

**Interim Report
January – September 2007**

Key figures

CHF in millions, except where indicated	30.09.2007	30.09.2006 restated	Change
Net revenue and results			
Net revenue	8,082	7,196	12.3%
Earnings before interest, taxes, depreciation, amortization and impairment (EBITDA)	3,275	2,855	14.7%
EBITDA as % of net revenue	40.5%	39.7%	
Earnings before interest and taxes (EBIT)	1,963	1,809	8.5%
Net income	1,633	1,475	10.7%
Net income attributable to equity holders of Swisscom AG	1,627	1,229	32.4%
Earnings per share	31.41	21.77	44.3%
Balance and cash flow			
Equity	5,542	4,575	21.1%
Equity ratio ¹	23.4%	37.8%	
Net debt (net funds) ²	10,513	(333)	–
Operating free cash flow attributable to equity holders of Swisscom AG ³	1,602	1,685	–4.9%
Capital expenditure	1,343	852	57.6%
Employees			
Number of full-time equivalent employees (FTE) ⁴	19,658	16,875	16.5%
Average number of full-time equivalent employees (FTE) ⁵	18,730	16,661	12.4%
Operational data			
Number of lines PSTN / ISDN (in thousands)	3,696	3,759	–1.7%
Number of broadband lines (in thousands)	1,558	1,305	19.4%
Customers Mobile (in thousands)	4,894	4,563	7.3%
Customers Fastweb (in thousands)	1,251	–	–
Share information			
Average number of shares outstanding (in thousands)	51,802	56,465	–8.3%
Share price (in CHF)	442.75	416.25	6.4%

¹ Equity as a percentage of total assets.

² 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.

³ Definition operating free cash flow attributable to equity holders of Swisscom AG: operating income (EBITDA), change in operating assets and liabilities and other payments and receipts from operating activities, net capital expenditure on tangible and other intangible assets and dividend payments to minority interests.

⁴ Excludes 309 and 450 full-time equivalent employees of the employment company Worklink at September 30, 2007 and 2006, respectively.

⁵ Excludes 369 and 481 full-time equivalent employees of the employment company Worklink in the first nine months of 2007 and 2006, respectively.

Financial Review

Summary

Swisscom increased net revenue in the first nine months of 2007 by 12.3% to CHF 8,082 million and operating income before interest, taxes, depreciation, amortization and impairment (EBITDA) by 14.7% to CHF 3,275 million. Adjusted to take into account the acquisition of Fastweb and one-off items in the previous year, Swisscom recorded a stable course of business. Comparable net revenue increased year-over-year by 0.3% or CHF 24 million and despite costs for the launch of new products and the development of new business areas EBITDA only decreased slightly year-over-year by 0.9% or CHF 26 million. Net income increased by 10.7% to CHF 1,633 million. Earnings per share on the other hand increased by 44.3% to CHF 31.41 as a result of the repurchase of a 25% share in Swisscom Mobile in December 2006 and last year's share buy-back scheme.

Swisscom expects net revenue to remain unchanged at between CHF 11.2 billion and CHF 11.3 billion for the 2007 financial year as a whole and an operating income (EBITDA) of between CHF 4.4 billion and CHF 4.5 billion.

CHF in millions, except where indicated	3. quarter 2007	3. quarter 2006	Change	30.09.2007	30.09.2006	Change
Net revenue	2,988	2,424	23.3%	8,082	7,196	12.3%
Operating expenses	(1,854)	(1,458)	27.2%	(5,077)	(4,571)	11.1%
Capitalized cost and other income	99	76	30.3%	270	230	17.4%
EBITDA	1,233	1,042	18.3%	3,275	2,855	14.7%
Depreciation, amortization and impairment (498)		(343)	45.2%	(1,312)	(1,046)	25.4%
EBIT	735	699	5.2%	1,963	1,809	8.5%
Gain on sale of subsidiaries	157	–	–	157	–	–
Net financial result	(89)	(11)	709.1%	(126)	(33)	281.8%
Share of profit of affiliated companies	8	4	100.0%	22	17	29.4%
Earnings before income taxes	811	692	17.2%	2,016	1,793	12.4%
Income tax expense	(122)	(137)	–10.9%	(383)	(350)	9.4%
Income from continuing operations	689	555	24.1%	1,633	1,443	13.2%
Income from discontinued operations	–	–	–	–	32	–
Net income	689	555	24.1%	1,633	1,475	10.7%
Net income attributable to equity holders of Swisscom AG	691	471	46.7%	1,627	1,229	32.4%
Net income attributable to minority interests	(2)	84	–	6	246	–97.6%
Average number of shares outstanding (in thousands)	51,802	55,962	–7.4%	51,802	56,465	–8.3%
Earnings per share (in CHF)	13.34	8.42	58.5%	31.41	21.77	44.3%

Acquisition of Fastweb and sale of Antenna Hungária and Accarda

The interim financial statements are significantly influenced by the acquisition of Fastweb and its initial consolidation. Swisscom completed the acquisition of Fastweb on May 22, 2007. Acquisition costs including direct transaction costs amounted to EUR 3.1 billion (CHF 5.1 billion). Fastweb is included in the consolidated financial statements from the date of the acquisition and is presented as a separate segment. In the nine months of 2007, Fastweb's share of net revenue was CHF 867 million and EBITDA CHF 235 million. Swisscom's net debt increased by CHF 6.9 billion as a result of the acquisition. The purchase price was financed completely by bank loans. On the date of the acquisition Fastweb's net debt amounted to EUR 1.1 billion (CHF 1.8 billion). Fastweb's bank loans which were taken over were refinanced through bank loans by Swisscom AG in June 2007.

In July 2007 Swisscom sold its cards business (Accarda) and the Hungarian subsidiary Antenna Hungária. The sales generated a net cash inflow in the third quarter of 2007 of CHF 798 million. The sale of Antenna Hungária led to a gain of CHF 157 million. The sale of Accarda led to goodwill impairment of CHF 9 million. The consolidated income statement for the first nine months of 2007 includes net revenue of CHF 126 million and EBITDA of CHF 26 million from the subsidiaries sold.

Net income and earnings before interest, taxes, depreciation, amortization and impairment (EBITDA)

Without taking into consideration Fastweb, net revenue in the third quarter of 2007 was CHF 2,402 million, 0.9% lower than last year's figure. The continuing increase in the number of broadband lines and mobile subscribers and growth in project and outsourcing business with business customers as well as the new business areas were compensated for by the decline in traditional fixed network business. EBITDA increased by CHF 191 million (+18.3%) to CHF 1,233 million, compared with the last year's quarter. The increase in EBITDA is mainly attributable to the acquisition of Fastweb (CHF 156 million). Without this effect EBITDA increased by CHF 35 million (+3.4%), mainly as a result of strong market growth in mobile and corporate customer business and cost savings.

Accumulated revenue in the first nine months of 2007 was CHF 8,082 million, 12.3% higher year-over-year. EBITDA increased by CHF 420 million (+14.7%) to CHF 3,275 million as a result of the acquisition of Fastweb and one-off items in the previous year. Without these one-off items EBITDA decreased by CHF 26 million (-0.9%) on a comparable basis. This is mainly due to the launch of new products and the development of new business areas such as Bluewin.

The table below shows the most significant one-off items and the effects of the acquisitions of subsidiaries on net revenue and EBITDA:

CHF in millions	Net revenue	EBITDA
Interim financial statements as at September 30, 2007	8,082	3,275
Interim financial statements as at September 30, 2006	7,196	2,855
Change to the previous year	886	420
Analysis of changes to the previous year		
Effect of acquisition of Fastweb	867	235
Effect of sale of Antenna Hungária and Accarda	(33)	(6)
Effect of provision for proceedings relating to interconnection	–	180
Effect of retroactive price adjustments of roaming tariffs	28	(12)
Effect of provisions for contract risks	–	49
Other changes	24	(26)
Total changes to the previous year	886	420

Operating expenses

Operating expenses rose in the third quarter of 2007 year-over-year by CHF 396 million to CHF 1,854 million. The increase is mainly attributable to the acquisition of Fastweb (CHF 447 million). The accumulated development of operating expenses is further influenced by one-off items from the previous year. These mainly include provisions of CHF 180 millions for interconnection proceedings and CHF 49 millions for contractual risks in Swisscom IT Services' project business. Without taking these items into consideration, operating expenses in the first nine months of 2007 are CHF 77 million higher year-over-year. The increase is mainly attributable to costs in connection with the launch of new products and the entry into new markets such as Bluewin TV, which could only be partially compensated for by cost savings.

