

Swisscom

Financial Review 2005

Key Figures

CHF in millions, except where indicated		2005	2004
Swisscom Group			
Net revenue		9 732	10 057
Operating income before interest, taxes, depreciation and amortization (EBITDA)		4 171	4 388
As % of net revenue		42.9	43.6
Operating income (EBIT)		2 777	2 695
Income from continuing operations		2 337	2 191
Net income		2 346	1 948
Net income attributable to equity holders of Swisscom AG		2 022	1 596
Equity		6 624	7 453
Equity ratio ¹	%	49.4	52.4
Number of full-time equivalent employees at end of period ²	FTE	16 088	15 477
Average number of full-time equivalent employees ³	FTE	15 455	15 664
Revenue per employee	CHF in thousands	630	642
EBITDA per employee	CHF in thousands	270	280
Net cash provided by operating activities		3 432	4 066
Equity free cash flow ⁴		2 203	2 913
Capital expenditure		1 087	1 136
Net funds ⁵		1 765	2 518
Swisscom AG			
Net income		1 940	2 399
Equity		5 661	6 584
Distributable reserves		3 586	4 503
Dividend		907 •	861
Key figures per share			
Par value per share at end of period	CHF	1.0	1.0
Average number of shares outstanding	in million	59.836	64.716
Price per share	CHF	470.00 /	438.50 /
(high/low)	CHF	399.25	367.00
Closing price at end of period	CHF	414.75	448.00
Net income	CHF	33.79	24.66
Equity	CHF	100.29	104.92
Gross dividend	CHF	16.00 •	14.00
Pay-out ratio ⁶	%	47.35 •	56.77
Market capitalization at end of period ⁷		23 523	27 543

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

¹ Equity as a percentage of total assets.

² Excludes 512 and 475 full-time equivalent employees of Worklink at December 31, 2005 and 2004, respectively.

³ Excludes 498 and 433 full-time equivalent employees of Worklink in 2005 and 2004, respectively. See Note 9.

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

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

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

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

The stake in debitel sold in 2004 is presented separately as a discontinued operation.

Review of the Group's results

The Review of the Group's results should be read in conjunction with the consolidated financial statements. Swisscom's consolidated financial statements were drawn up in compliance with the International Financial Reporting Standards (IFRS) and the statement provisions of Swiss law of obligations. The most important valuation and accounting principles are described in Note 2 in the Notes to the consolidated financial statements.

Summary

Swisscom decreased net revenue by 3.2% to CHF 9,732 million in 2005. The decline in revenue could not be wholly compensated for by cost savings so that the operating income before interest, taxes, depreciation and amortization (EBITDA) dropped by 4.9% to CHF 4,171 million. Thanks to lower depreciation and amortization, a higher net financial result and the omission of the loss from the discontinued operation (debitel), however, net income rose by 20.4% to CHF 2,346 million. Net income after deduction of the minority interests increased by 26.7% to CHF 2,022 million. Earnings per share rose by 37.0% to CHF 33.79 as a result of the increase in net income and the share buy-back program. The equity free cash flow decreased by CHF 710 million to CHF 2,203 million. A dividend of CHF 16 (previous year CHF 14) per share will be proposed to the General Meeting of Shareholders, a payout of CHF 907 million. The outstanding equity free cash flow of CHF 1.25 billion will be paid out to shareholders in the form of a share buy-back. In addition the share buy-back will be increased by CHF 1 billion, bringing the total value in 2006 to CHF 2.25 billion. Swisscom expects net revenue in 2006 of around CHF 9.5 billion and operating income before interest, taxes, depreciation and amortization (EBITDA) of around CHF 4.0 billion. The main reasons for the decline in EBITDA are lower termination charges for mobile telephony which negatively effect the entire year (7 months in the previous year). Continuing price pressure on Mobile and Fixnet should be offset this year through growth in other areas. Capital expenditure will be around CHF 1.4 billion.

CHF in millions	2005	2004 ¹	Change
Net revenue	9 732	10 057	- 3.2%
Other income	260	195	33.3%
Goods and services purchased	(1 831)	(1 847)	- 0.9%
Personnel expenses	(2 173)	(2 194)	- 1.0%
Other operating expenses	(1 817)	(1 823)	- 0.3%
EBITDA	4 171	4 388	- 4.9%
Depreciation and amortization	(1 394)	(1 644)	- 15.2%
Amortization of goodwill	-	(49)	-
EBIT	2 777	2 695	3.0%
Net financial result	82	(134)	-
Equity in net income of affiliated companies	13	22	- 40.9%
Income before income taxes	2 872	2 583	11.2%
Income tax expense	(535)	(392)	36.5%
Income from continuing operations	2 337	2 191	6.7%
Income from discontinued operation (debitel)	9	(243)	-
Net income	2 346	1 948	20.4%
Net income attributable to equity holders of Swisscom AG	2 022	1 596	26.7%
Net income attributable to minority interests	324	352	- 8.0%
Earnings per share	33.79	24.66	37.0%

¹ 2004 includes the adjustments for the changes in IAS 17. The effect on EBITDA was minus CHF 16 million. Net income and earnings per share increased by CHF 2 million and CHF 0.03, respectively.

Review of the Group's results

Net revenue

CHF in millions	2005	2004	Change
Fixnet	4 319	4 555	– 5.2%
Mobile	3 651	3 679	– 0.8%
Solutions	1 123	1 279	– 12.2%
Other	571	476	20.0%
Corporate	68	68	–
Total net revenue	9 732	10 057	– 3.2%

The Fixnet segment reported a decrease in revenue as a result of the transfer of the international carrier services activities as at July 1, 2005 to an affiliated company with Belgacom and lower revenue from traffic which could not be compensated for by the increase in access fees resulting from the growth in ADSL lines. Mobile offset the decline in revenue through price adjustments thanks to a higher number of subscribers and increased revenue from new data services. The decrease in revenue in the Solutions segment is a result of permanent competition and pressure on prices. The segment Other increased revenue, mainly as a result of higher revenue from Swisscom IT Services and initial consolidation of Antenna Hungária at the end of October 2005.

Other income

CHF in millions	2005	2004	Change
Capitalized cost	159	151	5.3%
Gain on sale of fixed assets	38	9	322.2%
Income from employment company Worklink (personnel hire)	15	13	15.4%
Other income	48	22	118.2%
Total other income	260	195	33.3%

The increase in Other Income of CHF 65 million (33.3%) to CHF 260 million is mainly attributable to income from the sale of real estate. The increase in diverse income can be primarily attributed to the capitalization of initial costs for the takeover and integration of IT outsourcing transactions.

Goods and services purchased

CHF in millions	2005	2004	Change
Raw material and supplies	16	14	14.3%
Purchased services	110	100	10.0%
Customer premises equipment	584	520	12.3%
National traffic fees	496	431	15.1%
International traffic fees	625	782	– 20.1%
Total goods and services purchased	1 831	1 847	– 0.9%

Expenditure on goods and services purchased decreased by CHF 16 million (–0.9%) to CHF 1,831 million. The decrease in international traffic fees was compensated for by additional expenditure on customer premises equipment, goods held for resale and national traffic fees. The transfer of international carrier services to an affiliated company with Belgacom as at July 1, 2005 led to a decrease in international traffic fees. Traffic purchased from this affiliated company will be recorded under national traffic fees which will lead to an increase in this expenditure as compared with the previous year. National traffic fees rose as a result of a higher number of Swisscom Mobile customers.

Personnel expenses

CHF in millions	2005	2004	Change
Salaries and wages	1 625	1 607	1.1%
Termination benefits	39	48	– 18.8%
Salaries and wages of the employment company	68	81	– 16.0%
Social security expenses	145	138	5.1%
Pension cost	185	219	– 15.5%
Stock based compensation	16	14	14.3%
Other personnel expenses	95	87	9.2%
Total personnel expenses	2 173	2 194	– 1.0%

Personnel expenses decreased by CHF 21 million (–1.0%) to CHF 2,173 million. Higher expenditure on wages and salaries was compensated for by lower pension costs and lower expenditure on workforce reduction measures. The headcount on December 31, 2005 increased to 16,088 full-time equivalent employees (3.9%) primarily as a result of acquisitions. Without taking into account the acquisition of subsidiaries in 2005 the headcount would have reduced by 1.9%.

The headcount at year-end was as follows:

Number	2005	2004	Change
Fixnet	7 118	7 500	– 5.1%
Mobile	2 412	2 491	– 3.2%
Solutions	1 795	1 858	– 3.4%
Other	3 868	2 719	42.3%
Corporate	895	909	– 1.5%
Total full-time equivalent employees	16 088	15 477	3.9%

Participants in the two social plan programs outplacement program Perspec (291 full-time equivalent employees) and in the employment company Worklink (512 full-time equivalent employees) are not included in the headcount reported as at December 31, 2005.

Net expenditure on termination benefits (outplacement and employment company Worklink) dropped by CHF 22 million to CHF 107 million and was as follows:

CHF in millions	2005	2004	Change
Fixnet	50	40	10
Mobile	8	–	8
Solutions	–	23	(23)
Other	(4)	1	(5)
Corporate	6	2	4
Elimination part of employment company Worklink	(21)	(18)	(3)
Total termination benefits Swisscom Group (Outplacement)¹	39	48	(9)
Salaries and wages Worklink participants	68	81	(13)
Total termination benefits and salaries and wages employment company²	107	129	(22)

¹ Included in segment Corporate minus CHF 15 million (2004: 16 million)

² Included in segment Corporate CHF 53 million (2004: 65 million)

Review of the Group's results

Costs relating to workforce reduction measures are recorded separately for each segment as soon as the employees affected have been informed in person or the detailed plan has been communicated to the staff. The corresponding expense amounted to CHF 60 million in 2005 (previous year: CHF 66 million). This includes costs of CHF 21 million (previous year: CHF 18 million) for staff who in accordance with the provisions of the social compensation plan were entitled to transfer to the employment company Worklink AG or who were able to find a new position in another organizational unit within Swisscom. Under IFRS these costs do not suffice for the creation of provisions because the employment relationship with the relevant staff was not terminated. These costs, for which provisions cannot be recorded, were eliminated again in the Corporate segment and shown in the income statement.

Other operating expenses

CHF in millions	2005	2004	Change
Rent	214	230	– 7.0%
Maintenance	208	225	– 7.6%
Loss on disposal of fixed assets	22	27	– 18.5%
Energy costs	73	60	21.7%
Information technology cost	161	172	– 6.4%
Advertising and promotion	174	179	– 2.8%
Commissions	235	225	4.4%
Contractors and consultancy expenses	258	233	10.7%
General and administration	174	186	– 6.5%
Miscellaneous operating expenses	298	286	4.2%
Total other operating expenses	1 817	1 823	– 0.3%

Other operating expenses decreased by CHF 6 million (–0.3%) to CHF 1,817 million. Expenditure on rent, maintenance, IT, advertising and sales and administration expenses dropped as a result of cost saving measures. Compared with the previous year expenditure on consultancy fees and external employees increased due to increased revenue by Swisscom IT Services in the field of IT outsourcing.

Operating income before interest, taxes, depreciation and amortization EBITDA

CHF in millions	2005	2004	Change
Net revenue	9 732	10 057	– 3.2%
Other income	260	195	33.3%
Goods and services purchased	(1 831)	(1 847)	– 0.9%
Personnel expenses	(2 173)	(2 194)	– 1.0%
Other operating expenses	(1 817)	(1 823)	– 0.3%
Operating income before interest, taxes, depreciation and amortization (EBITDA)	4 171	4 388	– 4.9%
Margin as % of net revenue	42.9	43.6	

The decline in revenue could not be offset by cost savings so that EBITDA decreased by 4.9% to CHF 4,171 million. EBITDA margin decreased accordingly from 43.6% to 42.9%.

Depreciation and amortization

CHF in millions	2005	2004	Change
Depreciation	1 286	1 387	– 7.3%
Impairment of tangible assets	–	155	–
Amortization of other intangible assets	108	102	5.9%
Amortization of goodwill	–	49	–
Total depreciation and amortization	1 394	1 693	– 17.7%

Scheduled depreciation on property, plant and equipment and intangible assets decreased by CHF 299 million (–17.7%) to CHF 1,394 million. This is mainly attributable to and unscheduled impairment of CHF 155 million on plant and equipment in international transit and termination business in the third quarter of 2004. In addition, the application of IFRS 3 „Business combinations“ means that from 2005 goodwill is no longer amortized.

Net financial result

CHF in millions	2005	2004	Change
Net interest expense	(6)	(21)	15
Release of provision for dismantlement and restoration costs	25	–	25
Present value adjustment on accrued liabilities	(10)	(24)	14
Gain on disposal of financial assets	16	10	6
Impairment release (charge) on loans	14	(10)	24
Impairment on available-for-sale investments	(5)	(36)	31
Reversal (creation) of provision from cross-border tax lease arrangements	24	(34)	58
Foreign exchange gains	20	5	15
Other financial result, net	4	(24)	28
Net financial result	82	(134)	216

The net financial result increased by CHF 216 million to CHF 82 million. The reversal of provisions of CHF 25 million for dismantlement and restoration costs is due to a strategic revaluation of the analog transmitter stations. In 2004 provisions of CHF 34 million were set up in connection with the guarantee to meet minimum credit ratings on the financial assets from cross-border tax lease arrangements. In 2005 the minimum credit ratings were restored for a cost of CHF 10 million so that the unused provisions of CHF 24 million could be reversed. Impairments in 2004 in financial assets of CHF 36 million mainly include impairments of CHF 32 million on the stake in Infonet Services Corp. which was sold in 2005.

Affiliated companies

CHF in millions	2005	2004	Change
Equity in net income of operations	13	22	(9)
Total equity in net income of affiliated companies	13	22	(9)

On April 8, 2005 Swisscom acquired a 49% stake in CT Cinetrade AG, a Swiss media company. On February 23, 2005 Belgacom and Swisscom signed an agreement to form an affiliated company in which Belgacom holds 72% and Swisscom 28%. On July 1, 2005 Fixnet brought its international carrier business into the affiliated company in return for the 28% of the share capital. The item also comprises primarily Swisscom's share of net income from PubliDirect and AUCS.

Review of the Group's results

Income tax expense			
	2005	2004	
CHF in millions			Change
Current income tax expense	425	461	(36)
Deferred income tax expense	110	(69)	179
Total income tax expense	535	392	143
Effective income tax rate	18.6%	15.2%	

Income tax expenses amounted to CHF 535 million (previous year: CHF 392 million), which corresponds to an effective income tax rate of 18.6% (previous year: 15.2%). The increase in the effective income tax rate is primarily due to deferred income tax expense on loss carry-forwards capitalized in the previous year and temporary differences of CHF 113 million.

Discontinued operation (debitel)

The stake in debitel sold in 2004 is presented as a discontinued operation and is disclosed separately. The 2005 result was CHF 9 million (previous year minus CHF 243 million). The income of CHF 243 million includes the period gain of CHF 5 million and the loss on the sale of CHF 248 million. The loss includes the write-off of the currency translation loss of CHF 238 million accumulated since the acquisition of debitel in 1999, recorded thus far under equity.

Net income and earnings per share			
	2005	2004	
CHF in millions, except where indicated			Change
Operating income before interest, taxes, depreciation and amortization (EBITDA)	4 171	4 388	- 4.9%
Depreciation and amortization	(1 394)	(1 693)	- 17.7%
Operating income (EBIT)	2 777	2 695	3.0%
Net financial result	82	(134)	-
Equity in net income of affiliated companies	13	22	- 40.9%
Income tax expense	(535)	(392)	36.5%
Income from discontinued operation (debitel)	9	(243)	-
Net income	2 346	1 948	20.4%
Net income attributable to equity holders of Swisscom AG	2 022	1 596	26.7%
Net income attributable to minority interests	324	352	- 8.0%
Average number of shares outstanding (in millions)	59.836	64.716	- 7.5%
Basic earnings per share (in CHF)	33.79	24.66	37.0%

Net income increased by CHF 398 million (20.4%) to CHF 2,346 million. The lower EBITDA and higher financial expense were overcompensated by the lower depreciation and the elimination of the loss in the previous year from the discontinued operation (debitel). As a result of a new accounting regulation the net income is disclosed before the deduction of minority interests in fully consolidated group companies. The net income after the deduction of minority interests increased by CHF 426 million (26.7%) to CHF 2,022 million.

Earnings per share increased by 37.0% to CHF 33.79 as a result of the increased net income and the lower number of outstanding shares following the share buy-back program.

Review of the Segments

Swisscom Enterprise Solutions was merged with Swisscom Systems as of January 1, 2005 and is presented in financial reports from 2005 as the segment Swisscom Solutions. Last year's figures were adjusted accordingly.

The financial review reports on the following segments

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

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

CHF in millions	Net revenue ^{1 2}			EBITDA ^{2 3}		
	2005	2004	Change	2005	2004	Change
Fixnet	5 308	5 715	– 7.1%	2 091	2 170	– 3.6%
Mobile	4 168	4 356	– 4.3%	1 850	1 976	– 6.4%
Solutions	1 268	1 437	– 11.8%	74	133	– 44.4%
Other	1 059	979	8.2%	142	157	– 9.6%
Corporate	690	608	13.5%	17	(53)	–
Intercompany	(2 761)	(3 038)	– 9.1%	(3)	5	–
Total	9 732	10 057	– 3.2%	4 171	4 388	– 4.9%

¹ Includes intersegment revenue.

² Excluding discontinued operation (debitel).

³ The previous year's figures include adjustments in compliance with IAS 17. The effect on EBITDA amounted to minus CHF 16 million.

Review of the Group's results

Fixnet

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

On February 23, 2005 Belgacom and Swisscom signed an agreement to form an affiliated company in which Belgacom holds 72% and Swisscom 28%. On July 1, 2005 Fixnet brought its international carrier business into the affiliated company in return for the 28% of the share capital. 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 2006.

CHF in millions	2005	2004	Change
Revenue from external customers	4 319	4 555	– 5.2%
Intersegment revenue	989	1 160	– 14.7%
Net revenue	5 308	5 715	– 7.1%
Segment expenses (incl. intercompany)	(3 217)	(3 545)	– 9.3%
EBITDA	2 091	2 170	– 3.6%
<i>Margin as % of net revenue</i>	<i>39.4</i>	<i>38.0</i>	
Depreciation and amortization	(797)	(1 065)	– 25.2%
EBIT before amortization of goodwill	1 294	1 105	17.1%
Amortization of goodwill	–	(7)	–
EBIT	1 294	1 098	17.9%

CHF in millions or number	2005	2004	Change
Capital expenditure	494	433	14.1%
Number of full-time employees at end of period	7 118	7 500	– 5.1%

Revenue from Fixnet with external customers decreased by 5.2% to CHF 4,319 million compared with the previous year. The decrease in revenue is due to the transfer of the international carrier services activities and lower revenue from traffic which could not be compensated for by the increase in access fees resulting from the growth in ADSL. The decline in revenue could not be offset by cost-saving measures so that EBITDA declined year-on-year by 3.6% to CHF 2,091 million. The omission of revenue with weak margins from international carrier services led to an increase in EBITDA margin from 38.0% to 39.4%. The increase in capital expenditure is mainly due to the development of the Triple-Play network infrastructure.

Fixnet/Net revenue

	2005	2004	Change
CHF in millions			
Local and long-distance traffic	391	435	– 10.1%
Fixed-to-mobile traffic	407	466	– 12.7%
Internet traffic	74	109	– 32.1%
International traffic	210	230	– 8.7%
Total retail traffic	1 082	1 240	– 12.7%
Wholesale traffic	483	691	– 30.1%
Other traffic	130	158	– 17.7%
Access	1 992	1 876	6.2%
Other revenue	632	590	7.1%
Total revenue from external customers	4 319	4 555	– 5.2%
Intersegment revenue	989	1 160	– 14.7%
Total net revenue	5 308	5 715	– 7.1%

	2005	2004	Change
Number of lines in thousands			
PSTN lines	2 922	3 007	– 2.8%
ISDN lines	900	924	– 2.6%
Total number of lines PSTN / ISDN	3 822	3 931	– 2.8%
ADSL retail lines	708	490	44.5%
ADSL wholesale lines	390	312	25.0%
Total number of ADSL lines	1 098	802	36.9%

	2005	2004	Change
Retail traffic volume in millions of minutes			
Local and long-distance traffic	6 628	7 205	– 8.0%
Fixed-to-mobile traffic	925	949	– 2.5%
Internet traffic	2 252	3 323	– 32.2%
Total national traffic	9 805	11 477	– 14.6%
International traffic	926	955	– 3.0%
Total retail traffic	10 731	12 432	– 13.7%

	2005	2004	Change
Wholesale traffic volume in millions of minutes			
National traffic	15 947	17 055	– 6.5%
International incoming traffic	1 577	1 521	3.7%
International termination traffic	755	1 508	– 49.9%
Total international traffic	2 332	3 029	– 23.0%
Total wholesale traffic	18 279	20 084	– 9.0%

Revenue from retail traffic fell by 12.7% to a total of CHF 1,082 million. The decline in local and long-distance traffic and Internet traffic is, above all, attributable to the continuing migration of Internet traffic to ADSL, the market entry of cable network companies and the introduction of new pricing systems. Revenue in fix-to-mobile traffic fell mainly as a result of price reductions in connection with lower termination fees.

