	(106)	(106)	–	(106)
Net income	–	–	759	–	–	759	162	921
Total recognized income and expenses for the period	–	–	759	–	(106)	653	162	815
Dividends paid	–	–	(907)	–	–	(907)	(297)	(1 204)
Purchase and sale of treasury stock, net	–	–	–	1	–	1	–	1
Balance at June 30, 2006	61	392	7 335	(2 001)	(39)	5 748	488	6 236

1 Accounting principles

Consolidation and valuation principles

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

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

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

New and amendments to accounting principles

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

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

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

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

2 Segment reporting

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

The financial review reports on the following segments

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

Notes to the Consolidated Interim Financial Statements (condensed)

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

30.06.2006 CHF in millions	unaudited						Total
	Fixnet	Mobile	Solutions	Other	Corporate	Elimi- nation	
Net revenue from external customers	2 110	1 721	510	403	29	–	4 773
Intersegment net revenue	423	239	77	235	300	(1 274)	–
Net revenue	2 533	1 960	587	638	329	(1 274)	4 773
Segment expenses	(1 685)	(1 069)	(550)	(609)	(308)	1 262	(2 959)
Operating income before depreciation and amortization (EBITDA)	848	891	37	29	21	(12)	1 814
<i>Margin in %</i>	<i>33.5</i>	<i>45.5</i>	<i>6.3</i>	<i>4.5</i>	<i>6.4</i>		<i>38.0</i>
Depreciation and amortization	(381)	(187)	(15)	(96)	(26)	2	(703)
Operating income (EBIT)	467	704	22	(67)	(5)	(10)	1 111

30.06.2005 CHF in millions	unaudited						Total
	Fixnet	Mobile	Solutions	Other	Corporate	Elimi- nation	
Net revenue from external customers	2 235	1 823	560	261	33	–	4 912
Intersegment net revenue	515	284	68	240	307	(1 414)	–
Net revenue	2 750	2 107	628	501	340	(1 414)	4 912
Segment expenses	(1 685)	(1 106)	(579)	(410)	(344)	1 411	(2 713)
Operating income before depreciation and amortization (EBITDA)	1 065	1 001	49	91	(4)	(3)	2 199
<i>Margin in %</i>	<i>38.7</i>	<i>47.5</i>	<i>7.8</i>	<i>18.2</i>	<i>-1.2</i>		<i>44.8</i>
Depreciation and amortization	(409)	(190)	(20)	(65)	(22)	3	(703)
Operating income (EBIT)	656	811	29	26	(26)	–	1 496

3 Net financial result

CHF in millions	unaudited	
	30.06.2006	30.06.2005
Interest income	57	72
Interest expense	(71)	(68)
Net interest (expense) income	(14)	4
Foreign exchange gain (loss)	(6)	18
Other financial income and expenses, net	(2)	9
Net financial result	(22)	31

4 Financial liabilities

CHF in millions	unaudited	
	30.06.2006	31.12.2005
Finance lease obligation	29	29
Derivative financial instruments	164	142
Other short-term financial liabilities	3	2
Total short-term financial liabilities	196	173
Financial liability from cross-border tax lease arrangements	1 421	1 474
Finance lease obligation	608	652
Other long-term financial liabilities	–	4
Total long-term financial liabilities	2 029	2 130
Total financial liabilities	2 225	2 303

5 Share capital and treasury stock

In May 2005 Swisscom AG launched a share buy-back scheme in the amount of CHF 2 billion. The seller received the purchase price of the shares less 35% withholding tax. By June 30, 2005 a total of 996,000 shares had been bought back for a total of CHF 414 million. CHF 270 million was paid out to the sellers. The withholding tax of CHF 144 million due in connection with the shares bought back in the first six months of 2005 was paid in the third quarter of 2005. A total of 4,764,200 shares for an average purchase price of CHF 419.80 were bought back. The General Meeting of Shareholders on April 25, 2006 resolved a capital reduction in the amount of the shares acquired as part of this scheme. The number of shares after the capital reduction is 56,718,561. The shares are scheduled to be destroyed in the third quarter of 2006.