Capitalized cost and other income

As a result of higher gains from real estate sales and higher capitalized cost, capitalized cost and other income increased year-over-year by CHF 40 million to CHF 270 million in the first nine months of 2007 (CHF 23 million in the third quarter).

Depreciation, amortization and impairment

The increase in depreciation, amortization and impairment in the third quarter of 2007 by CHF 155 million to CHF 498 million is mainly attributable to the acquisition of Fastweb. In the first nine months of 2007, depreciation, amortization and impairment amounted to CHF 1,312 million (previous year CHF 1,046 million). This includes depreciation and amortization at Fastweb of CHF 156 million and impairments on goodwill and other intangible assets in the second quarter of 2007 of CHF 39 million.

Gain from the sale of subsidiaries

On July 19, 2007 the sale of the Hungarian subsidiary Antenna Hungária was completed for a purchase price of EUR 328 million (CHF 543 million). The sale led to a pre-tax gain of CHF 157 million. The gain includes gains from currency translation adjustments of CHF 40 million which were previously recognized under consolidated equity. Income tax of CHF 3 million was due on the sale of Antenna Hungária.

Net financial result

Net financial expense increased by CHF 93 million to CHF 126 million in the first nine months of 2007. On the one the financing of the repurchase of a 25% share in Swisscom Mobile in December 2006 and the acquisition of Fastweb led to an increase in net interest expense of CHF 160 million. On the other hand a net gain of CHF 72 million was recognized in the second quarter of 2007 from currency hedges in connection with the acquisition of Fastweb. In 2006 a one-off interest expense of CHF 64 million was recorded in connection with the provisions for interconnection proceedings. This was largely offset by a gain of CHF 63 million from the sale of financial assets.

Income tax expense

In the first nine months of 2007 income tax expense amounted to CHF 383 million (previous year: CHF 350 million), which corresponds to an effective income tax rate of 19.0% (previous year: 19.5%).

Net income and earnings per share

Net income increased by CHF 158 million to CHF 1,633 million (+10.7%) in the first nine months of 2007. The increase in EBITDA and gain from the sale of subsidiaries were offset by higher depreciation and amortization and net financial expense as well as an increase in income tax expense. Net income attributable to equity holders of Swisscom AG rose by 32.4% year-over-year to CHF 1,627 million following the repurchase of a 25% stake in Swisscom Mobile in December 2006.

Earnings per share are calculated on the basis of the net income attributable to equity holders of Swisscom AG and the average number of shares outstanding. As a result of the omission of Vodafone's minority interest in Swisscom Mobile as well as last year's share buy-back program and the consequent lower average number of shares outstanding, earnings per share rose by 44.3% to CHF 31.41.

Results of the segments

The development of net revenue and EBITDA in the individual segments is presented in the following table:

Revenue / CHF in million	3. quarter 2007	3. quarter 2006	Change	30.09.2007	30.09.2006	Change
Fixnet	1,091	1,148	–5.0%	3,335	3,552	–6.1%
Mobile	1,046	1,017	2.9%	3,025	2,960	2.2%
Solutions	304	303	0.3%	890	891	–0.1%
Fastweb	586	–	–	867	–	–
Other	307	329	–6.7%	1,013	967	4.8%
Corporate	157	159	–1.3%	477	488	–2.3%
Intercompany	(503)	(532)	–5.5%	(1,525)	(1,662)	–8.2%
Total	2,988	2,424	23.3%	8,082	7,196	12.3%

¹ Includes intersegment revenue.

CHF in millions	3. quarter 2007	3. quarter 2006	Change	30.09.2007	30.09.2006	Change
Fixnet	463	489	–5.3%	1,408	1,333	5.6%
Mobile	495	480	3.1%	1,411	1,373	2.8%
Solutions	40	19	110.5%	93	57	63.2%
Fastweb	156	–	–	235	–	–
Other	54	52	3.8%	76	81	–6.2%
Corporate	27	9	200.0%	78	30	160.0%
Intercompany	(2)	(7)	–	(26)	(19)	–
Total	1,233	1,042	18.3%	3,275	2,855	14.7%

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 and TV services as well as selling customer equipment and operating a directories database.

CHF in millions	3. quartal 2007	3. quartal 2006	Change	30.09.2007	30.09.2006	Change
Total revenue from external customers	948	984	–3.7%	2,895	3,039	–4.7%
Intersegment revenue	143	164	–12.8%	440	513	–14.2%
Total net revenue	1,091	1,148	–5.0%	3,335	3,552	–6.1%
Operating expenses (incl. Intercompany)	(675)	(694)	–2.7%	(2,061)	(2,319)	–11.1%
Capitalized cost and other income	47	35	34.3%	134	100	34.0%
EBITDA	463	489	–5.3%	1,408	1,333	5.6%
Margin as % of net revenue	42.4	42.6		42.2	37.5	
Depreciation, amortization and impairment	(171)	(184)	–7.1%	(550)	(563)	–2.3%
EBIT	292	305	–4.3%	858	770	11.4%

Number of lines in thousands	30.09.2007	30.09.2006	Change
PSTN/ISDN lines	3,696	3,759	–1.7%
Broadband lines	1,558	1,305	19.4%

CHF in millions or number	3. quarter 2007	3. quarter 2006	Change	30.09.2007	30.09.2006	Change
Capital expenditure	186	155	20.0%	640	390	64.1%
Number of full-time equivalent employees at end of period	–	–	–	7,016	6,580	6.6%

Fixnet's revenue from external customers decreased year-over-year in the first nine months of 2007 by 4.7% to CHF 2,895 million (–3.7% in the third quarter). The decrease in the number of analogue and digital access lines (PSTN/ISDN) and traffic revenue as a result of the market entry of cable network companies and substitution through mobile telephony could only be partially offset by the continued strong growth in broadband lines.

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

Total segment expenses at Fixnet in the first nine months of 2007 were CHF 258 million below last year's figure (CHF 19 million in the third quarter). The decrease is mainly due to the recognition of a provision of CHF 180 million for interconnection proceedings in 2006. Not including this one-off item, expenses decreased despite the costs of launching Bluewin TV. The main reasons for the decrease are the lower volume in wholesale traffic and cost savings.

Overall the lower costs could only partially compensate for the decline in revenue so that EBITDA in the first nine months of 2007, not including the recognition of a provision of CHF 180 million for interconnection proceedings in 2006, was CHF 105 million down year-over-year (CHF 26 million in the third quarter).

The number of analogue and digital access lines (PSTN/ISDN) decreased year-over-year by 1.7% to 3,696,000, mainly as a result of the keen competition with cable network companies and substitution through mobile telephony. The number of lines only decreased by 16,000 in the third quarter of 2007. The number of broadband lines increased year-over-year by 19.4% to 1,558,000 lines. This business included 1,118,000 lines subscribed to by retail customers and 440,000 by the customers of other providers. As at September 30, 2007 over 60,000 Bluewin TV customers were registered.

The strong increase in capital expenditure is mainly due to the development of the network infrastructure for the new VDSL technology.

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.

CHF in millions	3. quarter 2007	3. quarter 2006	Change	30.09.2007	30.09.2006	Change
Total revenue from external customers	981	944	3.9%	2,835	2,718	4.3%
Intersegment revenue	65	73	-11.0%	190	242	-21.5%
Total net revenue	1,046	1,017	2.9%	3,025	2,960	2.2%
Operating expenses (incl. Intercompany)	(564)	(546)	3.3%	(1,636)	(1,610)	1.6%
Capitalized cost and other income	13	9	44.4%	22	23	-4.3%
EBITDA	495	480	3.1%	1,411	1,373	2.8%
Margin as % of net revenue	47.3	47.2		46.6	46.4	
Depreciation, amortization and impairment	(110)	(95)	15.8%	(296)	(284)	4.2%
EBIT	385	385	–	1,115	1,089	2.4%

Number of subscribers in thousands	30.09.2007	30.09.2006	Change
Postpaid	2,953	2,752	7.3%
Prepaid	1,941	1,811	7.2%
Total number of subscribers	4,894	4,563	7.3%

In CHF	3. quarter 2007	3. quarter 2006	Change	30.09.2007	30.09.2006	Change
Average revenue per user (ARPU)	62	66	-6.1%	61	65	-6.2%

CHF in millions or number	3. quarter 2007	3. quarter 2006	Change	30.09.2007	30.09.2006	Change
Capital expenditure	84	78	7.7%	236	193	22.3%
Number of full-time equivalent employees at end of period	–	–	–	2,804	2,934	-4.4%

The third quarter is, as always, the quarter when the highest revenue is recorded in mobile business, mainly because of the high volume of roaming traffic during the holiday months. Revenue from external customers increased year-over-year in the third quarter of 2007 by 3.9% to CHF 981 million. Accumulated revenue increased by 4.3% to CHF 2,835 million. The increase in revenue is mainly due to small company acquisitions as well as the continuing increase in the number of subscribers and growth in new data services, despite the reduction in revenue resulting from a retrospective adjustment of international roaming tariffs in the previous year described below.