Revenue from national and international wholesale traffic fell by 30.1% to CHF 483 million. The decrease in Wholesale National is due to the migration of Internet traffic to ADSL and lower prices for interconnection. Wholesale International fell as a result of lower prices and the transfer of the international carrier services activities.

Review of the Group's results

Access revenue rose by 6.2% to CHF 1 992 million. On the one hand there was an increase in the number of ADSL lines and on the other a decrease in the number of analogue and digital access lines (PSTN/ISDN). The number of ADSL lines on December 31, 2005 exceeded the one million mark. This business included 708,000 lines subscribed to by Bluewin re-tail customers and 390,000 by the customers of other providers. The number of analogue and digital access lines (PSTN/ISDN) decreased by 2.8% to 3,822,000, mainly as a result of the market entry of cable network companies and substitution through mobile telephony.

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

Fixnet/Segment expenses and depreciation and amortization

	2005	2004	
CHF in millions			Change
Goods and services purchased	606	693	– 12.6%
Personnel expenses ¹	944	954	– 1.0%
Other operating expenses	530	580	– 8.6%
Intersegment expenses	1 248	1 403	– 11.0%
Other income	(111)	(85)	30.6%
Total segment expenses	3 217	3 545	– 9.3%
Depreciation and amortization	797	910	– 12.4%
Impairment on tangible assets	–	155	–
Amortization of goodwill	–	7	–
Total depreciation and amortization	797	1 072	– 25.7%

¹ Includes CHF 50 million termination benefits (previous year CHF 40 million)

Fixnet's total segment expenses decreased year-over-year by 9.3% to CHF 3,217 million and can be attributed to lower revenue-related expenditure. Expenditure on goods and services purchased dropped mainly due to international Carrier Services activities. The decrease in expenses with other segments is due to the reduction in termination prices at Mobile.

In 2004 an unscheduled impairment of CHF 155 million was recorded. This impairment was entered following the revaluation of the value of the assets in the international carrier services activities as a result of continuing pressure on prices and margins.

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

CHF in millions	2005	2004	Change
Revenue from external customers	3 651	3 679	– 0.8%
Intersegment revenue	517	677	– 23.6%
Net revenue	4 168	4 356	– 4.3%
Segment expenses (incl. intercompany)	(2 318)	(2 380)	– 2.6%
EBITDA	1 850	1 976	– 6.4%
<i>Margin as % of net revenue</i>	<i>44.4</i>	<i>45.4</i>	
Depreciation and amortization	(373)	(359)	3.9%
EBIT	1 477	1 617	– 8.7%

CHF in millions or number	2005	2004	Change
Capital expenditure	334	513	– 34.9%
Number of full-time employees at end of period	2 412	2 491	– 3.2%

Mobile's revenue with external customers fell year-over-year by 0.8% to CHF 3,651 million. Most of the decline in revenue due to price adjustments could be offset by a higher number of subscribers and increased revenue from new data services. EBITDA fell by 6.4% to CHF 1,850 million. EBITDA margin declined from 45.4% to 44.4%. Capital expenditure decreased by 34.9% to CHF 334 million. The decrease was due to lower investments compared with the previous year in connection with the development of a national mobile broadband network, especially EDGE.

Mobile/Net revenue

CHF in millions	2005	2004	Change
Connectivity voice	2 203	2 286	– 3.6%
Connectivity data and value added services	604	521	15.9%
Base fees	677	691	– 2.0%
Other revenue	167	181	– 7.7%
Total revenue from external customers	3 651	3 679	– 0.8%
Intersegment revenue	517	677	– 23.6%
Total net revenue	4 168	4 356	– 4.3%

Number of subscribers in thousands	2005	2004	Change
Postpaid	2 640	2 518	4.8%
Prepaid	1 641	1 390	18.1%
Total number of subscriber	4 281	3 908	9.5%

CHF, minutes or millions	2005	2004	Change
ARPU in CHF	74	81	– 8.6%
AMPU in minutes	120	118	1.7%
Number of SMS messages in millions	1 991	1 986	0.3%

Review of the Group's results

With effect from June 1, 2005 Swisscom Mobile reduced the price for termination on their network by 40% and launched a new product (NATEL Swiss Liberty) with a flat-rate charge of CHF 0.50 per call and per hour (for every new hour started another CHF 0.50 is charged). These price reductions on termination affected revenue and EBITDA as per December 31, 2005 in the amount of CHF 170 million.

The number of subscribers increased year-over-year by a net total of 373,000 or 9.5% to 4,281,000. The increase is largely due to the increasing mobile penetration, the churn management and the good market position of Mobile resulting from the launch of new products and tariff plans. At the end of 2005 the Liberty family had 635,000 subscribers and M-Budget Mobile, a pre-paid product launched in the third quarter of 2005 117,000 subscribers.

Revenue from Connectivity Voice declined by 3.6% to CHF 2,203 million. The average minutes per user per month (AMPU) increased due to the launch of new products and tariffs from 118 minutes to 120 minutes. This increase could not compensate for by the price reductions so that average revenue per user per month (ARPU) fell from CHF 81 to CHF 74.

Revenue from Connectivity Data and Value Added Services rose year-over-year by 15.9% to CHF 604 million as a result of increased usage and the launch of new data services. The number of SMS messages sent increased by 0.3% compared with the previous year. The increase in the number of SMS messages sent due to a higher number of subscribers was offset by an SMS-campaign in March 2004. For a flat rate of CHF 5 subscribers could send an unlimited number of SMS messages in Switzerland.

Intersegment revenue fell by 23.6% to CHF 517 million as a result of the price reductions for termination and a decline in deliveries of handsets to Fixnet for sale in Swisscom Shops.

Mobile/Segment expenses and depreciation and amortization

CHF in millions	2005	2004	Change
Goods and services purchased	975	971	0.4%
Personnel expenses ¹	322	310	3.9%
Other operating expenses	483	505	- 4.4%
Intersegment expenses	555	610	- 9.0%
Other income	(17)	(16)	6.3%
Total segment expenses	2 318	2 380	- 2.6%
Depreciation and amortization	373	359	3.9%

¹ Includes CHF 3 million termination benefits (previous year CHF 0 million)

Mobile segment expenses fell by 2.6% to CHF 2,318 million year-on-year. The decrease was mainly a result of lower costs for the purchase of handsets and cost saving measures. The transfer of the international carrier services activities as at July 1, 2005 to an affiliated company with Belgacom led to a decrease in expenses with other segments and an increase in goods and services purchased. Furthermore, a the higher number of subscribers led to an increase in costs for traffic fees.

Solutions

Swisscom Enterprise Solutions was merged with Swisscom Systems on January 1, 2005 and is disclosed as the segment Solutions from 2005.

Solutions comprises primarily fixed-line 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.

CHF in millions	2005	2004	Change
Revenue from external customers	1 123	1 279	– 12.2%
Intersegment revenue	145	158	– 8.2%
Net revenue	1 268	1 437	– 11.8%
Segment expenses (incl. intercompany)	(1 194)	(1 304)	– 8.4%
EBITDA	74	133	– 44.4%
<i>Margin as % of net revenue</i>	5.8	9.3	
Depreciation and amortization	(39)	(46)	– 15.2%
EBIT	35	87	– 59.8%

CHF in millions or number	2005	2004	Change
Capital expenditure	22	26	– 15.4%
Number of full-time employees at end of period	1 795	1 858	– 3.4%

Revenue from external customers dropped by 12.2% to CHF 1,123 million compared with the previous year as a result of keen competition and price pressure. EBITDA fell by 44.4% to CHF 74 million.

Solutions/Net revenue

CHF in millions	2005	2004	Change
Local and long-distance traffic	87	107	– 18.7%
Fixed-to-mobile traffic	96	122	– 21.3%
International traffic	56	68	– 17.6%
Total traffic	239	297	– 19.5%
Leased lines	147	184	– 20.1%
Intranet Services	152	173	– 12.1%
Other revenue Service Business	247	272	– 9.2%
Solution Business	283	277	2.2%
Other revenue	55	76	– 27.6%
Total revenue from external customers	1 123	1 279	– 12.2%
Intersegment revenue	145	158	– 8.2%
Total net revenue	1 268	1 437	– 11.8%

Traffic volume in millions of minutes	2005	2004	Change
Local and long-distance traffic	1 672	1 779	– 6.0%
Fixed-to-mobile traffic	258	278	– 7.2%
Total national traffic	1 930	2 057	– 6.2%
International traffic	356	361	– 1.4%
Total national and international traffic	2 286	2 418	– 5.5%

Review of the Group's results

Traffic revenue decreased by 19.5% to CHF 239 million, mainly as a result of the substitution effect from mobile telephony as well as lower volumes and prices due to constant competitive pressure.

The drop in leased line revenue of 20.1% to CHF 147 million was mainly due to the migration of existing products to Internet (IP) based services with lower prices and optimization of customer networks.

The decrease in revenue from Intranet Services is attributable to the substitution of traditional technology with new (IP) technology and lower prices due to competitive pressure.

The increase in revenue in the Business Solutions segment was a result of increased revenue in the business fields system integration and outsourcing.

The decrease in other revenue of 27.6% to CHF 55 million stems principally from lower revenue from the lease of private branch exchanges.

Solutions/Segment expenses and depreciation and amortization

CHF in millions	2005	2004	Change
Goods and services purchased	197	150	31.3%
Personnel expenses ¹	261	289	– 9.7%
Other operating expenses	43	59	– 27.1%
Intersegment expenses	700	810	– 13.6%
Other income	(7)	(4)	75.0%
Total segment expenses	1 194	1 304	– 8.4%
Depreciation and amortization	39	46	– 15.2%

¹ Includes CHF 0 million termination benefits (previous year: CHF 23 million).

Segment expense declined in comparison with the previous year by 8.4% to CHF 1,194 million, mainly due to revenue-related lower purchasing volumes from other segments and lower job termination benefits. The increase in goods and services purchased is a result of increased revenue in the business fields System Integration and Outsourcing.

Other

The Other segment comprises the Group companies Swisscom IT Services AG, Swisscom Broadcast AG, the Accarda Group, including Billag AG, Accarda AG (formerly Billag Card Services AG), Medipa AG, Antenna Hungária and the Swisscom Eurospot Group.

On July 28, 2005 Swisscom signed an agreement for the acquisition of a 75% stake in Antenna Hungária. The company operates in the field of analogue radio and television broadcasting. Swisscom completed the transaction for a purchase price of CHF 293 million on October 25, 2005. Swisscom tendered an offer to Antenna Hungária's public shareholders for the same purchase price per share as paid for the 75% i.e. HUF 5,250 per share. At the beginning of 2006, 23% of the shares were tendered at this price. A squeeze-out procedure has been launched for the remaining 2% stake.

	2005	2004	
CHF in millions			Change
Revenue from external customers	571	476	20.0%
Intersegment revenue	488	503	– 3.0%
Net revenue	1 059	979	8.2%
Segment expenses (incl. intercompany)	(917)	(822)	11.6%
EBITDA	142	157	– 9.6%
Margin as % of net revenue	13.4	16.0	
Depreciation and amortization	(140)	(127)	10.2%
EBIT before amortization of goodwill	2	30	– 93.3%
Amortization of goodwill	–	(42)	–
EBIT	2	(12)	–

	2005	2004	
CHF in millions or number			Change
Capital expenditure	154	154	–
Number of full-time employees at end of period	3 868	2 719	42.3%

Revenue with external customers rose year-on-year by 20.0% to CHF 571 million, mainly as a result of higher revenue from Swisscom IT Services and the acquisition of Antenna Hungária at the end of October 2005. EBITDA fell by 9.6% to CHF 142 million. The EBITDA margin was 13.4% (previous year 16.0%). Headcount increased, mainly as a result of the acquisition of Antenna Hungária at the end of October 2005.

Other/Net revenue

	2005	2004	
CHF in millions			Change
Swisscom IT Services	249	207	20.3%
Swisscom Broadcast	150	148	1.4%
Accarda Group	115	112	2.7%
Antenna Hungária	26	–	–
Swisscom Eurospot	31	9	244.4%
Total revenue from external customers	571	476	20.0%
Intersegment revenue	488	503	– 3.0%
Total net revenue	1 059	979	8.2%

The increase in revenue at Swisscom IT Services of 20.3% to CHF 249 million can be attributed mainly to higher revenue from services in the field of IT Outsourcing. Antenna Hungária is included in the consolidated accounts from the acquisition date. Revenue from the completion date of the transaction on October 25, 2005 to the end of the year totaled CHF 26 million. Swisscom Eurospot's increase in revenue of CHF 22 million to CHF 31 million is due to further development of international WLAN business and increased use.

Review of the Group's results

Other/Segment expenses and depreciation and amortization

CHF in millions	2005	2004	Change
Goods and services purchased	69	41	68.3%
Personnel expenses ¹	419	388	8.0%
Other operating expenses	325	296	9.8%
Intersegment expenses	129	105	22.9%
Other income	(25)	(8)	212.5%
Total segment expenses	917	822	11.6%
Depreciation and amortization	140	127	10.2%
Amortization of goodwill	–	42	–
Total depreciation and amortization	140	169	– 17.2%

¹ Includes CHF 4 million termination benefits (previous year: CHF 1 million)

The operating expense rose in comparison with the previous year by 11.6% to CHF 917 million, primarily revenue-related and due to the acquisition of Antenna Hungária. Personnel expenses rose as a result of a higher headcount. Segment expenses also include provisions created after a review of all long-term contracts with Swisscom IT Services in the fourth quarter of 2005.

Corporate

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

CHF in millions	2005	2004	Change
Revenue from external customers	68	68	–
Intersegment revenue	622	540	15.2%
Net revenue	690	608	13.5%
Segment expenses (incl. intercompany)	(673)	(661)	1.8%
EBITDA	17	(53)	–
<i>Margin as % of net revenue</i>	2.5	– 8.7	
Depreciation and amortization	(48)	(48)	–
EBIT	(31)	(101)	– 69.3%

CHF in millions or number	2005	2004	Change
Capital expenditure	100	19	426.3%
Number of full-time employees at end of period	895	909	– 1.5%

Net revenue increased due to the centralized settlement of energy costs. EBITDA increased mainly as a result of higher gains from sales of real estate. The increase in capital expenditure in the Corporate segment can be attributed to higher investments by the real estate company Swisscom Immobilien AG.

Corporate/Net revenue

CHF in millions	2005	2004	Change
Swisscom Immobilien AG	63	63	–
Other	5	5	–
Total revenue from external customers	68	68	–
Intersegment revenue	622	540	15.2%
Total net revenue	690	608	13.5%

Intersegment revenue rose by 15.2% to CHF 622 million and is attributable to increased revenue from Swisscom Immobilien AG from centralized settlement of energy costs with other group companies.

Corporate/Segment expenses and depreciation and amortization

CHF in millions	2005	2004	Change
Personnel expenses ¹	228	253	– 9.9%
Other operating expenses	436	382	14.1%
Intersegment expenses	65	53	22.6%
Other income	(56)	(27)	107.4%
Total segment expenses	673	661	1.8%
Depreciation and amortization	48	48	–

¹ Includes CHF 53 million termination benefits (previous year CHF 65 million)

Operating expenditure increased by 1.8% to CHF 673 million. This includes costs for work-force reduction measures, including expenditure on the employment company Worklink AG of CHF 53 million (previous year CHF 65 million). Other operating expenditure increased mainly due to centralized settlement of energy costs. The reason for the increase in other income lies in the gain from the sale of real estate in connection with the optimization of building use. In 2005 this amounted to CHF 33 million (previous year CHF 7 million).

Cash flows and net funds

CHF in millions	2005	2004	Change
Net cash provided by operating activities	3 432	4 066	– 15.6%
Net cash used in investing activities	(1 417)	(1 354)	4.7%
Net cash used in financing activities	(3 381)	(3 420)	– 1.1%
Net decrease in cash and cash equivalents	(1 366)	(708)	92.9%

The net decrease in cash and cash equivalents of CHF 1,366 million can primarily be attributed to Swisscom's dividend policy. In 2005 dividends of around CHF 2.9 billion (previous year CHF 2.7 billion) were paid to Swisscom's shareholders. Minority shareholders received dividends of a total of CHF 367 million (previous year CHF 360 million).

Cash flows from operating activities

CHF in millions	2005	2004	Change
Operating income before interest, taxes, depreciation and amortization (EBITDA)	4 171	4 388	(217)
Changes in operating assets and liabilities and other payments or receipts from operating activities	99	(62)	161
Special payment to comPlan pension scheme	(288)	–	(288)
Net interest	(6)	(21)	15
Income taxes paid	(544)	(239)	(305)
Net cash provided by operating activities	3 432	4 066	(634)

Review of the Group's results

Net cash provided by operating activities decreased year-over-year by CHF 634 million to CHF 3,432 million. The improvement in changes in operating assets and liabilities and other payments and receipts from operating activities of CHF 161 million was offset by a lower operating result (EBITDA) of CHF 217 million, higher income tax payments of CHF 305 million and a special payment to the Swisscom pension fund (comPlan) of CHF 288 million in connection with changes to the plan.

Cash flows from investing activities

CHF in millions	2005	2004	Change
Capital expenditure	(1 087)	(1 136)	49
Proceeds from sale of fixed assets	53	35	18
Proceeds from the sale of discontinued operation (debitel)	351	616	(265)
Acquisition of subsidiaries, less cash and cash equivalents acquired	(303)	3	(306)
Acquisition of minority interests of Swisscom IT Services AG	–	(115)	115
Acquisition of affiliated companies	(101)	–	(101)
Proceeds from other current and non-current financial assets	856	190	666
Investments in other current and non-current financial assets	(1 186)	(947)	(239)
Net cash used in investing activities	(1 417)	(1 354)	(63)

Compared with the previous year net cash used in investing activities increased by CHF 63 million to CHF 1,417 million. 2004 included net cash from the sale of debitel of CHF 616 million. In 2005 proceeds of CHF 351 million from the early repayment of vendor loan notes granted to the purchasers of debitel and CHF 201 million and CHF 28 million respectively from the sale of the available-for-sale investments Infonet and Intelsat were included. In the fourth quarter of 2005 a purchasing price of CHF 293 million for a 75% stake

in Antenna Hungária was paid. Swisscom submitted an offer to the remaining shareholders which was equivalent to the price paid for the 75% stake. At the beginning of 2006 23% of the shares were tendered at this price, which led to an additional payment of CHF 104 million, in the first quarter of 2006. A squeeze-out procedure has been launched for the remaining 2% stake.

Capital expenditure

CHF in millions	2005	2004	Change
Fixnet	494	433	14.1%
Mobile	334	513	– 34.9%
Solutions	22	26	– 15.4%
Other	154	154	–
Corporate	100	19	426.3%
Elimination	(17)	(9)	88.9%
Total capital expenditure	1 087	1 136	– 4.3%

The decrease in capital expenditure by CHF 49 million (–4.3%) to CHF 1,087 million is mainly attributable to Mobile. In 2004 Mobile invested a higher amount in the development of a national mobile broadband network, especially UMTS and EDGE. The increase in capital expenditure of Fixnet is mainly due to the development of the Triple-Play network infrastructure. The increase in capital expenditure in the Corporate segment can be attributed to higher investments by the real estate company Swisscom Immobilien AG.