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

Swisscom will launch a share buy-back scheme in the amount of up to CHF 2.25 billion in the next weeks.

Swisscom offers two stock based remuneration plans to its non-management employees, management, members of the Executive Board and Board of Directors, the share purchase scheme TopShare and the Management Incentive Plan (MIP). TopShare is a share purchase scheme available to non-management staff. Each year, employees are generally offered up to ten shares at preferential conditions. MIP is available for members of management, whereby they can voluntarily invest 25% of their annual bonus in shares. Swisscom increases the amount invested by management by 50%. Members of the Board of Directors and Executive Board also participate in this program. In the first six months of 2006 shares with a market value totaling CHF 45 million (previous year CHF 46 million) were granted as part of these two schemes. Expenses on share-based remuneration were CHF 17 million (previous year CHF 15 million) in the first half of 2006.

6 Acquisition of subsidiaries and affiliated companies

Transactions 2006

In the first six months of 2006 Swisscom acquired stakes for a total of CHF 170 million. CHF 158 million was spent on the acquisition of subsidiaries and CHF 12 million on stakes in affiliated companies. This amount included CHF 96 million for the acquisition of the outstanding shares in Antenna Hungária.

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

Acquisition of a 100% stake in Comit

On January 4, 2006 Swisscom IT Services acquired a 100% stake in Comit AG, an IT service provider to banks. The purchase price was CHF 78 million.

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

CHF in millions	unaudited		Carrying value upon acquisition
	Carrying value prior to acquisition	Adjustment	
Cash and cash equivalents	19	–	19
Other current assets	11	–	11
Property, plant and equipment and other intangible assets	2	–	2
Goodwill	–	83	83
Short- and long-term liabilities	(21)	(16)	(37)
Purchase price			78
Less cash and cash equivalents acquired			(19)
Deferred payment of purchase price			(39)
Cash outflow			20

Acquisition of a 100% stake in Cybernet

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

Acquisition of business fields from Siemens Switzerland

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

Acquisition of a 98% stake in Core Communications

On June 8, 2006 Swisscom Eurospot acquired a 98% stake in Core Communications Corp. Core Communications is an US american service provider of data communication and Internet solutions for the hotel industry. A purchase price of USD 11 million (CHF 13 mil-

lion) was paid for the stake in the second quarter of 2006.

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

tionally allocated to the net assets as follows:

CHF in millions	unaudited		
	Carrying value prior to acquisition	Adjustment	Carrying value upon acquisition
Cash and cash equivalents	3	–	3
Other current assets	10	–	10
Property, plant and equipment and other intangible assets	3	22	25
Goodwill	–	38	38
Deferred tax assets	–	3	3
Short- and long-term liabilities	(16)	(11)	(27)
Purchase price			52
Less cash and cash equivalents acquired			(3)
Deferred payment of purchase price			(7)
Cash outflow			42

Acquisition of a 40% stake in the Medgate Group

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

Transactions 2005

In the first six months of 2005 Swisscom acquired stakes for a total of CHF 116 million. CHF 15 million thereof were used to acquire subsidiaries and CHF 101 million to acquire stakes in affiliated companies.

Acquisition of a 100% stake in Celeris

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

Acquisition of a 49% stake in Cinetrade

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

7 Non-current assets held for sale

Non-current assets held for sale include the carrying amount of real estate of CHF 16 million which will probably be sold in 2006. The scheduled sale is part of Swisscom Immobilien AG's plan to optimize use of buildings.

8 Contingent liabilities

Proceedings relating to interconnections

Swisscom provides interconnection services to other telecommunications service providers in Switzerland. Interconnection regulates the joint switching of Swisscom's networks and those of other telecommunication providers. Since 2000 Swisscom has calculated its interconnection prices according to the statutory method for calculating long run incremental costs (LRIC). In 2000 two telecommunications service providers filed petitions with the Federal Communications Commission (ComCom) demanding that the interconnection prices charged by Swisscom be reduced. On November 6, 2003, ComCom issued decisions, requiring Swisscom to lower interconnection prices for these two telecommunications service providers with retroactive effect for the years 2000 to 2003 by 25% to 35%, depending on the product. Swisscom lodged an appeal against the ComCom decision with the Federal Court. On October 1, 2004, the Federal Court issued a decision overturning the ComCom decisions on procedural grounds and remanding the petitions for re-hearing before ComCom to reconsider the pricing issues. On June 10, 2005 ComCom made new decisions, largely identical with those of November 6, 2003. ComCom reduced Swisscom's interconnection prices for the years 2000 – 2003 by around 30% (depending on the product) and declared a clause regulating the effect of decisions by the authorities on parties not involved in the proceedings, included in the interconnection agreement with one of the petitioners, as not applicable. Swisscom lodged administrative appeals against these new decisions with the Federal Court.