This fully compensates for the lower traffic and subscription fees resulting from new tariff models and the reduction in termination prices, which was also reflected in an accumulated decline in the average revenue per user per month (ARPU) from CHF 65 to CHF 61.

In the first quarter of 2006 Swisscom Mobile concluded new roaming agreements with a number of foreign mobile phone providers. These new agreements included a reduction in prices for international roaming traffic among the network providers, effective retrospectively as of April 2005. In the first quarter of 2006, these retrospective price adjustments led to a decline in revenue from incoming roaming traffic of CHF 28 million and a decline in expenditure on outgoing roaming traffic of CHF 40 million.

The decrease in intersegment revenue is mainly due to the lower volume of traffic from other network operators using Swisscom Fixnet lines.

Operating expenses in the third quarter of 2007 were up year-over-year due to the seasonally high volume of roaming traffic. Excluding the already mentioned retrospective adjustment of international roaming tariffs of CHF 40 million in the first quarter of 2006, accumulated segment expenses were down slightly year-over-year, despite the company acquisitions mentioned above and a higher volume of calls terminated for other operators. This decrease was due to a further reduction in termination prices at the beginning of April 2007, lower roaming tariffs and costs savings.

As a result of increased revenue and cost savings, EBITDA in the third quarter of 2007 rose by 3.1% to CHF 495 million. Accumulated EBITDA was 2.8% over last year's figure.

The number of subscribers increased year-over-year by a net total of 331,000 (+7.3%) to 4,894,000. At the end of September 2007 the Liberty family had over two million subscribers and the pre-paid product M-Budget Mobile, 337,000 subscribers.

Solutions

«Solutions» primarily offers business customers voice and data connectivity services, as well as solutions in the area of communication infrastructures and optimization and outsourcing of business processes.

CHF in millions	3. quarter 2007	3. quarter 2006	Change	30.09.2007	30.09.2006	Change
Total revenue from external customers	265	267	-0.7%	768	778	-1.3%
Intersegment revenue	39	36	8.3%	122	113	8.0%
Total net revenue	304	303	0.3%	890	891	-0.1%
Operating expenses (incl. Intercompany)	(266)	(286)	-7.0%	(808)	(853)	-5.3%
Capitalized cost and other income	2	2	–	11	19	-42.1%
EBITDA	40	19	110.5%	93	57	63.2%
Margin as % of net revenue	13.2	6.3		10.4	6.4	
Depreciation, amortization and impairment	(12)	(8)	50.0%	(29)	(23)	26.1%
EBIT	28	11	154.5%	64	34	88.2%

CHF in millions or number	3. quarter 2007	3. quarter 2006	Change	30.09.2007	30.09.2006	Change
Capital expenditure	12	10	20.0%	28	29	-3.4%
Number of full-time equivalent employees at end of period	–	–	–	2,042	1,956	4.4%

Solutions' revenue from external customers' decreased year-over-year in the third quarter of 2007 by 0.7% (accumulated -1.3%). The traditional voice and data connectivity services are faced with continued keen competition and substitution by more modern technologies. The resulting decline in revenue can be largely offset by new products and services, especially in the project and outsourcing business.

Segment expenses fell year-over-year due to revenue-related lower purchasing volumes from other segments and cost savings.

EBITDA increased overall by CHF 21 million in the third quarter of 2007 since the decline in revenue was offset by lower costs and this had a positive effect on the first nine months of 2007 as a whole.

The number of employees at Solutions increased as a result of the transfer of a sales unit from Swisscom Mobile and the takeover of employees in connection with outsourcing business.

Fastweb

Fastweb is included in the consolidated financial statements since the completion of the acquisition on May 22, 2007:

CHF in millions	3. quarter 2007	30.09.2007
Total revenue from external customers	586	867
Operating expenses (incl. Intercompany)	(447)	(659)
Capitalized cost and other income	17	27
EBITDA	156	235
Margin as % of net revenue	26.6	27.1
Depreciation, amortization and impairment	(156)	(228)
EBIT	–	7

Number of subscribers in thousands	30.09.2007
Number of subscribers	1,251

CHF in millions or number	3. quarter 2007	30.09.2007
Capital expenditure	192	277
Number of full-time equivalent employees at end of period	–	3,062

Fastweb increased revenue year-over-year by 11% to EUR 354 million in the third quarter of 2007. EBITDA increased by 9% to EUR 94 million. Accumulated revenue has increased by 19% to EUR 1,068 million and EBITDA by 48% to EUR 317 million. This includes one-off items of EUR 44 million. Without these one-off items EBITDA increased by 28%. Capital expenditure of EUR 366 million is more or less the same as last year.

Included in the period from the date of acquisition is revenue of EUR 524 million (CHF 867 million), EBITDA of EUR 142 million (CHF 235 million) and capital expenditure of EUR 168 million (CHF 277 million).

Other

The segment Other mainly comprises Swisscom IT Services, Swisscom Broadcast, Antenna Hungária (included up to its sale on July 19, 2007), the Accarda Group, consisting of Bil-lag AG, Accarda AG (included up to its sale on July 2, 2007) and Medipa AG, Hospitality Services and Betty.

CHF in millions	3. quarter 2007	3. quarter 2006	Change	30.09.2007	30.09.2006	Change
Swisscom IT Services	106	84	26.2%	312	248	25.8%
Swisscom Broadcast	34	37	-8.1%	100	112	-10.7%
Antenna Hungária	9	40	-77.5%	96	120	-20.0%
Accarda Group	19	28	-32.1%	86	86	–
Hospitality Services	19	16	18.8%	59	41	43.9%
Other	4	1	300.0%	11	2	450.0%
Total revenue from external customers	191	206	-7.3%	664	609	9.0%
Intersegment revenue	116	123	-5.7%	349	358	-2.5%
Total net revenue	307	329	-6.7%	1,013	967	4.8%
Operating expenses (incl. Intercompany)	(257)	(281)	-8.5%	(948)	(903)	5.0%
Capitalized cost and other income	4	4	–	11	17	-35.3%
EBITDA	54	52	3.8%	76	81	-6.2%
Margin as % of net revenue	17.6	15.8		7.5	8.4	
Depreciation, amortization and impairment	(37)	(45)	-17.8%	(171)	(141)	21.3%
EBIT	17	7	142.9%	(95)	(60)	58.3%

CHF in millions or number	3. quarter 2007	3. quarter 2006	Change	30.09.2007	30.09.2006	Change
Capital expenditure	42	47	-10.6%	133	134	-0.7%
Number of full-time equivalent employees at end of period	–	–	–	3,767	4,498	-16.3%

Following the sale of Antenna Hungária and the cards business (Accarda), the segment Other saw a fall in revenue with external customers by 7.3% to CHF 191 million in the third quarter. The growth in IT outsourcing at Swisscom IT Services and Hospitality Services is absorbed by the omission of revenue from the subsidiaries which were sold. However, the accumulated growth in revenue from these areas is larger than the omitted revenue so that overall there is an increase in revenue with external customers of 9.0%.

Segment expenses in the second quarter of 2006 included provisions of CHF 49 million for contractual risks in Swisscom IT Services' project business. Without taking this one-off item into consideration, segment expenses increased by CHF 94 million in the first nine months of 2007. This is partly revenue-related, but also due to the costs of developing new business areas, especially CHF 65 million for the interactive TV remote control Betty.

EBITDA amounted to CHF 54 million in the third quarter of 2007. Accumulated EBITDA in the first nine months of 2007 was CHF 76 million. Without the provisions for contractual risks in 2006 this corresponds to a decline year-over-year of CHF 54 million, which is mainly attributable to the costs for Betty.

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.