Cash flows from financing activities

CHF in millions	2005	2004	Change
Issuance of long-term debt	13	11	2
Repayment of long-term debt	(165)	(314)	149
Expenditure for stock based compensation	(16)	(14)	(2)
Share buy-back	(1 985)	(1 882)	(103)
Dividends paid to shareholders of Swisscom AG	(861)	(861)	–
Dividends paid to minority interests	(367)	(360)	(7)
Net cash used in financing activities	(3 381)	(3 420)	39

Net cash used for financing activities of CHF 3,381 million remained more or less stable compared with the previous year. Payments in connection with the equity free cash flow totaled CHF 2,847 million (previous year CHF 2,743 million). At the end of the year Swisscom owed CHF 136 million in withholding tax in connection with the share buy-back program (previous year CHF 119 million), which will be repaid to the tax authorities in the following year. In the cash flow statement, the payment is presented under the item share buy-back.

Net debt (net funds)

CHF in millions	31.12.2005	31.12.2004	Change
Financial liability from cross-border tax lease arrangements	1 474	1 262	16.8%
Finance lease obligation	681	814	– 16.3%
Other financial liabilities	148	238	– 37.8%
Liabilities from collecting activities (Accarda Group)	154	201	– 23.4%
Total	2 457	2 515	– 2.3%
Cash and cash equivalents	(1 023)	(2 387)	– 57.1%
Current financial assets	(1 684)	(1 285)	31.1%
Receivables from collecting activities (Accarda Group)	(390)	(409)	– 4.6%
Financial assets from lease and leaseback transactions	(1 125)	(952)	18.2%
Net funds	(1 765)	(2 518)	– 29.9%

Net debt (net funds) consists of total debt and liabilities from collection activities of the Accarda Group less cash and cash equivalents, current financial Assets, receivables from collection activities of the Accarda Group and financial assets from cross-border tax lease transactions. On December 31, 200, the net funds amounted to CHF 1,765 million (previous year: CHF 2,518 million).

At December 31, 2005 net receivables of CHF 236 million (previous year: CHF 208 million) were due from the collection activities of the Accarda Group. When calculating the net debt receivables and liabilities from collection activities are included, since these are financial transactions and not operative receivables and liabilities from trade.

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

Review of the Group's results

Contractual obligations

The following contractual obligations had been entered into as at December 31, 2005

CHF in millions	2006	2007	2008	2009	2010	After 2010	Total
Long-term financial liabilities							
Financial liabilities from cross-border tax lease arrangements	1	122	30	15	37	1 269	1 474
Average interest rate	7.69%	7.69%	7.69%	7.69%	7.69%	7.69%	7.69%
Finance lease obligation (buildings)	6	6	6	6	7	451	482
Average interest rate	6.82%	6.82%	6.82%	6.82%	6.82%	6.82%	6.82%
Finance lease obligation (cross-border tax lease)	23	41	135	–	–	–	199
Average interest rate	5.51%	5.51%	5.51%	5.51%	5.51%	5.51%	5.51%
Non-current financial assets							
Financial liabilities from cross-border tax lease arrangements	1	122	8	12	20	962	1 125
Average interest rate	8.20%	8.20%	8.20%	8.20%	8.20%	8.20%	8.20%

Conditional pre-emption rights were granted to Vodafone in a shareholder loyalty agreement. If there is a change of control at Swisscom, Vodafone is entitled to sell its 25% stake in Swisscom Mobile AG to Swisscom at the fair market value.

Dividend policy

Swisscom intends 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	2005	2004	Change
Net cash provided by operating activities	3 432	4 066	(634)
Capital expenditure	(1 087)	(1 136)	49
Proceeds from the sale of discontinued operation (debitel)	351	616	(265)
Net proceeds from the sale and purchase of investments	(404)	(112)	(292)
Net investments in other non-current financial assets	240	72	168
Repayment of debt	–	(256)	256
Dividends paid to minority interests	(367)	(360)	(7)
Other cash flow from investing and financing activities, net	38	23	15
Equity free cash flow	2 203	2 913	(710)

In 2005 the equity free cash flow amounted to CHF 2,203 million, CHF 710 million lower than the previous year. Equity free cash flow decreased by CHF 634 million as a result of lower net revenue from operative activities and CHF 292 million as a result of the net expenditure on the acquisition of stakes. The previous year included proceeds of CHF 616 million from the sale of debitel. In 2005 proceeds of CHF 351 million from the early repayment of vendor loan notes granted to the purchasers of debitel and CHF 201 million and CHF 28 million respectively from the sale of the available-for-sale investments in Infonet and Intelsat were included.

In 2005 a dividend of CHF 861 million was paid out to the shareholders. In order to payout the equity free cash flow in full, at the end of May 2005 Swisscom launched a scheme to buy back CHF 2 billion worth of shares. The seller receives the selling price of the share minus the withholding tax of 35%. Until December 19, 2005, shares had been bought back for a total of CHF 2 billion. Of this 35% or CHF 700 million is due in withholding tax. Until December 31, 2005, CHF 564 million had been paid to the tax authorities. The outstanding CHF 136 million, included under other current liabilities, will be paid in the first quarter of 2006.

On the basis of the equity free cash flow generated and the net income, the Board of Directors will propose to the General Meeting of Shareholders that a dividend of CHF 16 per share (previous year: CHF 14) or a total of CHF 907 million be paid. The remainder of the equity free cash flow of around CHF 1.25 billion will be paid out to shareholders in 2006 in the form of a share buy-back, in accordance with the Group's stated return policy. In addition the share buy-back will be increased by CHF 1 billion, bringing the total value in 2006 to CHF 2.25 billion. The share buy-back is scheduled to be launched in the second half of 2006.

Balance sheet

CHF in millions	31.12.2005	31.12.2004	Change
Cash and cash equivalents and current financial assets	2 707	3 672	- 26.3%
Trade accounts receivable and other current assets	2 542	2 533	0.4%
Property, plant and equipment	6 000	6 190	- 3.1%
Goodwill	315	153	105.9%
Other intangible assets	407	263	54.8%
Investments in affiliated companies and non-current financial assets	1 354	1 333	1.6%
Current and deferred tax assets	84	88	- 4.5%
Total assets	13 409	14 232	- 5.8%
Financial liabilities	2 303	2 314	- 0.5%
Other current liabilities	2 333	1 972	18.3%
Accrued pension cost	805	1 118	- 28.0%
Accrued liabilities and other long-term liabilities	754	799	- 5.6%
Current and deferred tax liabilities	590	576	2.4%
Equity attributable to equity holders of Swisscom AG	6 001	6 790	- 11.6%
Equity attributable to minority interests	623	663	- 6.0%
Total liabilities and equity	13 409	14 232	- 5.8%

The decrease in cash and cash equivalents and current financial assets of CHF 965 million is mainly due to the dividend policy. In 2005 a total of CHF 3,213 million (previous year CHF 3,103 million) was paid out to shareholders of Swisscom AG and minority interests. The increase in goodwill of CHF 162 million is primarily due to the acquisition of Antenna Hungária. Pension fund commitments fell by CHF 313 million as a result of a special payment of CHF 288 million to the pension fund comPlan. Equity attributable to equity holders of Swisscom AG dropped by CHF 789 million as a result of the dividend policy.

Pensions

The obligatory and supplementary retirement benefits for Swisscom employees is managed by the company's own pension scheme comPlan, which covers employees against the risks of old age, death and disability. At December 31, 2005, comPlan's provisional year-end funded status prepared under Swiss GAAP FER showed an overfunding of CHF 698 million (previous year underfunding of CHF 39 million), or a funding ratio of 109% (previous year 99%). The return on plan assets amounted to 13.1% (previous year 5.8%).

The determination of benefit obligation and net periodic pension expense in the consolidated financial statements is based on the International Financial Reporting Standards (IFRS). At December 31, 2005, the funded status calculated based on IFRS amounted to CHF 1,727 million (previous year CHF 2,050 million), of which only CHF 805 million (previous year CHF 1,118 million) is recorded in the balance sheet as a liability. In contrast to Swiss GAAP FER, this calculation follows IFRS guidelines and takes into account actuarial assumptions for future developments, such as salary and contribution increases or pension indexation. The effect of salary increases, indexation of pension benefits and assumptions for early retirement amounts to some CHF 881 million. In addition under IFRS the benefit obligation is discounted at a risk free discount rate of 2.6% (previous year: 3.15%). In order to calculate the benefit obligation under Swiss GAAP FER a discount rate of 4.0% is used. This different discount rate under IFRS led to an increase in benefit obligation of CHF 1,323 million. The unrecorded underfunding of CHF 922 million (previous year: CHF 932 million) is due to the fact that under IFRS the actuarial gains and losses are recorded over future periods, using the so-called corridor method.

With effect from January 1, 2006 the comPlan committee agreed a number of changes to the plan which were already taken into account under IFRS in the actuarial calculation as of December 31, 2005. In total, pension commitments fell by CHF 104 million. In order to finance the changes to the plan Swisscom paid a special contribution of CHF 288 million to comPlan. Pension costs in 2006 will be around CHF 30 million lower than in 2005 due to these changes.

Equity

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

CHF in millions	Equity attributable to equity holders of Swisscom AG	Equity attributable to minority interests	Equity Total
Balance at January 1, 2004	7 776	731	8 507
Gains and losses directly recognized in equity, net	280	–	280
Net income	1 596	352	1 948
Dividends paid	(861)	(360)	(1 221)
Share buy-back	(2 001)	–	(2 001)
Acquisition of minority interests	–	(60)	(60)
Balance at December 31, 2004	6 790	663	7 453
Gains and losses directly recognized in equity, net	51	–	51
Net income	2 022	324	2 346
Dividends paid	(861)	(367)	(1 228)
Share buy-back	(2 001)	–	(2 001)
Acquisition of subsidiaries	–	3	3
Balance at December 31, 2005	6 001	623	6 624

Equity decreased by CHF 829 million or 11.1% to CHF 6 624 million in the year under review. The reduction in equity is a result of Swisscom's dividend policy since the total payout in the form of dividends and share buy-backs based on last year's equity free cash flow exceeded the consolidated net income. Equity will continue to decrease in 2006 because of the scheduled payouts of equity free cash flow of some 2.2 billion and the additional share buy-back of CHF 1 billion.

Distributable reserves are not calculated on the basis of equity as reported in the consolidated balance sheet in accordance with the International Financial Reporting Standards (IFRS), but on the equity reported in the individual financial statements of Swisscom AG in line with statutory accounting provisions. At December 31, 2005, this amounted to CHF 5,661 million. After deduction of treasury stock equity is reduced to CHF 3,701 million. The difference between this amount and the equity shown in the consolidated balance sheet is primarily due on the one hand to profits withheld by subsidiaries and on the other hand to different accounting and valuation methods.

Under Swiss law share capital and 20% of the share capital in the reserves may not be distributed. At December 31, 2005 Swisscom AG had distributable reserves of CHF 3,586 million.

Outlook

Swisscom expects net revenue in 2006 of around CHF 9.5 billion and operating income before interest, taxes, depreciation and amortization (EBITDA) of around CHF 4.0 billion. The main reasons for the decline in EBITDA are lower termination charges for mobile telephony which negatively effect the entire year (7 months in the previous year). Continuing price pressure on Mobile and Fixnet should be offset this year through growth in other areas. Capital expenditure will be around CHF 1.4 billion.

Review of the Group's results

Quarterly review 2005 and 2004

CHF in millions	1. quarter	2. quarter	3. quarter	4. quarter	2005	1. quarter	2. quarter	3. quarter	4. quarter	2004
Net revenue	2 445	2 467	2 386	2 434	9 732	2 488	2 511	2 526	2 532	10 057
Other income	32	66	91	71	260	54	45	42	54	195
Goods and services purchased	(431)	(462)	(479)	(459)	(1 831)	(445)	(456)	(469)	(477)	(1 847)
Personnel expenses	(559)	(532)	(504)	(578)	(2 173)	(565)	(532)	(513)	(584)	(2 194)
Other operating expenses	(395)	(432)	(421)	(569)	(1 817)	(410)	(447)	(440)	(526)	(1 823)
EBITDA	1 092	1 107	1 073	899	4 171	1 122	1 121	1 146	999	4 388
Depreciation and amortization	(357)	(346)	(340)	(351)	(1 394)	(379)	(374)	(516)	(375)	(1 644)
Amortization of goodwill	–	–	–	–	–	(13)	(11)	(13)	(12)	(49)
EBIT	735	761	733	548	2 777	730	736	617	612	2 695
Net financial result	26	64	28	(36)	82	3	(21)	(4)	(112)	(134)
Equity in net income of affiliated companies	(1)	7	3	4	13	2	5	2	13	22
Income tax expense	(147)	(148)	(155)	(85)	(535)	(145)	(137)	(141)	31	(392)
Income from continuing operations	613	684	609	431	2 337	590	583	474	544	2 191
Income from discontinued operation (debitel)	–	–	–	9	9	(15)	(226)	–	(2)	(243)
Net income¹	613	684	609	440	2 346	575	357	474	542	1 948
Attributable to equity holders of Swisscom AG	520	596	534	372	2 022	488	269	384	455	1 596
Attributable to minority interests	93	88	75	68	324	87	88	90	87	352
Net revenue by segments^{2,3}										
Fixnet	1 378	1 372	1 262	1 296	5 308	1 445	1 434	1 405	1 431	5 715
Mobile	1 040	1 067	1 051	1 010	4 168	1 072	1 074	1 114	1 096	4 356
Solutions	314	314	312	328	1 268	353	364	360	360	1 437
Other	246	255	249	309	1 059	239	231	230	279	979
Corporate	169	171	172	178	690	150	154	154	150	608
Intercompany elimination	(702)	(712)	(660)	(687)	(2 761)	(771)	(746)	(737)	(784)	(3 038)
Total net revenue	2 445	2 467	2 386	2 434	9 732	2 488	2 511	2 526	2 532	10 057
EBITDA by segments^{1,3}										
Fixnet	519	546	528	498	2 091	575	546	542	507	2 170
Mobile	509	492	445	404	1 850	482	495	523	476	1 976
Solutions	23	26	23	2	74	39	58	55	(19)	133
Other	39	52	43	8	142	37	40	35	45	157
Corporate	5	(9)	37	(16)	17	(11)	(18)	(9)	(15)	(53)
Intercompany elimination	(3)	–	(3)	3	(3)	–	–	–	5	5
Total EBITDA	1 092	1 107	1 073	899	4 171	1 122	1 121	1 146	999	4 388
Capital expenditure	176	255	236	420	1 087	201	279	295	361	1 136
Equity free cash flow	606	927	829	(159)	2 203	461	1 294	811	347	2 913
Number of full-time employees at end of period	15 397	15 307	15 288	16 088	16 088	15 759	15 721	15 644	15 477	15 477

¹ 2004 includes the adjustments for the changes in IAS 17.

The effect on EBITDA was minus CHF 16 million. Net income increased by CHF 2 million.

² Includes intersegment revenue.

³ Excluding discontinued operation (debitel).

Quarterly review 2005 and 2004

	1. quarter	2. quarter	3. quarter	4. quarter	2005	1. quarter	2. quarter	3. quarter	4. quarter	2004
Operational data Fixnet										
Number of lines in thousands										
PSTN lines	2 982	2 951	2 930	2 922	2 922	3 071	3 056	3 029	3 007	3 007
ISDN lines	921	919	911	900	900	925	927	925	924	924
Total number of lines PSTN / ISDN	3 903	3 870	3 841	3 822	3 822	3 996	3 983	3 954	3 931	3 931
ADSL retail lines	550	603	645	708	708	352	390	431	490	490
ADSL wholesale lines	328	345	365	390	390	245	267	286	312	312
Total number of ADSL lines	878	948	1 010	1 098	1 098	597	657	717	802	802
Retail traffic volume in millions of minutes										
Local and long-distance traffic	1 756	1 654	1 547	1 671	6 628	1 984	1 781	1 669	1 771	7 205
Fixed-to-mobile traffic	228	236	231	230	925	239	239	239	232	949
Internet traffic	674	563	513	502	2 252	1 048	829	722	724	3 323
Total national traffic	2 658	2 453	2 291	2 403	9 805	3 271	2 849	2 630	2 727	11 477
International traffic	241	231	220	234	926	250	236	229	240	955
Total retail traffic	2 899	2 684	2 511	2 637	10 731	3 521	3 085	2 859	2 967	12 432
Wholesale traffic volume in millions of minutes										
National traffic	4 238	4 067	3 709	3 933	15 947	4 478	4 279	3 990	4 308	17 055
International incoming traffic	405	394	393	385	1 577	362	378	380	401	1 521
International termination traffic	353	402	–	–	755	329	435	371	373	1 508
Total international traffic	758	796	393	385	2 332	691	813	751	774	3 029
Total wholesale traffic	4 996	4 863	4 102	4 318	18 279	5 169	5 092	4 741	5 082	20 084

	1. quarter	2. quarter	3. quarter	4. quarter	2005	1. quarter	2. quarter	3. quarter	4. quarter	2004
Operational data Mobile										
Number of subscribers in thousands										
Postpaid	2 536	2 559	2 603	2 640	2 640	2 412	2 448	2 484	2 518	2 518
Prepaid	1 447	1 485	1 571	1 641	1 641	1 426	1 450	1 461	1 390	1 390
Total number of subscribers	3 983	4 044	4 174	4 281	4 281	3 838	3 898	3 945	3 908	3 908
CHF, minutes or millions										
ARPU in CHF	77	78	74	67	74	79	82	83	79	81
AMPU in minutes	112	120	124	124	120	116	119	120	116	118
Number of SMS messages in millions	493	493	486	519	1 991	574	463	465	484	1 986

	1. quarter	2. quarter	3. quarter	4. quarter	2005	1. quarter	2. quarter	3. quarter	4. quarter	2004
Operational data Solutions										
Traffic volume in millions of minutes										
Local and long-distance traffic	437	428	400	407	1 672	479	442	428	430	1 779
Fixed-to-mobile traffic	64	67	64	63	258	73	69	68	68	278
Total national traffic	501	495	464	470	1 930	552	511	496	498	2 057
International traffic	92	92	86	86	356	93	88	89	91	361
Total national and international traffic	593	587	550	556	2 286	645	599	585	589	2 418

Consolidated financial statements

	Group Auditor report
	Consolidated Income statement
	Consolidated balance sheet
	Consolidated cash flow statement
	Consolidated statement of equity
1	General information
2	Summary of significant accounting policies
3	Financial risk management
4	Critical accounting principles, estimates and assumptions
5	Acquisition of subsidiaries
6	Segment reporting
7	Other income
8	Goods and services purchased
9	Personnel expenses
10	Stock based compensation
11	Retirement benefits
12	Other operating expenses
13	Net financial result
14	Income tax expense
15	Earnings per share
16	Cash and cash equivalents
17	Financial assets
18	Trade accounts receivable
19	Inventories
20	Other current assets
21	Non-current assets held for sale
22	Property, plant and equipment
23	Goodwill and other intangible assets
24	Investments in affiliated companies
25	Financial liabilities
26	Accrued liabilities
27	Other current liabilities
28	Other long-term liabilities
29	Vodafone's conditional right to sell its share in Swisscom Mobile
30	Equity
31	Derivative financial instruments
32	Cash generated from operations and significant non-cash investing and financing transactions
33	Commitments
34	Contingencies
35	Research and development
36	Related parties
37	Discontinued operation (debitel)
38	Disclosure of service concession arrangements (SIC 29)
39	Significant subsidiaries and affiliated companies
40	Dividends
41	Post balance sheet events
42	New accounting pronouncements

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

As Group auditors, we have audited the consolidated financial statements (income statement, balance sheet, cash flow statement, statement of changes in equity and notes) on pages 122 to 182 of Swisscom AG for the year ended December 31, 2005.

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

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

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

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

KPMG Klynveld Peat Marwick Goerdeler SA

Hanspeter Stocker
Swiss Certified Accountant
Auditor in charge

Christoph Schwarz
Swiss Certified Accountant

Gümligen-Berne, March 6, 2006

Consolidated income statement

CHF in millions, except per share amount	Note	2005	2004
Net revenue	6	9 732	10 057
Other income	7	260	195
Total		9 992	10 252
Goods and services purchased	8	1 831	1 847
Personnel expenses	9,10,11	2 173	2 194
Other operating expenses	12	1 817	1 823
Depreciation	22	1 286	1 542
Amortization	23	108	151
Total operating expenses		7 215	7 557
Operating income		2 777	2 695
Financial income	13	242	138
Financial expense	13	(160)	(272)
Equity in net income of affiliated companies	24	13	22
Income before income taxes		2 872	2 583
Income tax expense	14	(535)	(392)
Income from continuing operations		2 337	2 191
Income from discontinued operation (debitel)	37	9	(243)
Net income		2 346	1 948
Net income attributable to equity holders of Swisscom AG		2 022	1 596
Net income attributable to minority interests		324	352
Basic and diluted earnings per share (in CHF)			
– from continuing operations		33.64	28.42
– from discontinued operation (debitel)		0.15	(3.75)
– net income	15	33.79	24.66

The accompanying notes form an integral part of the consolidated financial statements.
As disclosed in Note 2.4, the income statement for 2004 has been restated following the changes in IFRS that were adopted effective 1 January 2005.