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

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

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

Provisions for ComCom's ruling on interconnection prices as at June 30, 2006 amounted to CHF 537 million. The provisions are classified as current and are included under current liabilities in the condensed balance sheet as at June 30, 2006.

Competition commission proceedings - mobile termination fees

In October 2002 the Competition Commission initiated proceedings against Swisscom Mobile in connection with mobile termination fees. On April 7, 2006, the Secretariat of the Competition Commission provided Swisscom Mobile with its draft decision, according to which it believes that Swisscom Mobile has a market-dominant position and has violated Swiss Antitrust Law by demanding disproportionately high termination fees. The Secretariat has indicated that it intends to propose to the Competition Commission that it impose a fine of approximately CHF 489 million plus 5% interest and has asked Swisscom Mobile to comment on the draft decision by May 22, 2006.

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). Investigations into the mobile termination fees charged by Swisscom Mobile after May 31, 2005 will continue.

The fine amount could increase should the Competition Commission determine that the new mobile termination fee of CHF 0.20 is also excessive.

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

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

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

Other provisions and contingent liabilities

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

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

9 Related parties

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

10 Discontinued operation (debitel)

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

11 Post balance sheet events

Approval of the interim report

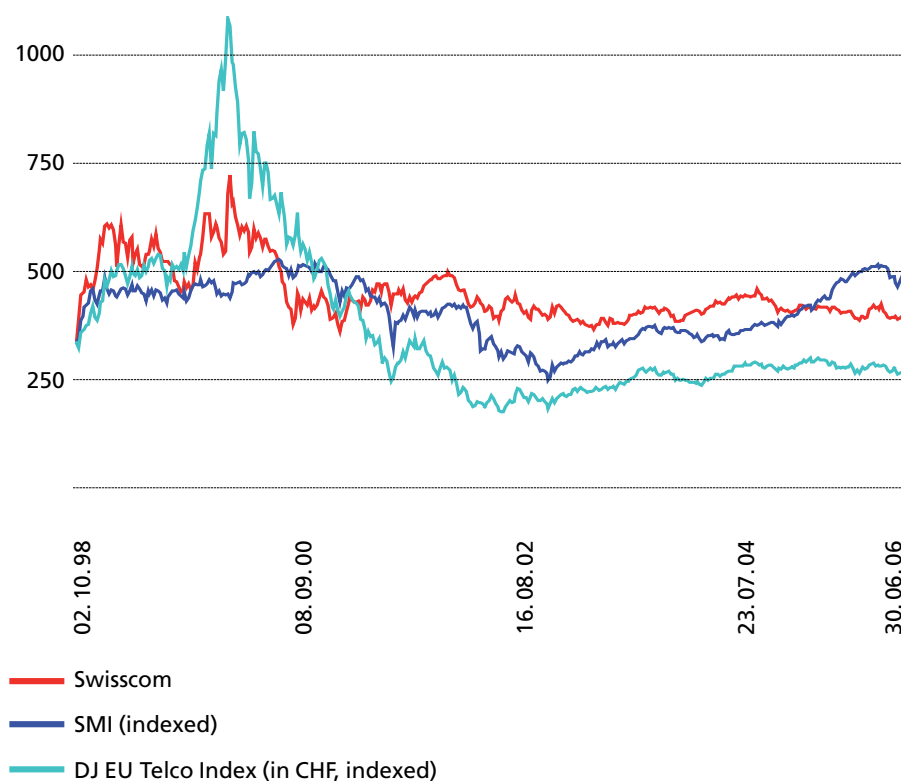
Swisscom's Board of Directors approved the release of this interim report on August 8, 2006.