CHF in millions	3. quarter 2007	3. quarter 2006	Change	30.09.2007	30.09.2006	Change
Total revenue from external customers	17	23	–26.1%	53	52	1.9%
Intersegment revenue	140	136	2.9%	424	436	–2.8%
Total net revenue	157	159	–1.3%	477	488	–2.3%
Operating expenses (incl. Intercompany)	(157)	(172)	–8.7%	(495)	(523)	–5.4%
Capitalized cost and other income	27	22	22.7%	96	65	47.7%
EBITDA	27	9	200.0%	78	30	160.0%
Margin as % of net revenue	17.2	5.7		16.4	6.1	
Depreciation, amortization and impairment	(16)	(13)	23.1%	(46)	(39)	17.9%
EBIT	11	(4)	–	32	(9)	–

CHF in millions or number	3. quarter 2007	3. quarter 2006	Change	30.09.2007	30.09.2006	Change
Capital expenditure	12	40	–70.0%	39	113	–65.5%
Number of full-time equivalent employees at end of period	–	–	–	967	907	6.6%

In the third quarter of 2007 Swisscom maintained net revenue at last year's level. Net revenue decreased slightly year-over-year during the first nine months of 2007 as a whole as a result of fewer transactions between Swisscom Immobilien AG and the Swisscom group companies.

Segment expenses fell in the third quarter and in the first nine months of 2007 as a whole due to cost savings at Swisscom Immobilien AG and lower costs for workforce reduction measures. Accumulated costs for workforce reduction measures decreased from CHF 66 million to CHF 35 million, including expenditure on the employment company Worklink AG.

EBITDA increased mainly thanks to lower costs and higher gains from the sale of real estate.

The decline in capital expenditure year-over-year can be attributed to a group-wide project run by Swisscom Immobilien AG in the previous year to restructure workplaces.

Cash flows

CHF in millions	30.09.2007	30.09.2006	Change
Earnings before interest, taxes, depreciation, amortization and impairment (EBITDA)	3,275	2,855	420
Change in operating assets and liabilities and other payments or receipts from operating activities	(364)	(54)	(310)
Interest received and paid, net	(138)	(4)	(134)
Other financial income and expense received and paid, net	99	(5)	104
Income taxes paid	(354)	(429)	75
Cash flow provided by operating activities	2,518	2,363	155
Capital expenditure	(1,343)	(852)	(491)
Acquisition of subsidiaries, less cash and cash equivalents acquired	(5,025)	(199)	(4,826)
Proceeds from sale subsidiaries, less cash and cash equivalents sold	798	–	798
Other cash flow from investing activities, net	20	1,557	(1,537)
(Cash flow used in) cash flow provided by investing activities	(5,550)	506	(6,056)
Issuance and repayment of financial liabilities, net	4,012	(43)	4,055
Dividends paid to equity holders of Swisscom AG	(881)	(907)	26
Dividends paid to minority interests	(12)	(297)	285
Share buy-back	–	(1,576)	1,576
Other cash flow from financing activities	(9)	(17)	8
Cash flow provided by (cash flow used in) financing activities	3,110	(2,840)	5,950
Net increase in cash and cash equivalents	78	29	49

Cash flow provided by operating activities increased year-over-year by CHF 155 million to CHF 2,518 million. On the one hand there was an increase in the operating income (EBITDA) and cash from other financial income and expense as well as lower income taxes paid and on the other an increase in net operating assets and other payments or receipts from operating activities and higher net interest paid. The change in the increase in net operating assets year-over-year is mainly attributable to the recognition of provisions in 2006 for interconnection proceedings and contractual risks in Swisscom IT Services' project business totaling CHF 229 million, as well as payments for interconnection proceedings of around CHF 80 million in 2007.

Compared with the previous year cash flow used in investing activities increased by CHF 6.1 billion to CHF 5.6 billion. The increase is mainly attributable to the acquisition of Fastweb for CHF 5.1 billion. Capital expenditure on tangible and other intangible assets increased by CHF 491 million to CHF 1,343 million. The increase is mainly due to the development of the network infrastructure by Fixnet in order to launch VDSL technology and the acquisition of Fastweb. Cash inflow from the sale of Antenna Hungária and Accarda amounted to CHF 798 million and was used to pay back existing bank loans. In order to release cash, long-term term deposits amounting to CHF 1.5 billion were not extended in 2006.

Cash flow provided by financing activities amounted to CHF 3.1 billion. The main reasons are bank loans taken out to finance the acquisition of Fastweb. Swisscom AG shareholders and minority shareholders received payouts of CHF 893 million (previous year: CHF 2,780 million). The lower dividend payment is a result of the repurchase of a 25% share in Swisscom Mobile in December 2006. As a result of this repurchase, dividend payments to the minority interests in Swisscom Mobile will be omitted from 2007.

Net debt

CHF in millions	30.09.2007	31.12.2006	Change
Bank loans	9,190	4,243	4,947
Bonds	917	–	917
Financial liability from cross-border tax lease arrangements	1,415	1,459	(44)
Finance lease obligation	615	637	(22)
Other financial liabilities	361	244	117
Liabilities from collecting activities	25	128	(103)
Total	12,523	6,711	5,812
Cash and cash equivalents	(753)	(673)	(80)
Current financial assets	(161)	(142)	(19)
Receivables from collecting activities	(10)	(385)	375
Financial assets from lease and leaseback transactions	(1,084)	(1,125)	41
Long-term derivative financial assets	(2)	(7)	5
Net debt	10,513	4,379	6,134

Net debt (net funds) consists of total debt and liabilities from collection activities less cash and cash equivalents, current financial assets, receivables from collection activities and financial assets from cross-border tax lease transactions as well as long-term derivative financial instruments.

Financial liabilities include 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 1,084 million as at September 30, 2007.

Net debt increased as a result of the acquisition of Fastweb. The acquisition of Fastweb was fully financed bank loans. In addition, most of the debt of Fastweb was repaid in June 2007. Bank loans were taken out to refinance the debt of Fastweb.

Net debt as at December 31, 2006 includes receivables from collection activities of the Accarda Group of CHF 257 million. Most of the receivables are related to Accarda AG, which was sold to the Maus Group on July 2, 2007. Since the Maus Group also acquired Accarda AG's net receivables, net debt only changed slightly as a result of the sale of Accarda.

Return policy

CHF in millions	30.09.2007	30.09.2006	Change
Earnings before interest, taxes, depreciation, amortization and impairment (EBITDA)	3,275	2,855	420
Change in operating assets and liabilities and other payments or receipts from operating activities	(364)	(54)	(310)
Capital expenditure	(1,343)	(852)	(491)
Proceeds from sale of fixed assets	46	33	13
Operating free cash flow	1,614	1,982	(368)
Dividends paid to minority interests	(12)	(297)	285
Operating free cash flow attributable to equity holders of Swisscom AG	1,602	1,685	(83)

In accordance with the definitions laid down in Swisscom's return policy, approximately half of the operating free cash flow less the dividend payments to minority interests is to be paid out.

Outlook

Fastweb will be included in Swisscom's consolidated financial statements for the 2007 financial year from the date of the acquisition, May 22, 2007. Antenna Hungária and Accarda on the other hand have been sold and will no longer be included in the second half year of 2007. Taking into account these changes in the scope of consolidation, Swisscom expects net revenue to remain unchanged of between CHF 11.2 billion and CHF 11.3 billion for the 2007 financial year as a whole and EBITDA of between CHF 4.4 billion and CHF 4.5 billion. Capital expenditure will be approximately CHF 2 billion.