Consolidated balance sheet

CHF in millions	Note	31.12.2005	31.12.2004
Assets			
Current assets			
Cash and cash equivalents	16	1 023	2 387
Current financial assets	17	1 684	1 285
Trade accounts receivable	18	1 694	1 767
Inventories	19	129	120
Other current assets	20	709	646
Current tax assets		5	–
Non-current assets held for sale	21	5	–
Total current assets		5 249	6 205
Non-current assets			
Property, plant and equipment	22	6 000	6 190
Goodwill and other intangible assets	23	722	416
Investments in affiliated companies	24	191	58
Non-current financial assets	17	1 163	1 275
Deferred tax assets	14	84	88
Total non-current assets		8 160	8 027
Total assets		13 409	14 232
Liabilities and equity			
Current liabilities			
Short-term debt	25	173	373
Trade accounts payable		467	511
Current tax liabilities		229	342
Accrued liabilities	26	388	214
Other current liabilities	27	1 478	1 247
Total current liabilities		2 735	2 687
Long-term liabilities			
Long-term debt	25	2 130	1 941
Accrued pension cost	11	805	1 118
Accrued liabilities	26	580	634
Deferred tax liabilities	14	361	234
Other long-term liabilities	28	174	165
Total long-term liabilities		4 050	4 092
Total liabilities		6 785	6 779
Equity			
Share capital		61	66
Additional paid-in capital		392	572
Retained earnings		7 483	8 138
Treasury stock		(2 002)	(2 002)
Fair value and other reserves		67	16
Equity attributable to equity holders of Swisscom AG		6 001	6 790
Equity attributable to minority interests		623	663
Total equity	30	6 624	7 453
Total liabilities and equity		13 409	14 232

The accompanying notes form an integral part of the consolidated financial statements.
As disclosed in Note 2.4, the balance sheet for 2004 has been restated
following the changes in IFRS that were adopted effective 1 January 2005. - -

Consolidated cash flow statement

Cash flow statement from continuing operations

CHF in millions	Note	2005	2004
Cash flows from operating activities			
Cash generated from operations	32	3 997	4 341
Interest paid		(161)	(147)
Income taxes paid		(544)	(239)
Interest received		124	110
Dividends received		16	1
Net cash provided by operating activities		3 432	4 066
Cash flows from investing activities			
Capital expenditure	22,23	(1 087)	(1 136)
Proceeds from sale of fixed assets		53	35
Proceeds from the sale of discontinued operation (debitel)•	37	351	616
Acquisition of subsidiaries, less cash and cash equivalents acquired	5	(303)	3
Acquisition of minority interests of Swisscom IT Services AG	30	–	(115)
Acquisition of affiliated companies	24	(101)	–
Proceeds from other current and non-current financial assets		856	190
Investments in current and non-current financial assets		(1 186)	(947)
Net cash used in investing activities		(1 417)	(1 354)
Cash flows from financing activities			
Repayment of finance lease obligation		(155)	(58)
Repayment of other financial liabilities		(10)	(256)
Issuance of long-term financial liabilities		13	11
Purchase of treasury stock for stock based compensation	10	(16)	(14)
Share buy-back	30	(1 985)	(1 882)
Dividends paid to shareholders of Swisscom AG	30	(861)	(861)
Dividends paid to minority interests	30	(367)	(360)
Net cash used in financing activities		(3 381)	(3 420)
Net decrease in cash and cash equivalents		(1 366)	(708)
Cash and cash equivalents at beginning of year		2 387	3 104
Effect of exchange rate changes on cash and cash equivalents		2	(3)
Cash flow from discontinued operation (debitel)		–	(6)
Cash and cash equivalents at end of year		1 023	2 387

Cash flow statement from discontinued operation (debitel)

CHF in millions	Note	2005	2004
Cash and cash equivalents at beginning of year		–	133
Net increase in cash and cash equivalents	37	–	4
Effect of exchange rate changes on cash and cash equivalents		–	(6)
Cash and cash equivalents at closing	37	–	131
Cash and cash equivalents at end of year		–	–

• In 2004, net proceeds from the sale of discontinued operation (debitel) less cash and cash equivalents left in debitel amounted to CHF 485 million.

Significant non-cash investing and financing activities are described in Note 32. The accompanying notes form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

Income and expenses recognized in consolidated equity

CHF in millions	2005	2004
Currency translation of foreign Group companies	8	(21)
Write-off of cumulative translation losses of discontinued operation (debitel)	–	238
Write-off of cumulative translation losses on transfer of international carrier business	6	–
Fair value adjustments of available-for-sale investments	31	67
Fair value adjustments of cash flow hedges	5	2
Tax effect on gains and losses directly recognized in equity	1	(6)
Gains and losses directly recognized in equity, net	51	280
Net income	2 346	1 948
Total income and expenses for the year	2 397	2 228
Attributable of equity holders of Swisscom AG	2 073	1 876
Attributable to minority interests	324	352

Overview of changes in consolidated equity

CHF in millions	Equity attributable to equity holders of Swisscom AG	Equity attributable to minority interests	Equity Total
Balance at December 31, 2003	7 669	731	8 400
Effect of changes in IAS 17	107	–	107
Balance at January 1, 2004	7 776	731	8 507
Gains and losses directly recognized in equity, net	280	–	280
Net income	1 596	352	1 948
Total income and expenses for the year	1 876	352	2 228
Dividends paid	(861)	(360)	(1 221)
Share buy-back	(2 001)	–	(2 001)
Purchase of treasury stock	(42)	–	(42)
Sale of treasury stock to employees	42	–	42
Acquisition of minority interest	–	(60)	(60)
Balance at December 31, 2004	6 790	663	7 453
Gains and losses directly recognized in equity, net	51	–	51
Net income	2 022	324	2 346
Total income and expenses for the year	2 073	324	2 397
Dividends paid	(861)	(367)	(1 228)
Share buy-back	(2 001)	–	(2 001)
Purchase of treasury stock	(46)	–	(46)
Sale of treasury stock to employees	46	–	46
Acquisition of subsidiaries	–	3	3
Balance at December 31, 2005	6 001	623	6 624

1 General information

1.1. General information about Swisscom and the consolidated financial statements

Swisscom AG is a stock corporation incorporated in Switzerland, domiciled in Ittigen (Berne). Swisscom AG and its subsidiaries (referred to as Swisscom) is the principal provider of telecommunication services in Switzerland, offering a comprehensive range of services to residential and business customers. Swisscom's major lines of business include Fixnet, comprising the provision of national and international fixed-line voice telecommunications for residential customers and the reselling of network services to other national and international telecommunications providers; Mobile, comprising the provision of mobile voice communications and other mobile telecommunication services; Solutions, comprising national and international voice communications for business customers, leased lines, managed bandwidth services and integrated data communications solutions.

2 Summary of significant accounting policies

2.1 Basis of presentation

The consolidated financial statements of Swisscom have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the legal provisions of the Swiss Code of Obligations. The consolidated financial statements are based on historical cost convention except as disclosed in the accounting policies below.

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

2.2 Principles of consolidation

The consolidated financial statements of Swisscom include the operations of Swisscom AG and all its direct and indirect subsidiaries, which are controlled by Swisscom by having a voting majority or otherwise. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is generally presumed where Swisscom AG directly or indirectly holds more than 50% of the potential voting rights. Companies acquired or disposed of during the reporting period are included in the consolidated financial statements from the date on which control of business operations was transferred to Swisscom and excluded from the date on which control was transferred to the buyer, respectively. All intercompany balances, transactions and profits are eliminated in consolidation.

Affiliated companies and joint ventures where Swisscom has significant influence but does not have control are accounted for using the equity method and are disclosed as investments in affiliated companies. This is generally the case in companies where Swisscom AG holds 20% – 50% of the potential voting rights. Under the equity method, investments are initially recognized at cost. The purchase price is allocated to Swisscom's share of net assets and goodwill. Goodwill is no longer amortized. If there is any indication that goodwill might be impaired then the total carrying value of the investment in the affiliate is tested for impairment. The carrying value of investments are adjusted, through the income statement, for Swisscom's share of earnings (losses) resulting from post-acquisition activity. Transactions with affiliated companies which lead to unrealized intragroup gain or loss are proportionally eliminated in the consolidated financial statements.

A schedule with all significant subsidiaries and investments in affiliated companies is presented in Note 39.

2.3 Foreign currency translation

The consolidated financial statements are presented in Swiss francs (CHF). Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into Swiss francs at year-end exchange rates; gains and losses are recorded in the income statement.

Assets and liabilities of subsidiaries and affiliated companies accounted for using the equity method reporting in a functional currency other than Swiss francs are translated at exchange rates prevailing at the balance sheet date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are reported in the functional currency of the foreign entity and are translated into the reporting currency not affecting net income, using the rate prevailing on the balance sheet date. Income, cash flows and other transac-

tion positions are translated at the average exchange rates for the period. Translation gains and losses are recorded as cumulative translation adjustments in shareholders' equity. On disposal of a foreign entity, accumulated exchange differences are recognized in the income statement as part of the gain or loss on sale.

The exchange rates used in the consolidated financial statements were:

	31.12.2005	Average 2005	31.12.2004	Average 2004
1 EUR	1.56	1.55	1.55	1.54
1 GBP	2.26	2.27	2.19	2.27
1 USD	1.32	1.25	1.14	1.24
100 HUF	0.62	0.62	0.63	0.61

2.4 New amended accounting principles

At January 1, 2005 a number of new and amendments to published International Financial Reporting Standards (IFRS) became effective for Swisscom. Outlined below are the new and amended standards which had the most significant effect on Swisscom's net assets, financial position and results of operations:

IFRS 3 „Business Combinations“: Goodwill will no longer be amortized but tested for impairment annually. For new acquisitions the purchase price is allocated to identifiable assets and liabilities, contingent liabilities and goodwill. A substantial portion of the purchase price will be allocated to intangible assets, such as brands, customer contracts, customer relationships and licenses and amortized over the estimated economic useful lives. This new standard was applied to new acquisitions completed on or after April 1, 2004. Goodwill amortization amounted to CHF 49 million in 2004.

IFRS 5: „Non-current Assets Held for sale and Discontinued Operations“: Non-current assets or disposal groups that are classified as held for sale are presented in the balance sheet separately at the lower of carrying value or fair value less costs to sell. Swisscom has applied this standard since January 1, 2005.

IAS 27 „Consolidated and Separate Financial Statements“: Minority interests in consolidated subsidiaries are presented in the consolidated balance sheet within shareholders' equity. In the income statement minority's share in net income is no longer presented as an expense but is presented separately as net income attributable to minority interests. Minority interests primarily consist of Vodafone's 25% interest in Swisscom Mobile. As a result of the amended standard net income and equity disclosed for 2004 are higher. In 2004 the minority interest in net income and equity was CHF 352 million and CHF 663 million, respectively. The calculation of earnings per share remains unchanged.

IAS 17 „Leases“: Long-term leases of real estate must be evaluated and disclosed separately for land and building components. In 2001 Swisscom sold buildings and leased them back at different lease terms. Some of these sale and leaseback agreements are classified as finance leases under IAS 17. No distinction was made between the land and building components. These changes have been applied retrospectively. The accumulated effect in shareholders' equity as at December 31, 2003 and 2004 amounted to CHF 107 million and CHF 109 million, respectively, and comprises reductions in the lease obligations of CHF 223 million and CHF 221 million, respectively, the carrying amount of buildings of CHF 211 million and CHF 205 million, respectively, deferred tax assets of CHF 11 million for both periods and the deferred profit from sale and leaseback transactions presented under other long-term liabilities of CHF 106 million and CHF 104 million, respectively. In the 2004 income statement this led to higher lease expenses of CHF 14 million and a reduction in other income of CHF 2 million, depreciation expense of CHF 6 million, interest expense of CHF 10 million and income tax expense of CHF 2 million. The effect on earnings per share amounted to CHF 0.03.

2.5 Cash and cash equivalents

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

2.6 Financial assets

Financial assets are classified as financial asset at fair value through profit or loss, available-for-sale, held-to-maturity or loans and receivables. Swisscom applies trade date accounting for regular purchases and sales of financial assets. These financial assets are initially recognized at fair value, including transaction costs. Transaction costs relating to financial assets at fair value through profit or loss are expensed immediately. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Financial assets at fair value through profit or loss

Swisscom classifies only derivative financial instruments in this category „assets held for trading“. See Note 2.24.

Available-for-sale financial assets

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

Financial assets held-to-maturity

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

Loans and receivables

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

2.7 Trade accounts receivable

Trade accounts receivable are recorded at amortized cost. A provision is recorded for any doubtful receivables. Non recoverable receivables are recorded as a loss.

2.8 Inventories

Inventories consist primarily of customer equipment for resale and supplies used in constructing and maintaining Swisscom's network. Inventories are valued at the lower of cost and net realizable value. Cost is calculated using the weighted average method. Net realizable value is the estimated receipts in the ordinary course of business, less the costs of completion and selling expenses.

2.9 Property, plant and equipment

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

Depreciation is computed using the straight-line method based on the following estimated useful lives which are unchanged in a year-to-year comparison:

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

If parts of property, plant and equipment have different estimated useful lives, these parts are recorded separately and depreciated accordingly. The estimated useful lives are reviewed annually and, if necessary, adjusted.

Capitalized leasehold improvements and installations in leased buildings are depreciated over the shorter of their estimated useful life and the remaining term of the lease.

Maintenance and repair costs and borrowing costs are expensed as incurred.

2.10 Business combinations and Goodwill

For acquisitions completed on or after April 1, 2004, IFRS 3 „Business combinations“ is applicable and are accounted for using the purchase method. The acquisition costs include the consideration paid in exchange for control of the identifiable assets, liabilities and contingent liabilities of the acquired company. The consideration includes payments in cash as well as the fair value of the assets given and liabilities incurred or assumed as well as equity instruments issued by Swisscom at the transaction date. Acquisition costs also include any transaction costs directly attributable to the acquisition. The net assets acquired are recorded at their fair value. If Swisscom does not acquire a 100% stake in a company, then the minority interest is stated at the minority's proportion of the fair value of the total net assets. Goodwill is the excess of the cost of the business combination over the fair value of the net assets acquired. Goodwill and fair value adjustments of net assets are recorded in the assets and liabilities of the acquired company in the local currency of the acquired company. Goodwill is not amortized, but tested for impairment annually.

For acquisitions prior to April 1, 2004, differences between the purchase price and the fair value of net assets acquired are classified as goodwill from acquisitions. Goodwill was amortized on a straight-line basis over the estimated useful life of three to five years until December 31, 2004.

2.11 Other intangible assets

Research and development costs

Research costs are expensed as incurred. Development costs are capitalized under intangible assets, if they generate probable future economic benefits. The capitalized development costs are amortized using the straight-line method over their estimated useful life. Development costs that do not fulfill the requirements for capitalization are expensed as incurred.

Software development costs

Development costs of identifiable software under Swisscom's control are recorded as intangible assets if they will generate probable future economic benefits and are amortized using the straight-line method over their estimated useful life of three to five years. Expenditures which enhance or extend the performance of computer software programs beyond their original specifications are capitalized and added to the original cost of the software.

Other intangible assets

Other intangible assets, which comprise primarily mobile license fees and purchased software, are capitalized at cost and amortized using the straight-line method over their estimated useful life. Amortization begins when the associated asset is put into operation.

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

Impairment of goodwill

Goodwill is allocated to cash-generating units and assessed for impairment annually. An impairment loss is recorded if the recoverable amount of a cash-generating unit, which is the higher of fair value less cost to sell and value in use, is lower than the carrying amount. The value in use is based upon cash flow projections for a period of three to five years.

Impairment of property, plant and equipment and other intangible assets

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

2.13 Finance and operating leases

Assets acquired under leasing agreements which effectively transfer all the risks and rewards incidental to ownership are classified as finance leases. Finance leases are capitalized at amounts equivalent to the estimated net present value of the future minimum lease payments. The same amount is recorded correspondingly as a finance lease obligation. Assets under finance leases are amortized over their estimated useful lives. Gains on sale and leaseback transactions resulting in finance leases are deferred as liability and released over the lease term as other income, while losses on sale and leaseback transactions are recorded immediately. Gains and losses on sale and leaseback transactions resulting in operating leases are recorded immediately in the income statement.

2.14 Provisions

Provisions are recorded when Swisscom has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Termination benefits

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

Dismantlement and restoration costs

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

2.15 Treasury stock

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

2.16 Revenue

Revenue consists principally of monthly subscription fees charged for providing access services, revenue from installation and connection fees, charges to customers for calls from the fixed and mobile networks, revenue generated by Swisscom's business numbers, including charges for Internet services, revenue from providing network services to other telecommunications companies, revenue from national and international leased lines, as well as revenue from private network services and intranet services and the sale and maintenance of subscriber equipment. Swisscom also provides IT outsourcing services.

Revenue from subscription fees is recorded ratably over the subscription period. Revenue from installation and connection activities is recorded at the time of installation or connection, as the direct costs associated with these activities exceed the revenue.

Revenue from telephony is recorded at the time the call is made. Revenue from prepaid call cards is deferred and recorded at the time the customer makes a call. Revenue from leased lines is recorded over the rental period.

Revenue from the sale of equipment is recorded at the time of sale. Revenue from the maintenance of equipment is recorded ratably over the life of the contract.

Revenue for long-term IT outsourcing contracts is recorded based on services provided to the customer. The actual development of costs incurred and invoices issued are not relevant when recording revenue. Start-up and integration costs of new IT outsourcing transactions are accrued and recorded as expense over the contract period. The contracts are assessed at the end of each period to evaluate if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. If the direct attributable costs exceed the expected benefits to be received the difference is recognized as a provision, whereby any accrued costs are written off first.

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

2.17 Other income and capitalized costs

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

Swisscom's consolidated income statement is prepared using the nature of expense method. Costs to be capitalized and expensed in future periods, such as costs capitalized on construction projects, are recognized in the income statement as other operating income with a corresponding amount included in expenses, such that the net effect on income is zero.

2.18 Stock-based compensation

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

Stock options and stock appreciation rights are valued at market value on the grant date and recorded over the vesting period under personnel expenses.

2.19 Pension fund commitments

The expense and liability relating to the defined benefit plan are determined on an actuarial basis using the projected unit credit method, which reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees projected salaries. The latest actuarial valuation was performed using data as at December 31, 2005. Current service costs are charged to the income statement in the periods in which the services are rendered. The effects of changes in actuarial assumptions are charged or credited to the income statement over a period approximating the average expected remaining working periods of participating employees. The portion of actuarial gains and losses recorded is defined as the excess of the cumulative unrecorded actuarial gains and losses at the end of the previous reporting period over the greater of 10% of the present value of the defined benefit obligation at that date or 10% of the fair value of plan assets at that date. Past service cost attributable to plan amendments is recorded as an expense or a reduction of expense on a straight-line basis over the average period until the benefits become vested. To the extent the benefits immediately vest, the costs associated with the amendment are recorded immediately.

2.20 Customer acquisition costs

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

2.21 Income taxes

Deferred income taxes are determined using the comprehensive liability method whereby deferred tax is recorded on all temporary differences. Temporary differences between the recoverable amount of an asset or liability used for tax purposes and that used for financial reporting purposes arise in one period and reverse in one or more subsequent periods. Deferred tax assets and liabilities are determined using the tax rates that are expected to apply when the asset is realized or the liability is settled. The deferred tax assets or liabilities are disclosed as long-term assets or liabilities with those changes being recorded in the income statement or directly in the statement of shareholder's equity. Deferred tax assets are recorded only if it is probable that benefits will be realized in the future.

2.22 Earnings per share

Basic earnings per share are computed by dividing net income by the weighted-average number of shares outstanding for the year. The weighted-average number of shares outstanding excludes any treasury shares. Diluted earnings per share is calculated using the same method, except that the weighted-average number of shares outstanding is increased to include the number of additional shares that would have been outstanding if potential dilutive shares had been issued.