Acquisition of a 100% stake in Swapcom

On August 3, 2006, Swisscom acquired a 100% stake in Swapcom (France): Swapcom is specialized on server oriented software architecture for mobile networks and developing software solutions. The purchase price is EUR 14 million (CHF 22 million) in cash and up to a maximum of EUR 4 million (CHF 6 million) depending on the business development in 2006.

Shareholder information

Performance of the Swisscom share on the virt-x



31.12.2005 – 30.06.2006	virt-x	NYSE
Closing price at 31.12.2005	CHF 414.75	USD 31.51
Closing price at 30.06.2006 ¹	CHF 402.50	USD 32.95
Year high ¹	CHF 434.00	USD 34.53
Year low ¹	CHF 388.00	USD 29.88
Total trading volume	16 997 102	5 542 500
Daily average	133 835	43 988
Total volume in millions	CHF 6 930.57	USD 178.83
Daily average in millions	CHF 54.57	USD 1.42

Source: Bloomberg

¹ paid prices

Share information

On June 30, 2006 the company's share capital consists of 61,482,761 registered shares, of which the Swiss Confederation holds the majority in accordance with the Telecommunications Enterprise Act. On June 30, 2006 Swisscom had 56,361 registered shareholders and an average non-allotted share level of approximately 11%. The nominal value per registered share amounts to CHF 1.

As part of the 2005 share buy-back scheme Swisscom acquired 4,764,200 shares or 7.75% of the share capital. These shares will be destroyed in compliance with the resolution of the General Meeting of Shareholders on April 25, 2006. After the capital reduction the number of shares issued will be reduced to 56,718,561 registered shares. The shares are scheduled to be destroyed in the second half of 2006.

The dividend payment of CHF 16 per share (previous year: CHF 14) agreed at the General Meeting of Shareholders in 2006 was paid on April 28, 2006. In addition to the total dividend payment of CHF 907 million, Swisscom will launch a share buy-back scheme in the next weeks in the amount of up to CHF 2.25 billion. This means the shareholders will receive dividend payouts totaling CHF 3.16 billion during the current year.

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

Financial calendar

November 8, 2006	2006 Third-Quarter Interim Report
March 13, 2007	Annual results 2006
April 24, 2007	Shareholders' Meeting, Zurich

Trading locations

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

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

Return policy

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

Quarterly review 2005 and 2006

CHF in millions	1. quarter	2. quarter	3. quarter	4. quarter	2005	1. quarter	2. quarter	3. quarter	4. quarter	1. half-year
										2006
Net revenue	2 445	2 467	2 386	2 434	9 732	2 375	2 398			4 773
Other income	32	66	91	71	260	80	74			154
Goods and services purchased	(431)	(462)	(479)	(459)	(1 831)	(409)	(466)			(875)
Personnel expenses	(559)	(532)	(504)	(578)	(2 173)	(594)	(555)			(1 149)
Other operating expenses	(395)	(432)	(421)	(569)	(1 817)	(418)	(671)			(1 089)
EBITDA	1 092	1 107	1 073	899	4 171	1 034	780			1 814
Depreciation and amortization	(357)	(346)	(340)	(351)	(1 394)	(348)	(355)			(703)
EBIT	735	761	733	548	2 777	686	425			1 111
Net financial result	20	11	28	23	82	(10)	(12)			(22)
Equity in net income of affiliated companies	(1)	7	3	4	13	(1)	14			13
Income tax expense	(147)	(148)	(155)	(85)	(535)	(131)	(82)			(213)
Income from continuing operations	607	631	609	490	2 337	544	345			889
Income from discontinued operation (debitel)	6	53	–	(50)	9	–	32			32
Net income	613	684	609	440	2 346	544	377			921
Attributable to equity holders of Swisscom AG	520	596	534	372	2 022	460	299			759
Attributable to minority interests	93	88	75	68	324	84	78			162
Net revenue by Segments¹										
Fixnet	1 378	1 372	1 262	1 296	5 308	1 281	1 252			2 533
Mobile	1 040	1 067	1 051	1 010	4 168	958	1 002			1 960
Solutions	314	314	312	328	1 268	293	294			587
Other	246	255	249	309	1 059	316	322			638
Corporate	169	171	172	178	690	164	165			329
Intercompany elimination	(702)	(712)	(660)	(687)	(2 761)	(637)	(637)			(1 274)
Total net revenue	2 445	2 467	2 386	2 434	9 732	2 375	2 398			4 773
EBITDA by Segments										
Fixnet	519	546	528	498	2 091	526	322			848
Mobile	509	492	445	404	1 850	459	432			891
Solutions	23	26	23	2	74	18	19			37
Other	39	52	43	8	142	36	(7)			29
Corporate	5	(9)	37	(16)	17	1	20			21
Intercompany elimination	(3)	–	(3)	3	(3)	(6)	(6)			(12)
Total EBITDA	1 092	1 107	1 073	899	4 171	1 034	780			1 814
Capital expenditure	176	255	236	420	1 087	235	291			526
Equity free cash flow	606	927	829	(159)	2 203	67	409			476
Number of full-time equivalent employees at end of period	15 397	15 307	15 288	16 088	16 088	16 544	16 739			16 739