Consolidated income statement (condensed)

CHF in millions, except per share amount	Note	unaudited		
		3. quarter 2007	3. quarter 2006 restated	30.09.2006 restated
Net revenue		2,988	2,424	8,082
				7,196
Goods and services purchased		(584)	(471)	(1,555)
Personnel expenses		(599)	(542)	(1,796)
Other operating expenses		(671)	(445)	(1,726)
Capitalized cost and other income		99	76	270
				230
Earnings before interest, taxes, depreciation, amortization and impairment (EBITDA)		1,233	1,042	3,275
				2,855
Depreciation, amortization and impairment		(498)	(343)	(1,312)
				(1,046)
Earnings before interest and taxes (EBIT)		735	699	1,963
				1,809
Gain on sale of subsidiaries	7	157	–	157
Net financial result	3	(89)	(11)	(126)
Share of profit of affiliated companies		8	4	22
				17
Earnings before income taxes		811	692	2,016
				1,793
Income tax expense		(122)	(137)	(383)
				(350)
Income from continuing operations		689	555	1,633
				1,443
Income from discontinued operations		–	–	–
				32
Net income		689	555	1,633
				1,475
Net income attributable to equity holders of Swisscom AG		691	471	1,627
Net income attributable to minority interests		(2)	84	6
				246
Basic and diluted earnings per share (in CHF)				
- from continuing operations		13.34	8.42	31.41
- from discontinued operations		–	–	–
- net income		13.34	8.42	31.41
				21.20
				0.57
				21.77

Consolidated balance sheet (condensed)

CHF in millions	Note	unaudited	
		30.09.2007	31.12.2006 restated
Assets			
Current assets			
Cash and cash equivalents		753	673
Trade accounts receivable and other receivables		3,013	2,436
Other financial assets		161	142
Other assets		613	286
Non-current assets held for sale	8	10	19
Total current assets		4,550	3,556
Non-current assets			
Property, plant and equipment		8,472	5,795
Goodwill and other intangible assets		8,573	4,726
Investments in affiliated companies		248	221
Other financial assets		1,120	1,164
Deferred tax assets		714	99
Other non-financial assets		41	42
Total non-current assets		19,168	12,047
Total assets		23,718	15,603
Liabilities and equity			
Current liabilities			
Financial liabilities	4	2,776	1,568
Trade accounts payable and other payables		2,562	1,693
Current tax liabilities		219	217
Other non-financial liabilities		1,020	735
Total current liabilities		6,577	4,213
Non-current liabilities			
Financial liabilities	4	9,722	5,015
Accrued pension cost		660	719
Deferred tax liabilities		331	350
Other non-financial liabilities		886	826
Total non-current liabilities		11,599	6,910
Total liabilities		18,176	11,123
Equity attributable to equity holders of Swisscom AG	5	5,178	4,413
Equity attributable to minority interests	5	364	67
Total equity		5,542	4,480
Total liabilities and equity		23,718	15,603

Consolidated cash flow statement (condensed)

CHF in millions	Note	unaudited	
		30.09.2007	30.09.2006 restated
Cash flows from operating activities			
Earnings before interest, taxes, depreciation, amortization and impairment (EBITDA)		3,275	2,855
Change in operating assets and liabilities and other payments or receipts from operating activities		(364)	(54)
Interest received and paid, net		(138)	(4)
Other financial income and expense received and paid, net		99	(5)
Income taxes paid		(354)	(429)
Cash flow provided by operating activities		2,518	2,363
Cash flows from investing activities			
Capital expenditure		(1,343)	(852)
Proceeds from sale of fixed assets		46	33
Acquisition of subsidiaries, less cash and cash equivalents acquired		(5,025)	(199)
Proceeds from sale of subsidiaries, less cash and cash equivalents sold	7	798	–
Acquisition and sale of shares in affiliated companies, net		(8)	(9)
Net investments in other current and non-current financial assets		(18)	1,533
(Cash flow used in) cash flow provided by investing activities		(5,550)	506
Cash flows from financing activities			
Issuance and repayment of financial liabilities, net		4,012	(43)
Share buy-back	5	–	(1,576)
Purchase of treasury shares for share-based compensation	5	(9)	(17)
Dividends paid to equity holders of Swisscom AG		(881)	(907)
Dividends paid to minority interests		(12)	(297)
Cash flow provided by (cash flow used in) financing activities		3,110	(2,840)
Net increase in cash and cash equivalents		78	29
Cash and cash equivalents at beginning of year		673	1,023
Currency translation of cash and cash equivalents		2	–
Cash and cash equivalents at end of period		753	1,052

Statement of recognized income and expense (condensed)

CHF in millions	Note	30.09.2007	30.09.2006 restated
Currency translation of foreign Group companies		3	(20)
Fair value adjustments		16	(66)
Gains and losses directly recognized in equity, net	5	19	(86)
Net income		1,633	1,475
Total recognized income and expense	5	1,652	1,389
Attributable to equity holders of Swisscom AG		1,646	1,143
Attributable to minority interests		6	246
Effect of changes in accounting policies		–	–
Attributable to equity holders of Swisscom AG		–	–

As disclosed in Note 1, the statement of recognized income and expense has been restated following the changes in the accounting policies for the revenue recognition of installation and connection fees.

Notes to the interim financial statements (condensed)

1 Accounting policies

Basis of preparation

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 2006 drawn up as at December 31, 2006. The consolidated interim financial statements, with the exception of the changes in accounting policies for installation and connection fees and of those accounting principles that entered into force on January 1, 2007, were drawn up in compliance with the accounting policies described in the consolidated annual financial statements for the financial year 2006.

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.

Swisscom operates in industries where significant seasonal or cyclical variations are not experienced during the financial year.

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

Changes in accounting policies

Following the acquisition of Fastweb, the accounting policies for recording one-off installation and connection fees were reviewed in the second quarter of 2007. Swisscom recognized this revenue on the date of installation or connection. If these one-off installation and connection fees do not constitute independent services, they will be deferred and recorded straight-line over the entire term of the contract. If no minimum contract length has been agreed, revenue will be recognized immediately. The changes will be implemented retrospectively. This adjustment reduces equity by CHF 22 million as per January 1, 2006 and results in an increase in deferred tax assets of CHF 6 million and other non-financial liabilities of CHF 28 million. The effect on net revenue and net income in 2006 is minus CHF 1 million. Earnings and diluted earnings per share for 2006 decreased from CHF 0.02 to CHF 28.90.

Various new and revised International Financial Reporting Standards (IFRS) and interpretations have entered into force since January 1, 2007. The following changes are relevant for Swisscom:

IFRS 7: «Financial instruments: Disclosures»: The new standard, which replaces IAS 30 «Disclosures in the Financial Statements of Banks and Similar Financial Institutions» and IAS 32 «Financial Instruments: Presentation», will require additional disclosure in the Group's 2007 annual financial statements concerning the Group's financial instruments. There are no additional disclosure requirements in the interim financial statements.

IAS 1 (revised): «Presentation of Financial Statements: Capital Disclosures». The revisions to IAS 1 will require additional disclosure in the Group's 2007 annual financial statements concerning the Group's objectives, policies and processes for managing capital. There are no additional disclosure requirements in the interim financial statements.

2 Segment reporting

On January 1, 2007 Swisscom Shops were transferred from Swisscom Fixnet to Swisscom Mobile. As a result of this change the previous year's figures were restated in line with the new structure.

Swisscom completed the acquisition of Fastweb on May 22, 2007. Fastweb is included in the consolidated financial statements from this date as a separate segment. Fastweb is the second-largest fixed network operator and leading provider of IP-based services in Italy.

In July 2007 Swisscom sold its cards business (Accarda) and the Hungarian subsidiary Antenna Hungária. These two subsidiaries are no longer included in the group's annual financial statements from the date of the sale and are therefore not presented in the segment Other.

Intersegment services are settled at market prices. If the price for telecommunication services from other providers is regulated such as for interconnection services, this price is also used to settle internal services.

The financial review reports on the following segments:

- **Fixnet**
- **Mobile**
- **Solutions**
- **Fastweb**
- **Other** comprises mainly Swisscom IT Services, where the most important companies are Swisscom IT Services AG and Comit AG, Swisscom Broadcast, Antenna Hungária (included up to its sale on July 19, 2007), the Accarda Group, consisting of Billag AG, Accarda AG (included up to its sale on July 2, 2007) and Medipa AG, Swisscom Hospitality Services, and Betty.
- **Corporate** includes Group Headquarter divisions, shared services for Group companies, the real estate company Swisscom Immobilien AG and the employment company Worklink AG.