2.23 Fair value

The fair value is the amount for which an asset, liability or financial instrument could be exchanged between knowledgeable, willing and independent business parties in an arm's length transaction. The fair value is determined based on quoted prices or by using valuation techniques such as discounted cash flow analysis.

2.24 Derivative financial instruments

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

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

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

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or liability, the associated gains or losses that were recognized in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

Otherwise, amounts deferred in equity are recognized in the income statement and classified as revenue or expense in the same period or periods during which the hedged forecast transaction affects profit or loss.

Changes in the fair value of derivative instruments that do not qualify for hedge accounting under IAS 39 are recorded immediately in the income statement.

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

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

3 Financial risk management

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

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

3.1 Foreign exchange risk

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

3.2 Interest rate risk

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

3.3 Credit risk

Swisscom has no significant concentrations of credit risk. The Group has policies in place to ensure that products and services are sold to creditworthy customers. The danger of cluster risks is minimized by the large number of customers. Swisscom also has policies that limit the amount of credit exposure to any one financial institution.

4 Critical accounting principles, estimates and assumptions

4.1 Critical accounting principles

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

Cash generating units for fixed and mobile networks

The recoverability of the carrying amounts of fixed and mobile networks is assessed on the level of cash generating units in accordance with IAS 36 „Impairment of Assets“. Management is of the opinion that fixed and mobile networks should be treated as separate integral units and must therefore be classified as two independent cash generating units. In order to test recoverability, individual network elements or regions are not separately assessed as cash flows cannot be allocated accordingly.

Sale and long-term leaseback of buildings

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

4.2 Critical accounting estimates and assumptions

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

Goodwill

On December 31, 2005 the carrying amount of goodwill from acquisitions totaled CHF 311 million. The recoverability of goodwill is tested for impairment annually during the fourth quarter or earlier if an indication of impairment exists. The value of goodwill is primarily dependant upon projected cash flows, Swisscom's WACC and long-term growth rates. The significant assumptions are disclosed in Note 23. An alteration to the assumptions may result in an impairment loss in subsequent years.

Pension funds

The pension liability is calculated on the basis of various financial and actuarial assumptions. The key assumptions for assessing this liability are the discount rate, future salary and pension increases and the probability of the employee reaching retirement. As of December 31, 2005, the underfunding amounted to CHF 1,727 million, whereby only CHF 805 million was recorded as a liability in the consolidated balance sheet. The liability was calculated using a discount rate of 2.6%. A reduction in the discount rate of 0.5% to 2.1% would result in an increase in the pension liability of CHF 709 million. An increase in average future salary increases of 0.5% would result in an increase in the pension liability of CHF 85 million. Pension costs were calculated on the basis of an expected return on investment of plan assets of 3.9%. A reduction in the expected return of 0.5% would result in an increase in pension costs of CHF 31 million.

Provision for dismantlement and restoration costs

A provision has been recorded for dismantlement and restoration costs of mobile stations and analog broadcast transmitter stations. As of December 31, 2005 the carrying value of this provision totaled CHF 360 million. The amount of the provision is primarily based on estimates of future costs for dismantlement and restoration and the timing of the dismantlement.

Provisions and contingent liabilities

Interconnection proceedings

Since 2000 Swisscom has been involved in proceedings with regard to interconnection prices (see Note 34). Swisscom has recorded a liability and a provision for doubtful debts for receivables on the basis of their own estimate of the possible financial consequences. Further development of the proceedings or a decision by the Federal Court may result in a different assessment of the financial consequences in subsequent years and require an increase or decrease of the recorded liability.

Proceedings before the competition commission (WEKO)

WEKO is currently leading various proceedings against Swisscom. The individual proceedings are described in Note 34. If WEKO proves that Swisscom has violated Antitrust law, they can impose sanctions. Based upon its legal assessment, Swisscom considered it unlikely that WEKO will impose sanctions. Consequently no provisions were recognized in 2005 in connection with these proceedings. Further development of the proceedings may result in a different assessment of the financial consequences in the following year and require an increase or decrease in the provision recorded.

5 Acquisition of subsidiaries and other significant transactions

Acquisitions in 2005

Acquisition of Antenna Hungária

On July 28, 2005 Swisscom signed an agreement for the acquisition of a 75% stake in Antenna Hungária. The company operates in the field of analog radio and television broadcasting. After obtaining the approvals from the competition authorities, Swisscom completed the purchase of a 75% stake (plus one share) in Antenna Hungária on October 25, 2005. The purchase price was CHF 293 million. On November 11, 2005 Swisscom tendered an offer to Antenna Hungária's public shareholders for the same price per share as paid for the 75% plus one share holding i.e. HUF 5,250 per share. At the beginning of 2006, a further 23% of the shares were acquired. A squeeze-out procedure has been launched for the remaining 2% stake. Since the transaction involved a statutory obligation to make a public takeover bid to the minority shareholders, the transaction was included as a 100% acquisition in the balance sheet in accordance with IAS 32 „Financial Instruments: Presentation and Disclosure“. The purchase price of CHF 104 million for the remaining shares was recorded under other current liabilities as at December 31, 2005. The table below presents a breakdown of the values of the assets acquired in Antenna Hungária:

CHF in millions	Carrying value prior to acquisition	Adjustment	Carrying value upon acquisition
Cash and cash equivalents	8	–	8
Trade accounts receivable	16	–	16
Other current assets	19	–	19
Property, plant and equipment	140	96	236
Goodwill	–	138	138
Other intangible assets	8	41	49
Deferred tax liabilities	–	(22)	(22)
Trade accounts payable	(15)	–	(15)
Other short- and long-term liabilities	(26)	–	(26)
Equity attributable to minority interests	(3)	–	(3)
Purchase price			400
Less cash and cash equivalents acquired			(8)
Deferred payment of purchase price			(104)
Cash outflow			288

The purchase price of CHF 400 million includes costs directly related to the transaction for consultancy and bank fees of CHF 3 million.

Goodwill relates to the premium paid on the acquisition and reflects the growth potential of Antenna Hungária in the field of digital broadcasting. Swisscom will bring in its know-how in the area of digital broadcasting. Intangible assets include primarily contractual customer relationships. These are amortized from the date of acquisition over the estimated remaining term of the customer relationship.

Other acquisitions 2005

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

On July 1, 2005, Swisscom acquired a 99% stake in Medipa AG, a Swiss medical billing company. For consolidation and allocation of the purchase price Swisscom based the amounts included on a provisional balance sheet prepared by Medipa as at December 31, 2005. At the time the financial statements were prepared, Swisscom was not in a position to finalize the purchase price allocation for this transaction.

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

CHF in millions	Carrying value prior to acquisition	Adjustment	Carrying value upon acquisition
Cash and cash equivalents	4	–	4
Short- and long-term liabilities	13	–	13
Property, plant and equipment	1	–	1
Goodwill	–	22	22
Other intangible assets	3	5	8
Deferred tax liabilities	–	(1)	(1)
Short- and long-term liabilities	(35)	–	(35)
Purchase price			12
Less cash and cash equivalents acquired			(4)
Cash outflow			8

Notes to the consolidated financial statements

Goodwill relates to the premium paid on the acquisitions and reflects the synergies that can be achieved by the Group.

In 2005 the deferred consideration of CHF 7 million was paid to the seller for T-Systems Card Services AG (now Accarda AG), acquired at the end of 2003.

Net revenue and results of acquired subsidiaries

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

Acquisitions 2004

On September 30, 2004 Swisscom Systems AG acquired a 100% stake in Itelpro Solutions AG, a provider of services in the area of telephone communication systems. The company merged with Swisscom Systems AG in 2004.

On December 22, 2004 Swisscom Broadcast acquired a 84.4% stake in Tele Rätia AG. Tele Rätia AG provides services in connection with television and Radio broadcasting in the Canton of Graubünden. In 2005 the stake in Tele Rätia was increased to 89.7%. On December 1, 2004, Swisscom IT Services AG acquired 100% of the shares in e4life AG.

The table below shows the aggregated fair values of the assets acquired:

CHF in millions	Carrying value upon acquisition
Cash and cash equivalents	5
Property, plant and equipment	1
Other intangible assets	11
Deferred tax assets	2
Short- and long-term liabilities	(7)
Purchase price	12
Less cash and cash equivalents acquired	(5)
Deferred payment of purchase price	(10)
Cash inflow	(3)

Net revenue and results of acquired subsidiaries

The 2004 consolidated financial statements include net revenue of CHF 6 million and a net income of CHF 1 million resulting from these acquisitions. Had these acquisitions been consolidated in Swisscom's financial statements from January 1, 2004, Swisscom's pro forma net revenue would have been CHF 10,063 million and net income CHF 1,949 million.

6 Segment reporting

Effective January 1, 2005, Enterprise Solutions merged with Swisscom Solutions into a new business segment Solutions. Prior year's numbers were restated accordingly.

The „Fixnet“ segment provides primarily access services to residential and business customers, fixed retail telephony traffic in respect of residential customer, wholesale traffic services offered to national and international telecommunication providers and payphone services, operator services and prepaid calling cards. Fixnet also provides leased lines, sells customer equipment and operates a directories database. On July 1, 2005 Fixnet brought its international carrier business into an affiliated company with Belgacom in which Belgacom holds 72% and Swisscom 28%. Swisscom Fixnet still recorded revenue from international incoming traffic after this transfer took place since not all contracts could be transferred to the joint venture by July 2005. The transfer of the remaining contracts is scheduled for 2006.

„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 their mobile telephones over Swisscom's net-

works. It also consists of value-added services numbers, data traffic as well as the sale of mobile handsets.

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

The segment „Other“ mainly comprises the Group companies Swisscom IT Services AG, Swisscom Broadcast AG, the Accarda Group, which includes Billag AG, Accarda AG (formerly Billag Card Services AG), and Medipa AG; Antenna Hungária and the Swisscom Eurospot Group.

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

Following the sale of debitel, it is reported separately as a discontinued business. See Note 37.

Revenue from external customers mainly consists of services.

Intersegment revenue is determined on the basis of annually agreed internal transfer prices. Costs are allocated to the individual segments based on various factors determined by management. Costs relating to termination benefits are calculated per segment for the employees participating in one of the workforce reduction programs and are recorded as part of that segment's expense. Not all of the costs relating to termination benefits recorded by the segments meet the criteria for recognition under IFRS, consequently CHF 21 million was eliminated in 2005 (previous year: CHF 18 million) in the „Corporate“ segment in the consolidated financial statements.

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

Segment assets include all operating assets used by a segment and comprise receivables, inventories, other current assets, property, plant and equipment and intangibles. Segment liabilities include all operating liabilities and comprise primarily accounts payable, other short – and long-term liabilities, accrued pension fund commitments and provisions.

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

Swisscom's operations are focused mainly in Switzerland, where it provides a full range of telecommunication services. After the sale of debitel, Swisscom has no significant business activity abroad.

Notes to the consolidated financial statements

2005 CHF in millions	Fixnet	Mobile	Solutions	Other	Corporate	Elimi- nation	Total
Net revenue from external customers	4 319	3 651	1 123	571	68	–	9 732
Intersegment revenue	989	517	145	488	622	(2 761)	–
Net revenue	5 308	4 168	1 268	1 059	690	(2 761)	9 732
Goods and services purchased	(606)	(975)	(197)	(69)	–	16	(1 831)
Personnel expenses	(944)	(322)	(261)	(419)	(228)	1	(2 173)
Other operating expenses	(530)	(483)	(43)	(325)	(436)	–	(1 817)
Intersegment expenses	(1 248)	(555)	(700)	(129)	(65)	2 697	–
Other income	111	17	7	25	56	44	260
Segment expenses	(3 217)	(2 318)	(1 194)	(917)	(673)	2 758	(5 561)
Operating income before depreciation (EBIDTA)	2 091	1 850	74	142	17	(3)	4 171
<i>Margin in %</i>	<i>39.4</i>	<i>44.4</i>	<i>5.8</i>	<i>13.4</i>	<i>2.5</i>	–	<i>42.9</i>
Depreciation and amortization	(797)	(373)	(39)	(140)	(48)	3	(1 394)
Operating income (EBIT)	1 294	1 477	35	2	(31)	–	2 777
Segment assets	4 513	2 322	343	1 274	1 021	(534)	8 939
Goodwill	17	–	4	294	–	–	315
Affiliated companies	137	2	–	2	50	–	191
Assets held for sale	–	–	–	–	5	–	5
Assets not allocated	–	–	–	–	–	–	3 959
Total assets	4 667	2 324	347	1 570	1 076	(534)	13 409
Segment liabilities	1 387	746	503	674	1 122	(540)	3 892
Liabilities not allocated	–	–	–	–	–	–	2 893
Total liabilities	1 387	746	503	674	1 122	(540)	6 785
Capital expenditure	494	334	22	154	100	(17)	1 087
Gain (loss) on disposal of assets, net	(3)	(11)	2	(5)	33	–	16
Termination benefits	50	8	–	(4)	(15)	–	39
Equity in net income of affiliated companies	10	–	–	1	2	–	13

2004 CHF in millions	Fixnet	Mobile	Solutions	Other	Corporate	Elimi- nation	Total
Net revenue from external customers	4 555	3 679	1 279	476	68	–	10 057
Intersegment revenue	1 160	677	158	503	540	(3 038)	–
Net revenue	5 715	4 356	1 437	979	608	(3 038)	10 057
Goods and services purchased	(693)	(971)	(150)	(41)	–	8	(1 847)
Personnel expenses	(954)	(310)	(289)	(388)	(253)	–	(2 194)
Other operating expenses	(580)	(505)	(59)	(296)	(382)	(1)	(1 823)
Intersegment expenses	(1 403)	(610)	(810)	(105)	(53)	2 981	–
Other income	85	16	4	8	27	55	195
Segment expenses	(3 545)	(2 380)	(1 304)	(822)	(661)	3 043	(5 669)
Operating income before depreciation (EBITDA)	2 170	1 976	133	157	(53)	5	4 388
<i>Margin in %</i>	<i>38.0</i>	<i>45.4</i>	<i>9.3</i>	<i>16.0</i>	<i>-8.7</i>	–	<i>43.6</i>
Depreciation and amortization	(910)	(359)	(46)	(127)	(48)	1	(1 489)
Impairment of fixed assets	(155)	–	–	–	–	–	(155)
Operating income before amortization of goodwill	1 105	1 617	87	30	(101)	6	2 744
Amortization of goodwill	(7)	–	–	(42)	–	–	(49)
Operating income (EBIT)	1 098	1 617	87	(12)	(101)	6	2 695
Segment assets	4 950	2 335	334	943	977	(553)	8 986
Goodwill	17	–	–	136	–	–	153
Affiliated companies	58	–	–	–	–	–	58
Assets not allocated	–	–	–	–	–	–	5 035
Total assets	5 025	2 335	334	1 079	977	(553)	14 232
Segment liabilities	1 578	604	419	598	1 249	(559)	3 889
Liabilities not allocated	–	–	–	–	–	–	2 890
Total liabilities	1 578	604	419	598	1 249	(559)	6 779
Capital expenditure	433	513	16	164	19	(9)	1 136
Depreciation and amortization	(1 072)	(359)	(46)	(169)	(48)	1	(1 693)
Gain (loss) on disposal of assets, net	(14)	(5)	–	(4)	7	(2)	(18)
Termination benefits	40	–	23	1	(16)	–	48
Equity in net income of affiliated companies	12	–	–	–	10	–	22

Notes to the consolidated financial statements

Information on geographical regions*

	Switzerland	International	Total
CHF in millions			
2005			
Net revenue	9 677	55	9 732
Carrying value of assets	12 955	454	13 409
Capital expenditure	1 049	38	1 087
2004			
Net revenue	10 048	9	10 057
Carrying value of assets	14 099	133	14 232
Capital expenditure	1 085	51	1 136

* Excluding discontinued operation (debitel).

7 Other income

	2005	2004
CHF in millions		
Capitalized cost	159	151
Gain on sale of fixed assets	38	9
Income from employment company Worklink (personnel hire)	15	13
Other income	48	22
Total other income	260	195

Capitalized cost includes labor costs related to the construction of technical equipment, construction of network infrastructure and the development of software.

Included in Other income is the amortization of the deferred gain on the sale and lease-back of buildings.

8 Goods and services purchased

	2005	2004
CHF in millions		
Raw material and supplies	16	14
Purchased services	110	100
Customer premises equipment	584	520
National traffic fees	496	431
International traffic fees	625	782
Total goods and services purchased	1 831	1 847

9 Personnel expenses

	2005	2004
CHF in millions		
Salaries and wages	1 625	1 607
Termination benefits	39	48
Salaries and wages of employment company	68	81
Social-security expenses	145	138
Pension cost. See Note 11	185	219
Stock based compensation. See Note 10.	16	14
Other personnel expenses	95	87
Total personnel expenses	2 173	2 194

Termination benefits		2004
CHF in millions	2005	
Outplacement program PersPec	42	52
Other expenses for social plan measures	8	–
Revision of prior provision	(11)	(4)
Total termination benefits	39	48

Workforce reduction programs

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

Outplacement program PersPec

In the outplacement program, employees are trained for new jobs and receive assistance in finding new employment within Swisscom or outside the Group. Employees who reach the age of 50 are entitled to stay in the outplacement program for 18 months. For all other employees this period is limited to 12 months. At the end of 2005, 291 full-time equivalent employees participated in the program (previous year: 411). In connection with this program, Swisscom incurred expenses of CHF 42 million in 2005 (previous year: CHF 52 million). The amount of the expense relates only to the costs for those employees who are not expected to continue working for Swisscom.

Employment company Worklink AG

Employees born in 1950 or before, who have worked with Swisscom since before January 1, 1989 are entitled to transfer to Worklink AG until the age of 60 within the framework of the outplacement program. After this they may take early retirement. Employees who only fulfill one of the criteria mentioned above may only participate in Worklink AG for a maximum period of 24 months.

Worklink seeks to hire these employees out to third parties on a temporary basis. The employees receive an average of 70% of their final salary from Swisscom. The total wages and social security payments for these employees were CHF 68 million in 2005 (previous year: CHF 81 million). This includes the expenditure for the time spent in the outplacement program before their transfer to the employment company. Under IFRS these costs do not qualify for the recognition of a liability because the employment relationship with the employees has not been terminated. The average number of participants (in fulltime equivalent employees) in Worklink in 2005 was 498 (previous year: 433). At December 31, 2005, the number of participants (in full-time equivalent employees) in Worklink was 512 employees (previous year: 475 employees).

10 Stock based compensation

		2004
CHF in millions	2005	
Expenditure for TopShare	11	10
Expenditure for Management Incentive Plan (MIP)	5	4
Total expenditure for stock based compensation	16	14

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

TopShare

TopShare is a share purchase scheme available to non-management staff. The Board of Directors determines the conditions of the scheme on an annual basis. Each year, employees are generally offered up to ten shares at preferential conditions. In 2005, 8,223 employees participated in this program. The shares purchased are subject to a one-year blocking period from the grant date, after which time they can be freely disposed of. The shares are vested upon grant date. The difference between the market value and the consideration received from employees is recognized under personnel expenses.

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

Year of allocation	Number of allocated shares	Market price in CHF	Offering price in CHF	Cost in CHF millions
2005	76 882	447	300	11
2004	74 921	423	290	10

Management Incentive Plan (MIP)

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

In 2005, allocated shares are the following:

Participant	Number of allocated shares	Market price in CHF	Offering price in CHF	Cost in CHF millions
Board of Directors	1 386	447	246	0.3
Group Executive Board	2 158	447	246	0.4
Management	22 199	447	246	4.5
Total	25 743	447	246	5.2

In 2004, allocated shares are the following:

Participants	Number of allocated shares	Market price in CHF	Offering price in CHF	Cost in CHF millions
Board of Directors	1 383	423	236	0.2
Group Executive Board	2 629	423	236	0.4
Management	20 495	423	236	2.9
Total	24 507	423	236	3.5

11 Retirement benefits

comPlan pension plans: „Leistungsprimatplan“ and „Duoprimatplan“

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

Up to the end of 2005 comPlan offered two pension plans. Around 4 200 employees are members of the „Leistungsprimatplan“. Under this plan the retirement benefit is calculated in accordance with the last insured salary. The full pension of 60% of the insured salary is paid out after members have been insured for 40 years. The normal retirement age is 65 although early retirement from 60 can be agreed, whereby the pension is reduced by 1.5% for each non-insured year.