¹ Includes intersegment revenue.

	1. quarter	2. quarter	3. quarter	4. quarter	2005	1. quarter	2. quarter	3. quarter	4. quarter	1. half-year
Operational data Fixnet										2006
Number of lines in thousands										
PSTN lines	2 982	2 951	2 930	2 922	2 922	2 923	2 911			2 911
ISDN lines	921	919	911	900	900	888	878			878
Total number of lines PSTN / ISDN	3 903	3 870	3 841	3 822	3 822	3 811	3 789			3 789
ADSL retail lines	550	603	645	708	708	775	846			846
ADSL wholesale lines	328	345	365	390	390	414	407			407
Total number of ADSL lines	878	948	1 010	1 098	1 098	1 189	1 253			1 253
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			3 258
Fixed-to-mobile traffic	228	236	231	230	925	231	232			463
Internet traffic	674	563	513	502	2 252	470	375			845
Total national traffic	2 658	2 453	2 291	2 403	9 805	2 412	2 154			4 566
International traffic	241	231	220	234	926	235	222			457
Total retail traffic	2 899	2 684	2 511	2 637	10 731	2 647	2 376			5 023
Wholesale traffic volume in millions of minutes										
National traffic	4 643	4 461	4 102	4 318	17 524	4 390	4 056			8 446
International traffic	353	402	–	–	755	–	–			–
Total wholesale traffic	4 996	4 863	4 102	4 318	18 279	4 390	4 056			8 446
Operational data Mobile										
Number of subscribers in thousands										
Postpaid	2 536	2 559	2 603	2 640	2 640	2 669	2 703			2 703
Prepaid	1 447	1 485	1 571	1 641	1 641	1 701	1 766			1 766
Total	3 983	4 044	4 174	4 281	4 281	4 370	4 469			4 469
In CHF, minutes or millions										
ARPU in CHF	77	78	74	67	74	65	66			65
AMPU in minutes	112	120	124	124	120	120	125			122
Number of SMS messages in millions	493	493	486	519	1 991	521	511			1 032
Operational data Solutions										
Traffic volume in millions of minutes										
Local and long-distance traffic	437	428	400	407	1 672	417	383			800
Fixed-to-mobile traffic	64	67	64	63	258	63	62			125
Total national traffic	501	495	464	470	1 930	480	445			925
International traffic	92	92	86	86	356	90	85			175
Total national and international traffic	593	587	550	556	2 286	570	530			1 100

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

Cautionary statement regarding forward-looking statements

This communication contains Statements that constitute “forward-looking Statements”. In this communication, such forward-looking statements include, without limitation, statements relating to our financial condition, results of operations and business and certain of our strategic plans and objectives. Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors which are beyond Swisscom’s ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behavior of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom’s past and future filings and reports filed with the U.S. Securities and Exchange Commission and posted on our websites. Readers are cautioned not to put undue reliance on forward-looking statements, which speak only of the date of this communication. Swisscom disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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