Net revenue and operating income of the individual segments in the first nine months of 2007 and 2006 are presented in the following table:

unaudited								
30.09.2007, in CHF millions	Fixnet	Mobile	Solutions	Fastweb	Other	Corpo- rate	Elimi- nation	Total
Net revenue from external customers	2,895	2,835	768	867	664	53	–	8,082
Intersegment net revenue	440	190	122	–	349	424	(1,525)	–
Net revenue	3,335	3,025	890	867	1,013	477	(1,525)	8,082
Operating expenses	(2,061)	(1,636)	(808)	(659)	(948)	(495)	1,530	(5,077)
Capitalized cost and other income	134	22	11	27	11	96	(31)	270
EBITDA	1,408	1,411	93	235	76	78	(26)	3,275
<i>Margin in %</i>	<i>42.2</i>	<i>46.6</i>	<i>10.4</i>	<i>27.1</i>	<i>7.5</i>	<i>16.4</i>	<i>–</i>	<i>40.5</i>
Depreciation, amortization and impairment	(550)	(296)	(29)	(228)	(171)	(46)	8	(1,312)
EBIT	858	1,115	64	7	(95)	32	(18)	1,963

	unaudited						
30.09.2006, in CHF millions, restated	Fixnet	Mobile	Solutions	Other	Corpo- rate	Elimi- nation	Total
Net revenue from external customers	3,039	2,718	778	609	52	–	7,196
Intersegment net revenue	513	242	113	358	436	(1,662)	–
Net revenue	3,552	2,960	891	967	488	(1,662)	7,196
Operating expenses	(2,319)	(1,610)	(853)	(903)	(523)	1,637	(4,571)
Capitalized cost and other income	100	23	19	17	65	6	230
EBITDA	1,333	1,373	57	81	30	(19)	2,855
<i>Margin in %</i>	<i>37.5</i>	<i>46.4</i>	<i>6.4</i>	<i>8.4</i>	<i>6.1</i>	<i>–</i>	<i>39.7</i>
Depreciation, amortization and impairment	(563)	(284)	(23)	(141)	(39)	4	(1,046)
EBIT	770	1,089	34	(60)	(9)	(15)	1,809

3 Net financial result

CHF in millions	unaudited	
	30.09.2007	30.09.2006
Interest income	118	90
Interest expense	(293)	(105)
Net interest	(175)	(15)
Present value adjustment on provisions	(6)	(8)
Interest on provision for Interconnection proceedings	(14)	(70)
Gain on disposal of financial assets	–	63
Foreign exchange gains and losses, net	80	(9)
Other financial income and expense, net	(11)	6
Net financial result	(126)	(33)

The foreign exchange result as at September 30, 2007 includes a net gain from currency hedges of CHF 72 million in connection with the acquisition of Fastweb. In the second quarter of 2006 the majority of the financial assets available for sale were sold. Gains and losses of CHF 63 million, recorded under equity since the purchase of these financial assets, were removed from other reserves and recognized as financial income. In connection with the recognition of provisions for interconnection proceedings due to a decision of the Federal Court, interest of CHF 64 million was recorded in the second quarter of 2006.

4 Financial liabilities

CHF in millions	unaudited	
	30.09.2007	31.12.2006
Bank loans	2,596	1,498
Finance lease obligation	44	43
Other financial liabilities	136	27
Total short-term financial liabilities	2,776	1,568
Bank loans	6,594	2,745
Bonds	917	–
Financial liability from cross-border tax lease arrangements	1,415	1,459
Finance lease obligation	571	594
Derivative financial instruments	184	170
Other financial liabilities	41	47
Total long-term financial liabilities	9,722	5,015
Total financial liabilities	12,498	6,583

On May 22, 2007 Swisscom acquired an 82.1% share in Fastweb for a purchase price including transaction costs of EUR 3.1 billion (CHF 5.1 billion). In addition, debts amounting to EUR 1.1 billion (CHF 1.8 billion) were taken over. The purchase price as well as Fastweb's debts were financed by bank loans amounting to CHF 6.7 billion. These loans were syndicated in a bank consortium in the second quarter of 2007. The loan is divided up into several tranches. The first tranche of CHF 2.8 billion has a term of one year to Spring 2008 and an extension option of a further year. The second and third tranches totaling CHF 3.9 billion have terms of five years. The interest rate risk for a part of the second tranche of the loan was hedged through interest rate swaps. The term of the hedges is five years.

On July 19, 2007 Swisscom took out two bonds totaling CHF 900 million. The bonds were divided into two tranches. The first tranche of CHF 550 million has a coupon of 3.50% and a term until 2013. The second tranche of CHF 350 million has a term until 2017 and a coupon of 3.75%. These bonds were used in full to repay existing debts with banks.

5 Equity

Changes in equity are as follows:

CHF in millions	unaudited							Equity
	Share capital	Additional paid-in capital	Retained earnings	Treasury shares	Other reserves	Attributable to equity holders of Swisscom	Attributable to minority interests	
Balance at December 31, 2005	61	392	7,483	(2,002)	67	6,001	623	6,624
Changes in accounting policies	–	–	(22)	–	–	(22)	–	(22)
Balance at January 1, 2006	61	392	7,461	(2,002)	67	5,979	623	6,602
Gains and losses directly recognized in equity, net	–	–	–	–	(86)	(86)	–	(86)
Net income	–	–	1,229	–	–	1,229	246	1,475
Total recognized income and expenses	–	–	1,229	–	(86)	1,143	246	1,389
Dividends paid	–	–	(907)	–	–	(907)	(297)	(1,204)
Sale of treasury shares	–	–	–	1	–	1	–	1
Purchase of treasury shares for share-based payment	–	–	–	(44)	–	(44)	–	(44)
Sale of treasury shares for share-based payment	–	–	–	44	–	44	–	44
Capital reduction	(5)	(21)	(1,975)	2,001	–	–	–	–
Share buy-back	–	–	–	(2,213)	–	(2,213)	–	(2,213)
Balance at September 30, 2006	56	371	5,808	(2,213)	(19)	4,003	572	4,575
Balance at December 31, 2006	57	370	6,177	(2,213)	22	4,413	67	4,480
Gains and losses directly recognized in equity, net	–	–	–	–	19	19	–	19
Net income	–	–	1,627	–	–	1,627	6	1,633
Total recognized income and expenses	–	–	1,627	–	19	1,646	6	1,652
Dividends paid	–	–	(881)	–	–	(881)	(12)	(893)
Purchase of treasury shares for share-based payment	–	–	–	(37)	–	(37)	–	(37)
Sale of treasury shares for share-based payment	–	–	–	37	–	37	–	37
Acquisition of subsidiaries	–	–	–	–	–	–	307	307
Sale of subsidiaries	–	–	–	–	–	–	(4)	(4)
Balance at September 30, 2007	57	370	6,923	(2,213)	41	5,178	364	5,542

For further information on changes to accounting principles see Note 1.

Swisscom offers two stock based remuneration plans to its non-management employees, management, members of the Executive Board and Board of Directors. Up to September 2007 shares with a market value totaling CHF 37 million (previous year: CHF 45 million) were granted as part of these two schemes. Expenses on share-based payment amounted to CHF 9 million (previous year: CHF 17 million).

In September 2006 Swisscom acquired 4,916,618 of its own shares or 8% as part of a share buy-back scheme for an amount of CHF 2.2 billion. Put options were assigned to shareholders free of charge for each share held. 23 put options entitled the bearer to sell two registered shares for CHF 450 gross or CHF 292.85 net of withholding tax per registered share. CHF 1,440 million were paid to the sellers. The withholding tax of CHF 773 million was paid in the fourth quarter of 2006. The majority shareholder, the Swiss Confederation, participated in the share buy-back scheme in an amount of CHF 2.18 billion.

On December 31, 2005 withholding tax of CHF 136 million was owed to the tax authorities in connection with a share buy-back scheme in 2005. This was paid back in the first quarter of 2006. The payment is presented in the cash flow statement under share buy-back.

6 Acquisition of Fastweb

On April 10, 2007 Swisscom made a friendly acquisition bid for a 98.26% share in the FASTWEB S.p.A. (Fastweb). Fastweb is the second-largest fixed network operator and leading provider of IP-based services in Italy. Swisscom offered Fastweb shareholders EUR 47.00 per share. In total Swisscom acquired 82.1% of the shares. On May 22, 2007 the acquisition was completed for a purchase price including direct transaction costs of EUR 3,083 million (CHF 5,107 million). Fastweb is included in the consolidated financial statements from the date of the acquisition and is presented as a separate segment.

The provisional purchase price allocation was based on the acquisition balance sheet as at May 22, 2007 which was drawn up in compliance with the International Financial Reporting Standards (IFRS). The difference between the acquisition costs and carrying amount of the net assets were presented provisionally as goodwill in the balance sheet. On the date this interim report was drawn up, no reliable information was available that would have permitted a more detailed allocation of the purchase price.

The nine months financial statements as of September 30, 2007, include net revenue of CHF 867 million and net loss of CHF 73 million resulting from this acquisition. Had this acquisition been consolidated in Swisscom's financial statements from January 1, 2007, Swisscom's pro forma net revenue would have been CHF 8,967 million and net income of CHF 1,567 million.