Around 14,200 employees are insured in the „Duoprimatplan“. Under this plan the retirement benefit is determined by the amount in the employee's retirement savings account at the time of retirement. If an employee retires at the normal retirement age of 65, the savings account is converted into a retirement pension at a rate of 7.2%. If the employee takes early retirement from 60 their savings account is converted into a retirement pension at a lower rate.

On November 22, 2005 the trustees of comPlan decided to make various amendments to the plans, which became effective on January 1, 2006. The most significant amendment was the transfer of employees insured under the „Leistungsprimatplan“ into the „Duoprimatplan“. The amendment results in lower future pension benefits. By way of compensation for this reduction Swisscom is making a one-off payment into the employees' savings accounts in 2006. These amendments resulted in Swisscom transferring CHF 288 million, which is the estimated amount that will be credited to employee accounts, to comPlan in December 2005.

In addition, the rates for converting savings accounts into pensions are also being reduced, and employer and employee contributions increased. Swisscom has also committed to paying additional contributions of 3.0% of the total insured salary to comPlan for a period of five years in order to build up reserves in the plan. The contributions to build up these reserves will be approximately CHF 225 million. Should comPlan however generate enough to build up these reserves from the return on its investments, Swisscom's additional contributions can be used to fund the normal employer contributions or other pension benefits. The plan amendments resulted in a decrease in the pension liability of CHF 104 million. The reduction in the liability is conditional on future service and will therefore, starting in 2006, be amortized over the average period until the benefits become vested.

Notes to the consolidated financial statements

Retired employees of PUBLICA

Effective January 1, 1999, all Swisscom employees, who were members of PUBLICA (former PKB), the pension plan of the Swiss Government, were transferred to a successor plan called comPlan. All retired employees at that date remained members of PUBLICA. Swisscom settled the liability relating to these retired employees as at December 31, 1998, but in accordance with a contract with the Government retained a liability for pension indexation. In accordance with this contract, Swisscom must pay PUBLICA the difference between the actual return on plan assets and the Government prescribed discount rate increased by an account maintenance fee. At January 1, 2005 new legislation was introduced to abolish the previously guaranteed annual pension increases. In the future, the Government will determine the pension increase on an annual basis. In view of this new legislation the expected annual increase in pensions used as a basis for the calculation of the contractual liability was reduced to 0.5% at December 31, 2004. At December 31, 2005, included in the present value of obligations are CHF 173 million (previous year: CHF 169 million) for these retired employees. Differences between the actual and estimated payments are recorded as part of the actuarial gain or loss.

Pension plan obligation

The status of the pension plan is as follows:

CHF in millions	31.12.2005	31.12.2004
Amounts recognized in the balance sheet		
Present value of funded obligations	7 991	7 259
Fair value of plan assets	(6 264)	(5 209)
Benefit obligation in excess of plan assets	1 727	2 050
Unrecognized actuarial losses	(942)	(836)
Unrecognized prior service cost	20	(96)
Amounts recognized in the balance sheet	805	1 118

CHF in millions	2005	2004
Movement in the liability recognized in the balance sheet		
At beginning of year	1 118	1 113
Net pension cost	185	219
Contributions paid	(498)	(214)
Balance at end of year	805	1 118

Net periodic pension cost of the plan includes the following components:

CHF in millions	2005	2004
Current service cost	174	165
Interest cost	224	254
Expected return on plan assets	(234)	(220)
Past service cost	11	11
Amortization of actuarial loss	10	9
Net pension cost	185	219

At December 31, 2004 and 2005, unrecognized actuarial losses exceeded the present value of the defined benefit obligation by more than 10%. From 2005 the excess amount of CHF 143 million (previous year: CHF 110 million) will be recognized as a pension expense over the expected average remaining working lives of the employees. The average remaining service life per employee is 11.1 years (previous year: 10.7 years).

Pension plan assets

The fair value of plan assets as at December 31, 2005 was CHF 6,264 million (previous year: CHF 5,209 million). The effective return on plan assets was CHF 703 million (previous year: CHF 284 million).

The table below presents a breakdown of the various types of investment in which pension assets are invested:

	Target	31.12.2005	31.12.2004
Debt instruments (bonds)	62.5%	57.3%	58.1%
Equity instruments (shares)	30.0%	30.4%	32.0%
Cash and cash equivalents and other assets	–	5.5%	1.6%
Real estate	7.5%	6.8%	8.3%
Total pension assets	100.0%	100.0%	100.0%

At December 31, 2005 pension plan assets include Swisscom shares with a fair value of CHF 4.5 million (previous year: CHF 6.4 million).

Assumptions of actuarial calculations

The following weighted average assumptions were used in actuarial calculation:

	2005	2004
Discount rate at December 31	2.6%	3.15%
Rate of increase in future compensation levels	2.3%	2.3%
Expected long-term rate of return on plan assets	3.9%	4.5%
Rate of increase in future pension contribution	0.5%	0.5%

12 Other operating expenses

CHF in millions	2005	2004
Rent	214	230
Maintenance	208	225
Loss on disposal of fixed assets	22	27
Energy costs	73	60
Information technology cost	161	172
Advertising and promotion	174	179
Commissions	235	225
Contractors and consultancy expenses	258	233
General and administration	174	186
Miscellaneous operating expenses	298	286
Total other operating expenses	1 817	1 823

Notes to the consolidated financial statements

13 Net financial result

CHF in millions	2005	2004
Financial income		
Interest income	135	119
Dividends	8	4
Gain on disposal of financial assets	16	10
Present value adjustment on accrued liabilities	25	–
Impairment reversal on loans	14	–
Reversal of provision for cross-border tax lease arrangements	24	–
Foreign exchange gain	20	5
Total financial income	242	138
Financial expense		
Interest expense	(141)	(140)
Present value adjustment on accrued liabilities	(10)	(24)
Impairment of available-for-sale investments	(5)	(36)
Impairment charge on loans	–	(11)
Creation of provision for cross-border tax lease arrangements	–	(34)
Other financial expenses	(4)	(27)
Total financial expense	(160)	(272)
Net financial result	82	(134)

Swisscom records a provision for the dismantlement of analog transmitter stations, which is based on the present value of future estimated costs. In 2005, Swisscom adjusted the costs and remaining useful life following a strategic revaluation of the analog transmitter stations, which resulted in an impact of CHF 25 million to the income statement and was recorded as financial income. See Note 26.

The impairment charge of CHF 5 million resulted from the write off of the outstanding stake in Swiss International Airlines Ltd. An impairment charge of CHF 32 million was recorded in 2004 on the investment in Infonet Services Corp. and CHF 4 million on current other available-for-sale investments. See Note 30.

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

Net interest expense was as follows

CHF in millions	2005	2004
Interest income	135	119
Interest expense	(141)	(140)
Net interest expense	(6)	(21)

14 Income tax expense

CHF in millions	2005	2004
Current income tax expense	429	471
Adjustments of current tax expense of previous years	(4)	(10)
Deferred income tax expense	110	(69)
Total income tax expense	535	392

Income tax expense on income before income taxes calculated on the basis of the weighted-average statutory tax rate is reconciled to the reported income tax expense as follows:

CHF in millions	2005	2004
Income before income taxes	2 872	2 583
Weighted-average statutory tax rate	22.3%	22.3%
Income tax expense at the weighted-average statutory tax rate	640	576
Increase (decrease) in income taxes resulting from		
Effect from equity in income of affiliated companies	(7)	(6)
Effect of capitalization of deferred tax assets not recorded in prior years	(6)	(113)
Effect on deferred taxes due to change in tax rate	(2)	(22)
Effect of use of different income tax rates	(72)	(42)
Effect of tax losses not previously recognized	(6)	–
Effect of income tax of other periods	(4)	(10)
Amortization of goodwill	–	11
Income of subsidiaries not taxable	(8)	(2)
Total income tax expense	535	392

The weighted-average statutory tax rate includes federal, cantonal and local taxes. Taxable income in Switzerland is allocated among the cantons, and each canton has a different tax rate. In 2005 weighted-average statutory tax rate, calculated on the basis of the operative companies in Switzerland was 22.3% as in the previous year.

Deferred income tax assets relating to tax loss carry-forwards are recognized if it is probable that they can be offset against future taxable profits or other temporary differences. Deferred tax assets of CHF 6 million were recognized in 2005 (previous year CHF 113 million).

Notes to the consolidated financial statements

The tax loss carry-forwards are as follows:

CHF in millions	31.12.2005	31.12.2004
Expiration in 2006	3	–
Expiration in 2007	10	52
Expiration in 2008	45	81
Expiration in 2009	44	148
Expiration in 2010	71	132
Expiration after 2010	186	145
Total tax loss carry-forwards	359	558
There of capitalized	(118)	(343)
Total non-capitalized tax loss carry-forwards	241	215

The tax effects of temporary differences that give rise to deferred tax assets and liabilities were as follows:

CHF in millions	31.12.2005	31.12.2004
Deferred tax assets		
Accrued pension cost	98	129
Tax losses	25	76
Other assets and liabilities	28	34
Total deferred tax assets	151	239
Deferred tax liabilities		
Property, plant and equipment	(281)	(266)
Intangible assets	(58)	(35)
Accrued liabilities	(2)	(18)
Other long-term liabilities	(54)	(62)
Other assets and liabilities	(33)	(4)
Total deferred tax liabilities	(428)	(385)
Net deferred tax liabilities	(277)	(146)

The movement in deferred tax assets and liabilities (prior to offsetting) is as follows:

CHF in millions	Intangible assets	Accrued pension cost	Tax losses	Other	Total
Deferred tax assets					
Balance at December 31, 2003	164	118	2	25	309
Credited (charged) to income statement	(164)	11	74	10	(69)
Acquisition of subsidiaries	–	–	–	2	2
Credited to equity	–	–	–	(3)	(3)
Balance at December 31, 2004	–	129	76	34	239
Charged to income statement	–	(31)	(51)	(5)	(87)
Credited to equity	–	–	–	(1)	(1)
Balance at December 31, 2005	–	98	25	28	151

CHF in millions	Property, plant and equipment	Accrued liabilities	Other long-term liabilities	Other	Total
Deferred tax liabilities					
Balance at December 31, 2003	398	36	64	22	520
Charged (credited) to income statement	(132)	(18)	(2)	14	(138)
Acquisition of subsidiaries	–	–	–	1	1
Charged to equity	–	–	–	2	2
Balance at December 31, 2004	266	18	62	39	385
Charged (credited) to income statement	2	(16)	(8)	45	23
Acquisition of subsidiaries	13	–	–	7	20
Balance at December 31, 2005	281	2	54	91	428

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

CHF in millions	31.12.2005	31.12.2004
Deferred tax assets	84	88
Deferred tax liabilities	(361)	(234)

Notes to the consolidated financial statements

15 Earnings per share

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

	2005	2004
Net income attributable to equity holders of Swisscom AG (CHF in millions)	2 022	1 596
Weighted-average number of ordinary shares issued	59 835 529	64 715 609
Basic earnings per share (in CHF)	33.79	24.66

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

16 Cash and cash equivalents

CHF in millions	31.12.2005	31.12.2004
Cash deposits	651	875
Term deposits with maturity within 90 days	372	1 512
Total cash and cash equivalents	1 023	2 387

In 2005 the weighted-average effective interest rate on short-term deposits was 0.67% (previous year: 0.29%). The average maturity for these deposits was 34 days (previous year: 27 days).

Cash and cash equivalents at December 31, 2005 include the following currencies: CHF 1,182 million (previous year CHF 2,029 million), Euro CHF 56 million (previous year CHF 114 million), US Dollar CHF 7 million (previous year CHF 16 million) and other currencies CHF 2 million (previous year CHF 3 million).

17 Financial assets

CHF in millions	Loans and receivables	Held-to-maturity investments	Available-for-sale investments	Derivative financial instruments	Total
Balance at December 31, 2003	142	1 011	389	46	1 588
Additions	905	141	168	–	1 214
Disposals	(132)	(1)	(25)	–	(158)
Revaluation surplus in equity. See Note 30.	–	–	40	2	42
Revaluation deficit included in income statement	(11)	–	–	(31)	(42)
Translation adjustments	2	(86)	–	–	(84)
Balance at December 31, 2004	906	1 065	572	17	2 560
Additions	1 133	110	68	8	1 319
Disposals	(793)	(200)	(250)	(16)	(1 259)
Revaluation surplus in equity. See Note 30.	–	–	58	5	63
Revaluation surplus in income statement	14	–	–	–	14
Translation adjustments	–	150	–	–	150
Balance at December 31, 2005	1 260	1 125	448	14	2 847
Less current portion	(1 222)	–	(448)	(14)	(1 684)
Total non-current financial assets	38	1 125	–	–	1 163

Financial assets at December 31, 2005 include the following currencies: CHF 1,440 million (previous year CHF 892 million), Euro CHF 140 million (previous year 381 million), US Dollar CHF 1,226 million (previous year CHF 1,256 million), UK pounds CHF 35 million (previous year CHF 26 million) and other currencies CHF 6 million (previous year CHF 3 million).

Loans and receivables

CHF in millions	31.12.2005	31.12.2004
Term deposits with maturity after 90 days	1 223	593
Loans to purchasers of debitel	–	275
Loans to affiliated companies	–	6
Other loans and receivables	37	32
Total loans and receivables	1 260	906

In order to secure liabilities in connection with cross-border tax lease arrangements fixed term assets totaling CHF 129 million could not be freely disposed of on December 31, 2005.

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

Financial assets held-to-maturity

CHF in millions	31.12.2005	31.12.2004
Financial assets from cross-border tax lease arrangements	1 125	952
Other financial assets	–	113
Total financial assets held-to-maturity	1 125	1 065

Financial assets held-to-maturity include solely financial assets from cross-border tax lease arrangements.

Financial assets available-for-sale

CHF in millions	31.12.2005	31.12.2004
Shares	269	200
Bonds	89	65
Other investments	90	307
Total financial assets available-for-sale investments	448	572

In 2005 the investments in Infonet und Intelsat were sold for CHF 229 million. A gain of CHF 16 million was made on the disposals and was recorded in financial income. In 2004 the gain on the sale of investments totaled CHF 10 million.

The impairment charge of CHF 5 million in 2005 resulted from the write off of the outstanding stake in Swiss International Airlines Ltd. An impairment charge of CHF 32 million was recorded in 2004 on the investment in Infonet Services Corp. and CHF 4 million on other available-for-sale investments.

Notes to the consolidated financial statements

Derivative financial instruments

CHF in millions	31.12.2005	31.12.2004
Derivatives related to cross-border tax lease arrangements	12	15
Other derivative financial instruments	2	2
Total derivative financial instruments	14	17

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

18 Trade accounts receivable

CHF in millions	31.12.2005	31.12.2004
Trade accounts receivable, gross	1 852	1 935
Allowance for bad debts	(158)	(168)
Total trade accounts receivable, net	1 694	1 767

19 Inventories

CHF in millions	31.12.2005	31.12.2004
Raw material and supplies	72	54
Customer premises equipment for resale	87	97
Work in progress	23	16
Total inventories, gross	182	167
Allowance for obsolete and slow-moving items	(53)	(47)
Total inventories, net	129	120

Goods and services purchased includes a net increase in the provision for obsolete and slow moving items of CHF 6 million in 2005 (in previous year a net release of the provision of CHF 13 million). In 2005, inventory totaling CHF 594 million (previous year CHF 547 million) was recorded as expense.

20 Other current assets

CHF in millions	31.12.2005	31.12.2004
Other receivables and accrued income	318	235
Other receivables from collection activities (Accarda Group)	390	409
Interest receivable	1	2
Total other current assets	709	646

21 Non-current assets held for sale

Non-current assets held for sale includes the carrying amount of a real estate of CHF 5 million which will probably be sold in the first half-year of 2006. The scheduled sale is part of Swisscom Immobilien AG's plan to optimize use of buildings.

22 Property, plant and equipment

CHF in millions	Land and buildings	Technical equipment	Vehicles and other equipment	Assets under construction	Total
At cost					
Balance at December 31, 2003	2 928	20 383	2 289	286	25 886
Additions	8	570	150	305	1 033
Disposals	(60)	(1 557)	(138)	–	(1 755)
Reclassifications	3	327	(109)	(229)	(8)
Acquisition of subsidiaries	–	1	–	–	1
Translation adjustments	–	(2)	–	–	(2)
Balance at December 31, 2004	2 879	19 722	2 192	362	25 155
Additions	11	385	167	334	897
Adjustment of dismantlement and restoration costs	–	27	–	–	27
Disposals	(20)	(834)	(162)	–	(1 016)
Reclassifications	1	182	136	(333)	(14)
Acquisition of subsidiaries	73	117	20	27	237
Reclassification as non-current assets held for sale	(27)	–	–	–	(27)
Translation adjustments	1	6	1	–	8
Balance at December 31, 2005	2 918	19 605	2 354	390	25 267
Accumulated depreciation					
Balance at December 31, 2003	2 093	15 613	1 420	–	19 126
Depreciation	32	1 092	263	–	1 387
Impairment	–	155	–	–	155
Disposals	(46)	(1 534)	(122)	–	(1 702)
Reclassifications	–	99	(99)	–	–
Translation adjustments	–	(1)	–	–	(1)
Balance at December 31, 2004	2 079	15 424	1 462	–	18 965
Depreciation	36	1 026	224	–	1 286
Disposals	(15)	(805)	(140)	–	(960)
Reclassifications	1	–	(7)	–	(6)
Reclassification as non-current assets held for sale	(22)	–	–	–	(22)
Translation adjustments	–	3	1	–	4
Balance at December 31, 2005	2 079	15 648	1 540	–	19 267
Net book value					
At December 31, 2003	835	4 770	869	286	6 760
At December 31, 2004	800	4 298	730	362	6 190
At December 31, 2005	839	3 957	814	390	6 000

Notes to the consolidated financial statements

Property, plant and equipment includes:

CHF in millions	31.12.2005	31.12.2004
Technical equipment acquired under finance leases		
At cost	566	566
Accumulated depreciation	(506)	(453)
Net book value	60	113
Buildings relating to the sales leaseback		
At cost	957	957
Accumulated depreciation	(506)	(491)
Net book value	451	466

For further information on adjustments for costs of dismantlement and restoration see Note 26.

Impairment of fixed assets in the international carrier service business in 2004

As a result of increased competition in the international termination and transit business, which resulted in a decline of prices and margins, Swisscom reassessed its strategy in this business area. Swisscom entered into discussions with Belgacom in 2004 and, in February 2005, signed an agreement with them whereby both Fixnet and Belgacom agreed to transfer their international wholesale businesses into a newly formed company with effect from July 1, 2005. Fixnet has a minority stake in this new company. As a result of the planned transfer, this business was redefined as an independent cash generating unit in 2004. Swisscom recorded an impairment charge of CHF 155 million relating to the assets of the business, which are primarily long-term utilization rights to sea cables. This impairment charge, which was recorded in the Fixnet segment, represents the difference between the carrying value of the assets of CHF 190 million and the value in use of CHF 35 million. The value in use amount represents the forecasted cash flows discounted at 10.9% and approximated the value at which the assets were to be transferred into the new Company.

23 Goodwill and other intangible assets

CHF in millions	Goodwill	Internally generated software	Other intangible assets from acquisitions	Other intangible assets	Total
At cost					
Balance at December 31, 2003	225	226	2	272	725
Additions	55	27	–	76	158
Disposals	–	(1)	–	(20)	(21)
Reclassifications	–	5	–	3	8
Acquisition of subsidiaries	–	–	11	–	11
Balance at December 31, 2004	280	257	13	331	881
Set off against accumulated amortization	(127)	–	–	–	(127)
Additions	–	17	–	173	190
Disposals	–	(10)	–	(6)	(16)
Reclassifications	–	10	–	4	14
Acquisition of subsidiaries	160	–	57	–	217
Translation adjustments	2	–	–	1	3
Balance at December 31, 2005	315	274	70	503	1 162
Accumulated amortization					
Balance at December 31, 2003	78	156	1	88	323
Amortization	49	44	1	57	151
Disposals	–	(1)	–	(8)	(9)
Reclassifications	–	1	–	(1)	–
Balance at December 31, 2004	127	200	2	136	465
Set off against cost	(127)	–	–	–	(127)
Amortization	–	38	4	66	108
Disposals	–	(8)	–	(4)	(12)
Reclassifications	–	–	–	6	6
Translation adjustments	–	–	–	–	–
Balance at December 31, 2005	–	230	6	204	440
Net book value					
At December 31, 2003	147	70	1	184	402
At December 31, 2004	153	57	11	195	416
At December 31, 2005	315	44	64	299	722

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

Pursuant to the introduction of IFRS 3 „Business Combinations“ starting 2005, goodwill is no longer subject to amortization, but is tested for impairment annually.

Impairment test of goodwill

Substantial goodwill amounts are allocated to the cash generating units below. Apart from goodwill no intangible assets with an unlimited useful life are recognized in the balance sheet.

Notes to the consolidated financial statements

Allocation of goodwill to the cash generating units as follows:

CHF in millions	31.12.2005	31.12.2004
Antenna Hungária	138	–
Swisscom IT Services	96	96
Other cash generating units	81	57
Total goodwill	315	153

The value of goodwill was tested in the fourth quarter after business planning had been completed. In 2005 and 2004 no impairments were recorded or reversed. The valuation methods and significant assumptions for the impairment test of Antenna Hungária and Swisscom IT Services, which account for a major portion of goodwill, are presented below:

Antenna Hungária

The recoverable amount of the cash-generating unit was calculated on the basis of value in use using the discounted cashflow (DCF) method. Future cashflows were forecasted in line with the five-year business plan approved by the Board of Directors. The discount rate on the scheduled weighted average cost of capital (WACC post-tax) after tax totals 8.6%. WACC pre-tax was 9.75%. The terminal value was calculated using a long-term growth rate of 1.5%. Swisscom considers the business plan and long-term growth rates to be plausible in view of the launch of terrestrial digital television broadcasting and the current level of inflation in Hungary. The net carrying value of the cash generating unit approximated the value in use.

Swisscom IT Services

The recoverable amount of the cash-generating unit was calculated on the basis of value in use using the discounted cashflow (DCF) method. Future cashflows were forecasted in line with the three-year business plan approved by the Board of Directors. The discount rate on the scheduled weighted average cost of capital (WACC post-tax) after tax totals 7.0%. WACC pre-tax was 8.7%. The terminal value was calculated using a long-term growth rate of 1.0%. The growth rates applied in order to calculate cashflows beyond the business plan are the growth rates normally assumed for the country or market. Even if the key assumptions, discount rate or long-term growth rates were to change significantly, the value in use still exceeded the net carrying value of the cash generating unit.

24 Investments in affiliated companies

CHF in millions	2005	2004
Net carrying value		
Balance at January 1	58	41
Additions	137	–
Disposals	(8)	–
Dividends received	(9)	(5)
Equity in net result of operations	13	22
Balance at December 31	191	58

Additions and equity in net income of affiliated companies

Transfer of international carrier business

On February 23, 2005 Belgacom and Swisscom signed an agreement to form an affiliated company in which Belgacom holds 72% and Swisscom 28%. On July 1, 2005 Fixnet brought its international carrier business, valued at CHF 36 million, into the newly found company in return for the 28% of the share capital. Swisscom Fixnet still recorded revenue from international incoming traffic after this transfer took place since not all contracts could be transferred to the joint venture by July 2005. The transfer of the remaining contracts is scheduled for 2007. A gain of CHF 4 million was made on the transaction and recorded in financial income.

Acquisition of a 49% stake in Cinetrade

On April 8 2005, Swisscom acquired a 49% stake in CT Cinetrade AG, a Swiss media company whose activities include a Pay TV channel, video and DVD film rights and cinema management. Parallel to this acquisition Swisscom entered into an agreement with the seller allowing both parties to obtain or give up control of the company, dependent of decisions by the Regulator.

In addition to the above, equity in net result of affiliated companies comprises Swisscom's share of net income from PubliDirect and AUCS.

Dividends received

Dividends received totaled CHF 9 million (previous year: CHF 5 million) and are attributable mainly to the dividend paid by PubliDirect.

Selected aggregated key data

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

CHF in millions	2005	2004
Income statement		
Net revenue	994	134
Operating expenses	(960)	(96)
Operating income	34	38
Net income	27	30
Balance sheet at end of year		
Current assets	758	152
Non-current assets	268	54
Current liabilities	(689)	(41)
Long-term liabilities	(48)	(34)
Equity	289	131

Notes to the consolidated financial statements

25 Financial liabilities

CHF in millions	31.12.2005	31.12.2004
Finance lease obligation	29	135
Short-term loans payable to affiliated companies	–	6
Derivative financial instruments	142	232
Other short-term financial liabilities	2	–
Total short-term financial liabilities	173	373
Financial liability from cross-border tax lease arrangements	1 474	1 262
Finance lease obligation	652	679
Other long-term financial liabilities	4	–
Total long-term financial liabilities	2 130	1 941
Total financial liabilities	2 303	2 314

Financial liabilities at December 31, 2005 include the following currencies: CHF 624 million (previous year 720 million), US Dollar CHF 1,673 million (previous year CHF 1,594 million) and other currencies CHF 6 million (previous year CHF 0 million).

Weighted average interest rates of financial liabilities

	2005	2004
Short-term bank credit (Accarda Group)	–	1.08%
Short-term loans payable to affiliated companies	–	1.29%
Finance lease obligation	6.44%	6.29%
Financial liability from cross-border tax lease arrangements	7.69%	7.36%

Financial liabilities from cross-border tax lease arrangements

Between 1996 and 2002, Swisscom entered into cross-border tax lease arrangements under the terms of which parts of its fixed and mobile networks were to be sold or leased long-term to US Trusts and leased back with terms of up to 30 years. Swisscom has an early buyout option on these assets after a contractually agreed period.

The financial liabilities are based on Lease and Leaseback transactions from the years 1999, 2000 and 2002. The finance lease obligation from the year 1996 was repaid in 2005. The Sale and Leaseback transactions concluded in the year 1997 are presented as finance lease obligation.

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

As of December 31, 2005 the assets and liabilities resulting from these transactions totaled USD 3,996 million (CHF 5,258 million) and USD 3,732 million (CHF 4,908 million) respectively. Of this amount USD 2,878 million (CHF 3,785 million) are not reported in the balance sheet in accordance with SIC-27. Of the liabilities reported in the amount of CHF 1,474 million (previous year: CHF 1,262 million), CHF 1,125 million (previous year: CHF 952 million) are covered by financial assets.

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

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

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

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

CHF in millions	31.12.2005	31.12.2004
Within one year	77	73
Within 1–2 years	261	63
Within 2–3 years	124	222
Within 3–4 years	19	104
Within 4–5 years	138	16
After 5 years	3 247	2 847
Total future payment commitments	3 866	3 325
Less future interest charges	(2 396)	(2 068)
Total financial liability from cross-border tax lease arrangements	1 470	1 257
Fair value adjustments	4	5
Long-term financial liability from cross-border tax lease arrangements	1 474	1 262

Notes to the consolidated financial statements

Liabilities from finance leases

The sale and leaseback transactions are reported in the balance sheet as liabilities from finance leases. The maturity dates of liabilities relating to these are included in the table below.

In 2001, Swisscom entered into two agreements for the sale of real estate and at the same time entered into long term agreements to lease back part of the sold property space. A number of the leaseback agreements qualify as finance leases. The gain of CHF 127 million on the sale of these properties has been deferred and will be released to the income statement in other income over the individual lease terms. The liability relating to these finance leases is included in the table below. The remaining buildings have been leased back under operating leases over periods ranging from 5 to 20 years. In 2005 contingent rental payments of CHF 1 million (previous year: CHF 1 million) were recorded as rental expense.

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

CHF in millions	31.12.2005	31.12.2004
Within one year	70	210
Within 1–2 years	87	81
Within 2–3 years	170	95
Within 3–4 years	37	167
Within 4–5 years	37	52
After 5 years	1 361	1 812
Total future payment commitments	1 762	2 417
Less future interest charges	(1 087)	(1 631)
Total finance lease obligation (according to contract)	675	786
Fair value adjustments	1	7
Accrued interest	5	21
Total finance lease obligation	681	814
Less current portion	(29)	(135)
Long-term finance lease obligation	652	679

The present value of finance lease liabilities is as follows:

CHF in millions	31.12.2005	31.12.2004
Within one year	29	137
Within 1–2 years	47	29
Within 2–3 years	135	43
Within 3–4 years	6	119
Within 4–5 years	7	8
After 5 years	451	450
Total finance lease obligation (according to contract)	675	786

26 Accrued liabilities

CHF in millions	Termination benefits	Dismantlement and restora- tion costs	Environ- mental	Contract risks	Other	Total
Balance at December 31, 2003	117	314	33	16	252	732
Additional provisions	45	6	–	53	135	239
Present value adjustment	1	22	1	–	–	24
Reversal of unused provisions	(4)	(5)	(1)	(2)	(34)	(46)
Utilized during year	(69)	–	(4)	(11)	(19)	(103)
Acquisition of subsidiaries	–	–	–	–	3	3
Translation adjustments	–	–	–	–	(1)	(1)
Balance at December 31, 2004	90	337	29	56	336	848
Additional provisions	50	18	2	102	125	297
Present value adjustment	–	10	–	–	–	10
Reversal of unused provisions	(15)	(4)	(5)	(26)	(34)	(84)
Utilized during year	(52)	(1)	–	(22)	(32)	(107)
Acquisition of subsidiaries	–	–	–	–	4	4
Balance at December 31, 2005	73	360	26	110	399	968
Less current portion	(57)	(2)	–	(91)	(238)	(388)
Total non-current accrued liabilities	16	358	26	19	161	580

For further information on termination benefits see Note 9.

Other provisions comprise provisions recorded for possible liabilities from current inter-connection proceedings that are not presented separately because this information could seriously impair Swisscom's position in the current proceedings See Note 34.

Provisions for dismantlement and restoration costs

Provisions for dismantlement and restoration costs relate to the dismantlement of mobile stations and analog transmitter stations and restoration of property owned by third parties on which the transmitters are located. In 2005, Swisscom adjusted primarily the costs of dismantlement and remaining useful lives following a strategic revaluation of the analog transmitter stations. The dismantlement costs are now expected to be incurred mainly after 2020. The present value of the adjustment to the future expected costs was CHF 77 million. The extension of the useful lives resulted in a reduction in the present value of CHF 75 million, of which CHF 50 million was recorded against the corresponding assets and CHF 25 million under financial income. The provision is based on future estimated costs and is discounted using a discount rate of 2.34% (previous year: 2.5%). The amount of the present value adjustment arising from the change in the discount rate was CHF 1 million (previous year: CHF 12 million).

Notes to the consolidated financial statements

27 Other current liabilities

CHF in millions	31.12.2005	31.12.2004
Interest payable	1	1
VAT payable	107	122
Deferred purchase price from acquisitions	104	7
Social-security payable	11	18
Accrual for overtime and unused vacation	78	67
Accrued expense and other current liabilities	612	539
Withholding tax from share buy-back. See Note 32.	136	119
Liabilities from collecting activities (Accarda Group)	154	201
Revenue received in advance	275	173
Total other current liabilities	1 478	1 247

28 Other long-term liabilities

CHF in millions	31.12.2005	31.12.2004
Revenue received in advance	15	13
Deposits received from customers	25	31
Deferred gain on sale and leaseback of real estate	117	119
Other long-term liabilities	17	2
Total other long-term liabilities	174	165

The amortization of the deferred gain on sale and leaseback transactions (buildings) is recorded under other income. See Note 7.

29 Vodafone's conditional right to sell its shares in Swisscom Mobile

In 2001, Swisscom sold 25% of the shares of Swisscom Mobile AG to Vodafone for CHF 4.5 billion. At the time of the disposal, Swisscom entered into a shareholder's agreement with Vodafone for an unlimited period of time. In accordance with the shareholders' agreement, Vodafone has a right to sell its shares in Swisscom Mobile to Swisscom if the Government sells its controlling shareholding in Swisscom and another party or a group of parties were to obtain control of Swisscom. Control is defined as the power to have a controlling influence on the company.

The shareholders' agreement outlines the price to be paid by Swisscom shall be the proportional fair market value of Swisscom Mobile at the time the sale is agreed.

The Telecommunication Enterprises Act (TUG) stipulates the Government of Switzerland („the Government“) is required to control Swisscom by holding the majority of its capital and voting rights. A change of control of Swisscom is currently not allowed by law and therefore Vodafone's right to sell its shares in Swisscom Mobile cannot be exercised. Accordingly, Swisscom has not recorded a liability based on the guidance in IFRIC 2. Under this guidance the minority interest relating to Vodafone has been classified under equity.

In November 2005, the Government announced that it was going to investigate the possibility of selling its majority shareholding in Swisscom. The Swiss Federal Council published a consultation document containing a proposal for a change of law. To change the law, the proposal must first be passed by parliament and in the case of a public referendum would need to be approved by the people of Switzerland. If the law is changed, it is possible that the Government would dispose of its majority of shares in Swisscom and that at a later date a new shareholder or group of shareholders would obtain control of Swisscom. If there is such a change in the law, the conditional right of sale of Vodafone would have to be recorded at fair value as a financial liability in accordance with IFRIC 2 and IAS 32.

30 Equity

Equity attributable to equity holders of Swisscom AG:						
CHF in millions	Share capital	Capital reserves	Retained earnings	Treasury stock	Other reserves	
Balance at December 31, 2003	66	572	7 296	(1)	(264)	7 669
Effect of changes in IAS 17	–	–	107	–	–	107
Balance at January 1, 2004	66	572	7 403	(1)	(264)	7 776
Gains and losses directly recognized in equity, net	–	–	–	–	280	280
Net income	–	–	1 596	–	–	1 596
Total income and expenses for the year	–	–	1 596	–	280	1 876
Dividends paid	–	–	(861)	–	–	(861)
Share buy-back	–	–	–	(2 001)	–	(2 001)
Purchase of treasury stock	–	–	–	(42)	–	(42)
Sale of treasury stock	–	–	–	42	–	42
Balance at December 31, 2004	66	572	8 138	(2 002)	16	6 790
Gains and losses directly recognized in equity, net	–	–	–	–	51	51
Net income	–	–	2 022	–	–	2 022
Total income and expenses for the year	–	–	2 022	–	51	2 073
Dividends paid	–	–	(861)	–	–	(861)
Capital reduction	(5)	(180)	(1 816)	2 001	–	–
Share buy-back	–	–	–	(2 001)	–	(2 001)
Purchase of treasury stock	–	–	–	(46)	–	(46)
Sale of treasury stock	–	–	–	46	–	46
Balance at December 31, 2005	61	392	7 483	(2 002)	67	6 001

Share capital and treasury stock

Shares outstanding at December 31, 2005 totaled 61,482,761 (previous year 66,203,261 shares). Each share has a par value of CHF 1. All issued shares are fully paid. Each share entitles the holder to one vote. After deduction of treasury stock, shares outstanding at December 31, 2005 totaled 56,716,475 (previous year 61,480,334 shares):

Notes to the consolidated financial statements

The average and transaction price for treasury stock was:

	Number	Average price in CHF	CHF in millions
Balance at December 31, 2003	2 272	435	1
Purchase	99 519	423	42
Sale of treasury stock in share purchase schemes. See Note 10.	(99 364)	423	(42)
Share buy-back	4 720 500	424	2 001
Balance at December 31, 2004	4 722 927	424	2 002
Purchase	102 760	447	46
Sale	(476)	421	–
Sale of treasury stock in share purchase schemes. See Note 10.	(102 625)	447	(46)
Capital reduction	(4 720 500)	424	(2 001)
Share buy-back	4 764 200	420	2 001
Balance at December 31, 2005	4 766 286	420	2 002

Other reserves

The changes in other reserves are as follows:

CHF in millions	Hedging reserves	Fair value reserves	Cumulative translation adjustments	Other reserves Total
Balance at December 31, 2003	(14)	(25)	(225)	(264)
Translation adjustments	–	–	(21)	(21)
Write-off of translation loss from sale of debitel	–	–	238	238
Fair value adjustments of available-for-sale investments	–	40	–	40
Impairment of investment in Infonet Services Corp.	–	32	–	32
Gain on sale of investment in Eutelsat	–	(9)	–	(9)
Impairment of current available-for-sale investments	–	4	–	4
Fair value adjustments of derivative financial instruments	2	–	–	2
Tax effect	(2)	(4)	–	(6)
Balance at December 31, 2004	(14)	38	(8)	16
Translation adjustments	–	–	8	8
Write-off of translation losses from transfer of International carrier business	–	–	6	6
Fair value adjustments of available-for-sale investments	–	58	–	58
Gain on sale of investment in Intelsat	–	(16)	–	(16)
Impairment of investment in Swiss	–	5	–	5
Write-off of fair value adjustments of investment in Swiss	–	(16)	–	(16)
Fair value adjustments of derivative financial instruments	5	–	–	5
Tax effect	(1)	2	–	1
Balance at December 31, 2005	(10)	71	6	67

Minority interests

CHF in millions	2005	2004
Balance at January 1	663	731
Net income	324	352
Acquisition of subsidiaries. See Note 5.	3	–
Acquisition of minority interest	–	(60)
Dividends paid	(367)	(360)
Balance at December 31	623	663

Dividends paid include amounts paid by Swisscom Mobile AG to Vodafone of CHF 358 million (previous year CHF 355 million).

Acquisition of minority interests in Swisscom IT Services AG

On December 23, 2004, Swisscom acquired all shares in AGI Holding AG. AGI Holding AG held 28.9% of shares in Swisscom IT Services AG. As a result of the transaction Swisscom holds 100% of shares in Swisscom IT Services AG. The purchase price of CHF 115 million was offset against the minority interests on the date of the acquisition of CHF 60 million. Goodwill of CHF 55 million was recorded on the transaction.

31 Derivative financial instruments

CHF in millions	Contract value		Positive fair value		Negative fair value	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Foreign exchange derivatives						
Forward exchange contracts in USD	175	162	6	–	–	(4)
Forward exchange contracts in EUR	374	23	1	2	–	(2)
Forward exchange contracts in HUF	65	–	–	–	–	–
Forward exchange swaps in EUR	–	16	–	–	–	–
Forward exchange swaps in HUF	97	–	–	–	–	–
Cross currency interest rate swaps in USD •	461	479	–	–	(132)	(213)
Total foreign exchange derivatives	1 172	680	7	2	(132)	(219)
Interest rate derivatives						
Interest rate swaps in USD	115	175	7	15	–	–
Cross currency interest rate swaps in USD •	195	254	–	–	(10)	(13)
Total interest rate derivatives	310	429	7	15	(10)	(13)
Total derivative financial instruments	1 482	1 109	14	17	(142)	(232)

• Separated in foreign exchange and interest rate components.

Notes to the consolidated financial statements

At December 31, 2005, derivative financial instruments consist primarily of cross-currency interest rate swaps, interest rate swaps and foreign exchange forwards to hedge interest rate risks and foreign exchange risks with respect to USD relating to the cross-border lease arrangements entered into in 1997, 2000 and 2002. The future interest payments relating to the arrangements from 1997 and 2002 were recorded as hedges. The hedging instruments had a negative fair value of CHF 31 million at December 31, 2005 (previous year CHF 78 million) and a positive fair value of CHF 5 million at December 31, 2005 (previous year CHF 0 million). For the designated cash flow hedges, CHF 14 million pre-tax (previous year CHF 19 million) was recorded in the hedging reserve within consolidated equity. The maximum length of time hedged is three years for cross-border lease arrangements entered into in 1997, 23 years for arrangements entered into in 2000 and eight years for arrangements entered into in 2002.

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

Foreign exchange hedges in HUF, relating to the acquisition of the remaining shares of Antenna Hungária (see Note 5), were designated as a cash flow hedges. The positive fair value of these hedges of CHF 0.4 million was recorded in the hedging reserve within consolidated equity.

Fair value of financial instruments

The following table presents the carrying amounts and fair values of financial instruments. The carrying amounts in the table are included in the balance sheet under the indicated captions. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidated sale. The difference between the carrying amount and the fair value results from interest rate movements.