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

CHF in millions	unaudited	
	Carrying amount prior to acquisition	Carrying amount upon acquisition
Cash and cash equivalents	103	103
Trade accounts receivable and other receivables	693	693
Property, plant and equipment	2,924	2,924
Intangible assets	691	247
Deferred tax assets	656	656
Other current and non-current assets	467	467
Financial liabilities	(1,877)	(1,877)
Trade accounts payable and other payables	(1,030)	(1,030)
Dividend liability	(497)	(89)
Other current and non-current liabilities	(405)	(422)
Identified assets and liabilities	1,725	1,672
Minority interests		(307)
Goodwill		3,742
Acquisition cost		5,107
Cash and cash equivalents acquired		(103)
Cash outflow		5,004

7 Acquisition and sale of other subsidiaries and affiliated companies

Disposals 2007

In the first nine months of 2007 Swisscom sold its cards business (Accarda) and the Hungarian subsidiary Antenna Hungária. The sales generated a net cash inflow in the third quarter of 2007 of CHF 798 million. The subsidiaries sold are no longer presented in the consolidated accounts from the date the transaction was completed.

On May 8, 2007 Swisscom agreed the sale of Antenna Hungária with the French company Télédiffusion de France (TDF) for a price of EUR 328 million (CHF 543 million). The transaction was completed on July 19, 2007 after approval by the Hungarian competition authorities. The pre-tax gain from the sale amounts to CHF 157 million. The gain includes gains from currency translation adjustments of CHF 40 million which has previously been recognized under consolidated equity. Income tax of CHF 3 million is due on the sale of Antenna Hungária.

On July 2, 2007 Swisscom sold its cards business (Accarda) to the Maus Group. The sale of Accarda led to an impairment of goodwill of CHF 9 million.

The net assets sold and minority interests as well as the cash inflow from the sales of Antenna Hungária and Accarda are presented in the table below:

CHF in millions	30.09.2007
Cash and cash equivalents	39
Trade accounts receivable and other receivables	397
Property, plant and equipment	228
Intangible assets	210
Other current and non-current assets	16
Trade accounts payable and other payables	(127)
Deferred tax liabilities	(17)
Other current and non-current liabilities	(14)
Minority interests	(4)
Total net assets and minority interests sold	728
Purchase price	837
Cash and cash equivalents sold	(39)
Cash inflow	798

Acquisitions 2007

Apart from Fastweb, no subsidiaries were acquired in the first nine months of 2007. Payments of CHF 21 million in the first quarter of 2007 for the acquisition of shares in other subsidiaries relate solely to the payment of deferred purchase prices for acquisitions in previous years.

Acquisitions 2006

Swisscom acquired a number of subsidiaries in fiscal year 2006. 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, Underdet s.r.l. and a business area of Siemens Switzerland.

The acquired subsidiaries were presented in the consolidated accounts from the date the transaction was completed.

On January 4, 2006 Swisscom IT Services acquired a 100% share in Comit AG, an IT service provider to banks.

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.

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.

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.

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 an 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.

8 Non-current assets held for sale

Non-current assets held for sale as at September 30, 2007 include the carrying amount of real estate of CHF 10 million which are scheduled to be sold in the next twelve months. The scheduled sales are part of Swisscom Immobilien AG's plan to optimize use of buildings.

9 Provisions and contingent liabilities

On September 30, 2007 provisions for the current interconnection proceedings amounted to CHF 449 million. In the first nine months of 2007 a total of CHF 80 million was paid out in connection with these proceedings.

In the proceedings in connection with mobile termination fees, the competition commission (WEKO) imposed sanctions of CHF 333 million on February 5, 2007. 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 consolidated financial statements as at September 30, 2007.

The WEKO investigations opened against Swisscom AG on February 16, 2004 in connection with the service package Talk & Surf were closed on October 1, 2007 without any further consequences.

Other provisions and contingent liabilities included in the consolidated annual financial statements for the 2006 financial year and described in the notes have not changed significantly during the current financial year.

10 Related parties

The transactions between Swisscom and related parties during the first nine months of 2007 are similar to those transactions described in the 2006 Annual Report.

Swisscom acquired treasury shares from the main shareholder, the Swiss Confederation as part of the 2006 share buy-back scheme for an amount of CHF 2.18 billion. See Note 5.

11 Events after the balance sheet date

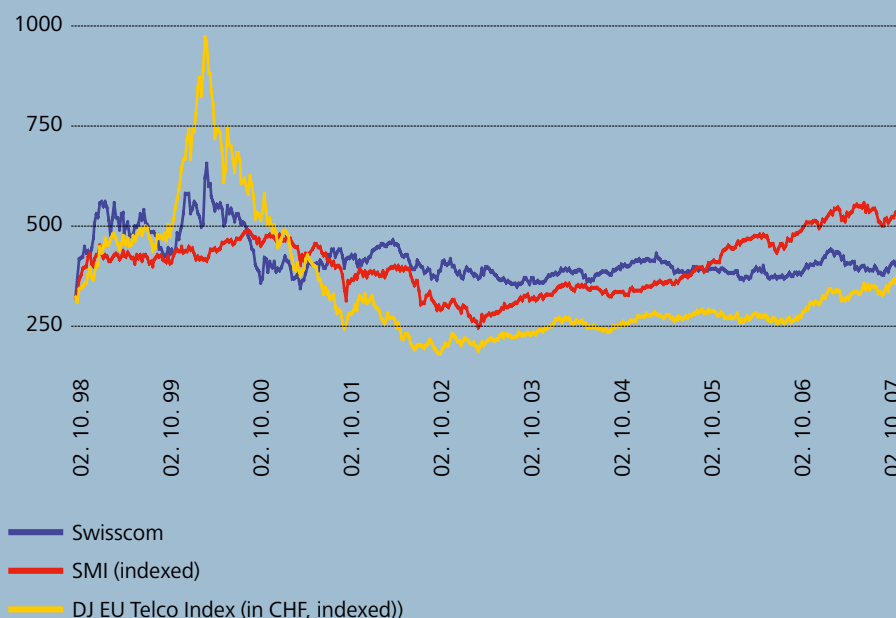
Approval of the interim report

Swisscom's Board of Directors approved the release of this interim report on November 6, 2007.

Credit requirements

On October 3, 2007 Swisscom took out two bonds totaling CHF 600 million. The bonds were divided into two tranches. The first tranche of CHF 350 million has a coupon of 3.25% and a term until 2010. The second tranche of CHF 250 million is an increase in the bond taken out in July 2007 with a term until 2017. The coupon for this tranche is 3.75%. These bonds were used in full to repay existing debts with banks.

Performance of the Swisscom share on the virt-x



Share information

31.12.2006 – 30.09.2007	virt-x
Closing price at 31.12.2006 ¹	CHF 461.25
Closing price at 30.09.2007 ¹	CHF 442.75
Year high ¹	CHF 486.00
Year low ¹	CHF 404.00
Total trading volume	30 317 246
Daily average	162 124
Total volume in millions	CHF 13 244.00
Daily average in millions	CHF 70.83

Source: Bloomberg

¹ paid prices

Share information

On September 30, 2007 the company's share capital consists of 56,718,561 registered shares, of which the Swiss Confederation holds the majority in accordance with the Telecommunications Enterprise Act. Swisscom holds 4,916,618 shares from the share buy-back scheme in 2006. On September 30, 2007 Swisscom had 47,481 registered shareholders and an average non-allotted share level of approximately 12.8%. The nominal value per registered share amounts to CHF 1.

The dividend payment of CHF 17 per share (previous year: CHF 16) agreed at the General Meeting of Shareholders in 2007 was paid on April 27, 2007.

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

Financial calendar

March 05, 2008	Annual result 2007
April 22, 2008	General Meeting of Shareholders
April 25, 2008	Dividend payment
May 7, 2008	2008 First Quarter Interim Report
August 13, 2008	Half Year result 2008
November 5, 2008	2008 Third Quarter Interim Report

Trading locations

Swisscom shares are traded on the pan-European platform virt-x in London 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 (Over The Counter, Level 1 Program) under the symbol "SCM" (Security ID: 69769).

On July 6, 2007 Swisscom announced that it is planning to delist its shares and American Depositary Shares, traded as American Depositary Receipts (ADR), from the NYSE and to deregister the company with the U.S. Securities and Exchange Commission.

Stock exchange	Bloomberg	Reuters	Telekurs
virt-x, London	SCMN, VX	SCM.VX	SCMN, VTX

Quarterly review 2006 and 2007

CHF in millions	1. quarter	2. quarter	3. quarter	4. quarter	2006	1. quarter	2. quarter	3. quarter	4. quarter	30.09.2007
Net revenue	2,374	2,398	2,424	2,456	9,652	2,376	2,718	2,988		8,082
Goods and services purchased	(409)	(466)	(471)	(494)	(1,840)	(441)	(530)	(584)		(1,555)
Personnel expenses	(594)	(555)	(542)	(587)	(2,278)	(594)	(603)	(599)		(1,796)
Other operating expenses	(418)	(671)	(445)	(510)	(2,044)	(444)	(611)	(671)		(1,726)
Capitalized costs and other income	80	74	76	66	296	71	100	99		270
EBITDA	1,033	780	1,042	931	3,786	968	1,074	1,233		3,275
Depreciation, amortization and impairment	(348)	(355)	(343)	(389)	(1,435)	(349)	(465)	(498)		(1,312)
EBIT	685	425	699	542	2,351	619	609	735		1,963
Gain on sale of subsidiaries	–	–	–	–	–	–	–	157		157
Net financial result	(10)	(12)	(11)	(18)	(51)	(41)	4	(89)		(126)
Share of profit of affiliated companies	(1)	14	4	13	30	4	10	8		22
Income tax expense	(131)	(82)	(137)	(112)	(462)	(115)	(146)	(122)		(383)
Income from continuing operations	543	345	555	425	1,868	467	477	689		1,633
Income from discontinued operations	–	32	–	4	36	–	–	–		–
Net income	543	377	555	429	1,904	467	477	689		1,633
Attributable to equity holders of Swisscom AG	459	299	471	369	1,598	461	475	691		1,627
Attributable to minority interests	84	78	84	60	306	6	2	(2)		6
Net revenue by segments¹										
Fixnet										
Local and long-distance traffic	99	90	88	94	371	95	87	86		268
Fixed-to-mobile traffic	90	90	89	86	355	87	85	83		255
Internet traffic	16	12	10	10	48	9	7	6		22
International traffic	52	49	49	50	200	51	49	47		147
Total retail traffic	257	241	236	240	974	242	228	222		692
Wholesale traffic	98	97	79	77	351	63	70	68		201
Other traffic	27	27	26	25	105	24	22	21		67
Access	510	519	520	529	2,078	528	533	536		1,597
Other revenue	140	139	123	96	498	114	123	101		338
Total revenue Fixnet from external customers	1,032	1,023	984	967	4,006	971	976	948		2,895
Intersegment revenue Fixnet	179	170	164	168	681	155	142	143		440
Total net revenue Fixnet	1,211	1,193	1,148	1,135	4,687	1,126	1,118	1,091		3,335
Mobile										
Connectivity voice	480	514	538	508	2,040	490	517	541		1,548
Connectivity data and value added services	162	160	173	172	667	179	191	204		574
Base fees	162	160	157	154	633	153	151	152		456
Other revenue	66	70	76	108	320	89	84	84		257
Intersegment revenue Mobile	870	904	944	942	3,660	911	943	981		2,835
Revenue Mobile other segments	84	85	73	72	314	63	62	65		190
Total net revenue Mobile	954	989	1,017	1,014	3,974	974	1,005	1,046		3,025

CHF in millions	1. quarter	2. quarter	3. quarter	4. quarter	2006	1. quarter	2. quarter	3. quarter	4. quarter	30.09.07
Net revenue by segments¹										
Solutions										
Connectivity	140	136	133	138	547	122	127	120		369
Communication and collaboration	55	57	69	88	269	61	66	63		190
Business process optimization	18	21	22	26	87	21	22	23		66
Outsourcing	6	10	10	16	42	11	19	24		54
Other revenue	36	32	33	30	131	30	24	35		89
Total revenue Solutions from external customers	255	256	267	298	1,076	245	258	265		768
Revenue Solutions other segments	39	38	36	35	148	41	42	39		122
Total net revenue Solutions	294	294	303	333	1,224	286	300	304		890
Fastweb										
Total net revenue Fastweb	–	–	–	–	–	–	281	586		867
Other										
Total revenue Other from external customers	201	202	206	231	840	230	243	191		664
Intersegment revenue Other	115	120	123	136	494	114	119	116		349
Total net revenue Other	316	322	329	367	1,334	344	362	307		1,013
Corporate										
Total revenue corporate from external customers	16	13	23	18	70	19	17	17		53
Intersegment revenue Corporate	148	152	136	131	567	139	145	140		424
Total net revenue Corporate	164	165	159	149	637	158	162	157		477
Total net revenue	2,939	2,963	2,956	2,998	11,856	2,888	3,228	3,491		9,607
Intercompany	(565)	(565)	(532)	(542)	(2,204)	(512)	(510)	(503)		(1,525)
Total net revenue from external customers	2,374	2,398	2,424	2,456	9,652	2,376	2,718	2,988		8,082
EBITDA by segments										
Fixnet	521	323	489	469	1,802	477	468	463		1,408
Mobile	462	431	480	428	1,801	452	464	495		1,411
Solutions	19	19	19	13	70	18	35	40		93
Fastweb	–	–	–	–	–	–	79	156		235
Other	36	(7)	52	37	118	20	2	54		76
Corporate	1	20	9	(7)	23	10	41	27		78
Intercompany	(6)	(6)	(7)	(9)	(28)	(9)	(15)	(2)		(26)
Total EBITDA	1,033	780	1,042	931	3,786	968	1,074	1,233		3,275
Capital expenditure	235	291	326	472	1,324	315	503	525		1,343
Number of full-time equivalent employees at end of period	16,544	16,739	16,875	17,068	17,068	17,157	20,498	19,658		19,658

¹ Includes intersegment revenue.

Number of lines in thousands	1. quarter	2. quarter	3. quarter	4. quarter	2006	1. quarter	2. quarter	3. quarter	4. quarter	30.09.2007
Operational data Fixnet										
PSTN lines	2,923	2,911	2,892	2,891	2,891	2,884	2,878	2,871		2,871
ISDN lines	888	878	867	856	856	843	834	825		825
Total number of lines PSTN / ISDN	3,811	3,789	3,759	3,747	3,747	3,727	3,712	3,696		3,696
Broadband retail lines	775	846	886	936	936	995	1,065	1,118		1,118
Broadband wholesale lines	414	407	419	432	432	439	441	440		440
Total broadband lines	1,189	1,253	1,305	1,368	1,368	1,434	1,506	1,558		1,558

Retail traffic volume in millions of minutes										
Local and long-distance traffic	1,711	1,547	1,469	1,585	6,312	1,616	1,474	1,421		4,511
Fixed-to-mobile traffic	231	232	231	232	926	232	237	237		706
Internet traffic	470	375	327	315	1,487	288	225	198		711
Total national traffic	2,412	2,154	2,027	2,132	8,725	2,136	1,936	1,856		5,928
International traffic	235	222	217	229	903	232	221	222		675
Total retail traffic	2,647	2,376	2,244	2,361	9,628	2,368	2,157	2,078		6,603

Wholesale traffic volume in millions of minutes										
Total wholesale traffic	4,390	4,056	3,807	3,907	16,160	3,918	3,615	3,430		10,963

Number of subscribers in thousands	1. quarter	2. quarter	3. quarter	4. quarter	2006	1. quarter	2. quarter	3. quarter	4. quarter	30.09.2007
Operational data Mobile										
Postpaid	2,669	2,703	2,752	2,805	2,805	2,849	2,895	2,953		2,953
Prepaid	1,701	1,766	1,811	1,827	1,827	1,858	1,881	1,941		1,941
Total	4,370	4,469	4,563	4,632	4,632	4,707	4,776	4,894		4,894

In CHF, minutes or millions										
ARPU in CHF	65	66	66	62	65	59	61	62		61
AMPU in minutes	120	125	126	126	124	127	131	129		129
Number of SMS messages in millions	521	511	526	549	2,107	559	556	555		1,670

Traffic volume in millions of minutes	1. quarter	2. quarter	3. quarter	4. quarter	2006	1. quarter	2. quarter	3. quarter	4. quarter	30.09.2007
Operational data Solutions										
Local and long-distance traffic	417	383	366	374	1,540	380	367	356		1,103
Fixed-to-mobile traffic	63	62	60	61	246	61	65	65		191
Total national traffic	480	445	426	435	1,786	441	432	421		1,294
International traffic	90	85	83	84	342	88	90	91		269
Total national and international traffic	570	530	509	519	2,128	529	522	512		1,563

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 behaviour of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom’s and Fastweb’s past and future filings and reports, including those filed with the U.S. Securities and Exchange Commission and in past and future filings, press releases, reports and other information posted on Swisscom Group Companies’ 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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