CHF in millions	Carrying value 31.12.2005	Fair value 31.12.2005	Carrying value 31.12.2004	Fair value 31.12.2004
Financial assets				
Cash and cash equivalents	1 023	1 023	2 387	2 387
Current financial assets	1 684	1 684	1 285	1 285
Trade accounts receivable	1 694	1 694	1 767	1 767
Other current assets	709	709	646	646
Non-current financial assets	1 163	1 595	1 275	1 640
Financial liabilities				
Short-term financial liabilities	173	173	373	373
Trade accounts payable	467	467	511	511
Long-term financial liabilities	2 130	3 030	1 941	2 353

Estimation of fair values

Trade accounts receivable, trade accounts payable, other current assets

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

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

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

Finance lease obligations

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

Financial liabilities

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

32 Cash generated from operations and significant non-cash investing and financing transactions

CHF in millions	Note	2005	2004
Net income		2 346	1 948
Adjustments for			
Discontinued operation (debitel)	37	(9)	243
Equity in net income of affiliated companies	24	(13)	(22)
Income tax expense	14	535	392
Depreciation	22	1 286	1 542
Amortization	23	108	151
Expenditure for stock based compensation	10	16	14
(Gain) loss on disposal of fixed assets, net	7,12	(16)	18
Financial income	13	(242)	(138)
Financial expense	13	160	272
		4 171	4 420
Change in operating assets and liabilities, net of effects of acquisitions and disposals of subsidiaries			
Decrease in trade accounts receivable		89	64
Increase in inventories		–	(27)
Increase in other current assets		(46)	(21)
Decrease in trade accounts payable		(59)	(95)
Increase in other current and accrued liabilities		148	7
Increase (decrease) in other long-term liabilities		7	(12)
(Decrease) increase in accrued pension cost	11	(313)	5
Cash generated from operations		3 997	4 341

Significant non-cash investing and financing transactions

Share buy-back

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

Transfer of international carrier business

On February 23, 2005 Belgacom and Swisscom signed an agreement to form an affiliated company in which Belgacom holds 72% and Swisscom 28%. On July 1, 2005 Fixnet brought its international carrier business, valued at CHF 36 million, into the affiliated company in return for 28% of the share capital.

Notes to the consolidated financial statements

Acquisition of Antenna Hungária

On October 25, 2005, Swisscom acquired 75% (plus 1 share) of the share capital of Antenna Hungária for CHF 293 million. On November 11, 2005, Swisscom tendered an offer to Antenna Hungária's public shareholders for the same price per share. The remaining 25% of the shares will be acquired at the beginning of 2006. As Swisscom had a statutory obligation to make a public takeover bid, in accordance with IAS 32 „Financial Instruments: Presentation and Disclosure“, the purchase price of CHF 104 million for the outstanding shares was recorded as a liability in 2005. Goodwill was recorded on the acquisition as if Swisscom had acquired 100% of the shares in 2005. See Note 5.

Sale of debitel in 2004

In connection with the sale of debitel Swisscom granted the buyer for a portion of the purchase price two vendor loan notes with a total nominal value of EUR 210 million. The vendor loan notes were initially recorded at fair value of CHF 254 million under non-current financial assets. At December 31, 2004, the carrying amount of the loans had increased by CHF 21 million to CHF 275 million through application of the effective interest rate method. The loan was repaid before maturity in the first half of 2005. See Note 37.

33 Commitments

Contractual commitments for future capital expenditures

Contractual commitments for future capital expenditures at December 31, 2005 amounted to CHF 272 million (previous year: CHF 134 million), of which CHF 190 million will be due in 2006.

Operating leases

In 2005, payments amounted to CHF 118 million (previous year: CHF 110 million). Future minimum lease payments in respect of operating lease contracts fall due as follows (see Note 25):

CHF in millions	31.12.2005	31.12.2004
Within one year	81	104
Within 1–5 years	254	246
After 5 years	768	813
Total future payment commitments from operating leases	1 103	1 163

34 Contingencies

Proceedings relating to Interconnection

Swisscom provides interconnection to other telecommunications service providers in Switzerland. In 2000 two of these telecommunications service providers filed petitions with the Federal Communications Commission (ComCom) demanding that interconnection conditions be laid down by the court and cost-oriented prices be fixed. On November 6, 2003, ComCom issued decisions in both proceedings, requiring Swisscom to lower interconnection prices with retroactive effect for the years 2000 to 2003 by 25% to 35%. Swisscom lodged an appeal against the ComCom decision with the Federal Court. The two competitors also filed an appeal demanding reductions beyond those determined by ComCom, without specifying an amount.

In October 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 issue.

On June 10, 2005 ComCom confirmed its November 2003 decision, requiring Swisscom to retroactively reduce the interconnection prices for the years 2000 – 2003 by around 30% – depending on the product. ComCom required the petitioners to reduce their own prices on a reciprocal basis.

Swisscom lodged an appeal against this decision with the Federal Court. Swisscom applied for ComCom's rulings to be lifted and prices for the years 2000 – 2003 to be fixed by the Federal Court in accordance with the offer made by Swisscom at that time.

One petitioner also lodged an appeal against ComCom's ruling with the Federal Court and applied for the ruling to be lifted and the case to be returned to ComCom who should fix the prices on the basis of comparable and customary market values. The petitioner also applied for the obligation to offer reciprocal interconnection services at the same prices as Swisscom to be lifted. In a ruling of August 25, 2005 the Federal Court ruled that Swisscom's appeal suspends the effects of Comcom's ruling.

In 2004 the two petitioners and two further competitors submitted petitions for cost-oriented prices to be fixed for 2004. The two new petitioners referred to ComCom's ruling of November 6, 2003, and applied for a retroactive price reduction from the year 2000. One of the petitioners also filed a petition for 2005, in case the petition for 2004 doesn't cover the 2005 prices. All of these proceedings have currently been suspended.

Apart from the interconnection prices for 2000 to 2003, ComCom will also rule on individual contractual provisions, including the question of the effect of the decision made by the authorities for this case on Swisscom's other competitors. Swisscom may also lodge an appeal against these new rulings with the Federal Court.

Swisscom has recorded a provision representing management's best estimate since the lawsuits were filed. Swisscom assumes that a ruling will only effect the parties involved in the litigation for the periods under dispute and that it will not have any effect on third parties.

The disclosures required under IAS 37 „Provisions, Contingent Liabilities and Contingent Assets“ concerning the financial impact and uncertainties relating to the amount were not made as these would seriously impair Swisscom's position in the current proceedings.

Competition commission proceedings

The Competition Commission (WEKO) is currently bringing proceedings against a number of companies in the Swisscom Group which are described below. If it is proved that Swisscom has violated Antitrust Law, WEKO is entitled to impose monetary sanctions. This depends on the length and severity of the violation and may amount to up to 10% of the revenue generated by the company in question over the last three financial years in the markets in Switzerland concerned. Swisscom do not think it is likely that WEKO will be able to impose any direct sanctions and have therefore not recorded a provision in the consolidated financial statements.

Investigation into mobile telephone termination prices

On October 15, 2002 the Competition Commission („WEKO“) initiated proceedings against Swisscom Mobile AG in accordance with Antitrust Law in connection with mobile termination prices. In a draft injunction served to Swisscom Mobile AG in the second quarter of 2005, WEKO claims that Swisscom has a dominant position in the wholesale market for incoming calls terminating on its network. The injunction also claims that Swisscom Mobile demanded excessively high termination fees and therefore violated the Antitrust Law. If they are proved right, WEKO is entitled to impose monetary sanctions. The final provisions in the revised Antitrust Law enable companies to avoid direct sanctions if they notify WEKO of any circumstances that allegedly violate cartel law within a set period. Swisscom Mobile AG made such a report in connection with these proceedings within the deadline. However, WEKO disputes that this report releases Swisscom from sanctions, although the Appeals Commission for Competition Matters (REKO WEF) decided in favor of Swisscom Mobile AG. The Federal Department of Economic Affairs filed an appeal against this decision with the Federal Court. On August 19, 2005, the Federal Court approved the Federal Department's appeal, finding that restraints on competition that are already the subject of a pending investigation could not be appealed. According to this decision, the pending violation of Swisscom Mobile will not be automatically exempt from direct sanctions. During the pending proceedings WEKO must examine the arguments brought forward by Swisscom Mobile AG against the draft injunction in detail, giving appropriate consideration to the changed circumstances since the draft injunction was served (e.g. reduction in mobile termination prices by Swisscom Mobile AG on June 1, 2005). Sanctions may only be imposed if WEKO can dispute the arguments put forward by Swisscom Mobile AG. Even if WEKO rule against them, Swisscom may appeal to REKO WEF and in the final event to the Federal Court. Despite the decision of the Federal Court, Swisscom do not

think it is likely that WEKO will be able to impose any sanctions on Swisscom Mobile AG and have therefore not recorded a provision in the consolidated financial statements.

Investigation into the relationship between ADSL wholesale and retail prices

On October 20, 2005 WEKO launched an investigation into Swisscom in connection with alleged abuse of their dominant market position and enforcement of unreasonable prices for ADSL. Swisscom is said to have set such high prices for ADSL pre-services in favor of Internet service providers that no scope is left for an adequate profit margin in relation to the end-customer prices charged by Swisscom. Although Swisscom sees a good chance of a positive outcome of the investigation, it is still uncertain and they are currently unable to determine the financial impact of a negative decision by WEKO.

Preliminary inquiry into SMS termination prices

On February 3, 2004 WEKO initiated an inquiry at Swisscom Mobile AG in order to assess whether the termination prices for SMS messages sent via large accounts introduced on January 1, 2004 restrict competition in accordance with the Antitrust Law. As the outcome of this inquiry is partially dependent on the outcome of the investigation into mobile termination prices detailed above, the WEKO administration has suspended the proceedings. The potential financial impact cannot currently be estimated since WEKO has not announced the prices they would consider reasonable and there are no comparable cases.

Investigation into telephony services for large customers

On February 16, 2004 WEKO opened an investigation to determine whether Swisscom has engaged in any anti-competitive behavior when fixing prices for telephony services for its large customers. On January 3, 2006 Swisscom requested that the investigation be closed. Swisscom requests that this proceeding be more clearly separated from the investigation of the mobile termination prices and that this investigation should be wholly or partially dropped. In addition an investigation should be launched against the two other mobile phone operators, to determine whether they engage in predatory pricing or price squeezing, especially in relation to fixed-to-mobile calls. Swisscom is currently unable to estimate the outcome and potential financial impact of this proceeding.

Investigation into the services package „Talk & Surf“

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

35 Research and development

The research and development costs amounted to CHF 39 million (previous year: CHF 39 million).

36 Related parties

Relationship with the Confederation

Pursuant to the Swiss Telecommunications Enterprise Act („Telekommunikationsunternehmungsgesetz, TUG“), the Confederation holds a majority of the capital and voting rights of Swisscom. On December 31, 2005, the Swiss Confederation (the „Confederation“) as majority shareholder held 62.5% of the shares of Swisscom AG. The Telecommunications Enterprise Act (TUG) states that the Confederation must hold a majority of the capital and voting rights in Swisscom. Any reduction of the Confederation's holding below a majority would require a change in law necessitating action by the Federal Assembly, which in some circumstances may also be subject to a referendum by Swiss voters. As the majority shareholder, the Confederation has the power to control any decisions taken at general meetings including the election of the members of the Board of Directors and the approval of dividend payments.

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

Affiliated companies

The supply and provision of services with affiliated companies are effected at market prices. The affiliated companies are listed in Note 39.

Notes to the consolidated financial statements

Minority interests

Vodafone plc. has a 25% share in Swisscom Mobile AG and is therefore classified as a related party. The rendering and provision of services to Vodafone are effected at market prices. In accordance with the shareholders' agreement, Vodafone has a conditional right to sell its shares in Swisscom Mobile. If there is a change of control of Swisscom, Vodafone is entitled to sell its 25% stake in Swisscom Mobile AG to Swisscom at the fair market value. See Note 29.

Other minority interests primarily comprise Publigroup's share of Swisscom Directories and until the sale to Swisscom in December 2004, AGI Holding AG's share of Swisscom IT Services AG. As a result of the transaction Swisscom holds 100% of shares in Swisscom IT Services AG. The shareholders of AGI Holding AG comprised eight cantonal banks. Swisscom IT Services AG renders IT services to these banks. The supply and provision of services with related parties are effected at market prices.

Pension funds

Transactions between Swisscom and the various pension funds are explained in Note 11.

Net revenue

CHF in millions	2005	2004
Confederation	434	434
Affiliated companies	85	–
Minority shareholder Vodafone	88	80
Other minority interests	6	155
Total revenue with related parties	613	669

Operating expense

CHF in millions	2005	2004
Confederation	182	162
Affiliated companies	74	11
Minority shareholder Vodafone	103	137
Other minority interests	28	25
Total operating expense with related parties	387	335

Receivables

CHF in millions	31.12.2005	31.12.2004
Confederation	59	46
Affiliated companies	44	–
Minority Shareholder Vodafone	6	3
Other minority interests	1	33
Total receivables	110	82

On December 31, 2005 receivables included a loan to a holding of the Confederation of CHF 1 million. The loan was granted until 2007 at market interest rate.

Liabilities		
CHF in millions	31.12.2005	31.12.2004
Confederation	8	6
Affiliated companies	21	7
Minority shareholder Vodafone	21	22
Other minority interests	2	2
Total liabilities	52	37

Liabilities as at December 31, 2004 included a loan from the affiliated company AUCS. The loan was offset against the shareholders' equity in AUCS.

Management compensation		
CHF in millions	2005	2004
Board of Directors		
Short-term compensaton	2.0	1.9
Stock based compensation	0.3	0.2
Social-security contributions	0.2	0.2
Total compensation to members of the Board of Directors	2.5	2.3
Executive Board		
Short-term compensaton	8.2	7.6
Stock based compensation	0.4	0.4
Special contribution	–	0.6
Pension contributions	0.6	0.6
Social-security contributions	0.7	0.8
Total compensation to members of the Executive Board	9.9	10.0
Total compensation to members of the Executive Board and the Board of Directors	12.4	12.3

Total compensation paid to members of the Board of Directors and the Executive Board includes fees, salary, bonuses, special pension fund contributions and other contractual obligations. In 2004 and 2005 25% of bonuses were remunerated in shares. See Note 10.

Transactions with treasury stock

The Confederation participated in Swisscom's share buy back in 2005. 2.2 million shares were sold to Swisscom at an average price of CHF 422.40, totaling CHF 939 million.

37 Discontinued operation (debitel)

On April 29, 2004, Swisscom entered into an agreement to sell its stake in debitel to Telco Holding S.à.r.l. Luxembourg. Telco Holding S.à.r.l. is owned by funds advised by the private equity company Permira. On June 8, 2004, Swisscom completed the sale of its stake in debitel to Telco Holding S.à.r.l. Luxembourg for a total of EUR 640 million. In April 2004, before the sale, Swisscom acquired 2% of debitel shares from Electronic-Partner (EP) thus increasing its investment in debitel to 95% prior to entering into the sale agreement. Of the selling price EUR 430 million were paid in cash in 2004. For the remaining part of the selling price of EUR 210 million Swisscom granted a 100% subsidiary of Telco Holding S.à.r.l. two vendor loan notes, of EUR 105 million each.

The repayment of the loans of EUR 210 millions was scheduled in seven or eight years. The loans were initially recorded at their fair value and in the following periods recorded using the effective interest rate method. The fair value evaluation was based on an interest rate of 12.5%. The purchaser prematurely repaid the entire loans in the first six months of 2005. The payment of CHF 351 million includes the repayment of the nominal value of the loans and the contractually agreed accrued interest. A gain of CHF 59 million resulted from the early repayment of these loans and was recorded under discontinued operation (debitel).

Swisscom also agreed to grant guarantees to the buyer. From the current perspective the maximum risks amount to approximately EUR 70 million. At December 31, 2005, a provision for guarantees of CHF 50 million had been recorded under discontinued operation (debitel).

The net result in 2005 was CHF 9 million and is made up of the gain on the early repayment of the loans of CHF 59 million less the amount recorded for the recognition of a provision for guarantees of CHF 50 million.

In 2004, revenue and the period result of debitel up to the completion of the transaction on June 8, 2004 amounted to CHF 1,917 million and CHF 5 millions respectively. Amortization of goodwill of CHF 57 million is included in this figure. As a result of the transaction a loss on the sale of CHF 248 million was recorded. This includes the write-off of the currency translation loss of CHF 238 million accumulated since the acquisition of debitel in 1999 and recorded in the consolidated statement of shareholders' equity under other reserves.

As a result of its sale, debitel is disclosed in the consolidated financial statements as a discontinued operation.

The table below shows the balance sheets, income statement and cash flow statement from operative business for debitel until the closing of the transaction:

CHF in millions	8.6.2004
Income statement	
Net revenue	1 917
Operating expenses	(1 830)
Depreciation and amortization	(26)
Amortization of goodwill	(57)
Operating income	4
Financial result	31
Income tax expense	(30)
Equity in net income of affiliated companies	3
Minority interest	(3)
Income from discontinued operation	5

CHF in millions	8.6.2004
Balance sheet	
Cash and cash equivalents	131
Other current assets	576
Goodwill and other intangible assets	733
Other non-current assets	172
Total assets	1 612
Financial liabilities	76
Other liabilities	638
Minority interest	18
Total liabilities and minority interest	732
Total net assets	880

CHF in millions	8.6.2004
Cash flow statement	
Net cash provided by operating activities	85
Net cash used in investing activities	(19)
Net cash used in financing activities	(62)
Net increase in cash and cash equivalents	4

The loss on the sale of debitel comprises the following:

CHF in millions	31.12.2004
Cash payment	658
Acquisition of additional shares in debitel	(31)
Transaction costs	(11)
Net receipts	616
Fair value of granted loans (vendor loan notes)	254
Net proceeds from the sale	870
Net assets sold	(880)
Write-off of accumulated translation loss out of equity	(238)
Loss on the sale	(248)

38 Disclosure of service concession arrangements (SIC 29)

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

39 Significant subsidiaries and affiliated companies

Company	Location, country	Interest in percent	Consolidation method		Share capital in thousands	Segment
Switzerland						
Accarda AG ¹	Brüttisellen, Switzerland	100	Full	CHF	18 500	Other
Billag AG	Fribourg, Switzerland	100	Full	CHF	100	Other
cablex AG	Berne, Switzerland	100	Full	CHF	5 000	Fixnet
Celeris AG ²	Hinwil, Switzerland	100	Full	CHF	515	Solutions
CT Cinetrade AG ^{2,3}	Zurich, Switzerland	49	Equity	CHF	500	Corporate
e4life AG	Berne, Switzerland	100	Full	CHF	1 500	Other
Infonet Schweiz AG	Berne, Switzerland	90	Full	CHF	1 500	Solutions
Medipa Abrechnungskasse AG ²	Freienbach, Switzerland	99	Full	CHF	1 850	Other
PersPec AG	Berne, Switzerland	100	Full	CHF	500	Corporate
PubliDirect Holding AG	Zurich, Switzerland	49	Equity	CHF	10 000	Fixnet
SICAP AG ⁴	Köniz, Switzerland	75	Full	CHF	2 000	Mobile
Swisscom Auto-ID Services AG ¹	Berne, Switzerland	100	Full	CHF	600	Other
Swisscom Broadcast AG	Berne, Switzerland	100	Full	CHF	25 000	Other
Swisscom Directories AG	Berne, Switzerland	51	Full	CHF	1 500	Fixnet
Swisscom Eurospot SA ⁵	Geneva, Switzerland	100	Full	CHF	10 000	Other
Swisscom Fixnet AG	Berne, Switzerland	100	Full	CHF	1 000 000	Fixnet
Swisscom Immobilien AG	Berne, Switzerland	100	Full	CHF	100 000	Corporate
Swisscom IT Services AG	Berne, Switzerland	100	Full	CHF	150 000	Other
Swisscom Mobile AG	Berne, Switzerland	75	Full	CHF	100 000	Mobile
Swisscom Solutions AG	Berne, Switzerland	100	Full	CHF	70 000	Solutions
Tele Rätia AG	Bonaduz, Switzerland	89.7	Full	CHF	1 000	Other
Worklink AG ⁶	Berne, Switzerland	40	Full	CHF	100	Corporate
Other countries						
Air Bites Group ^{1,7}	Berne, Switzerland	100	Full	EUR	–	Other
Antenna Hungaria Rt ²	Budapest, Hungary	100	Full	HUF	11 875 200	Other
AUCS Communications Services v.o.f. ⁸	Hoofddorp, Netherlands	33.33	Equity	EUR	–	Corporate
Belgacom International Carrier Services ⁹	Brussels, Belgium	28	Equity	EUR	76 000	Fixnet
Swisscom Finance Ltd.	St. Helier, Jersey	100	Full	EUR	64 468	Corporate
Swisscom Investments B.V.	Amsterdam, Netherlands	100	Full	EUR	18	Corporate
Swisscom Re AG	Vaduz, Liechtenstein	100	Full	CHF	1 000	Corporate
TelSource N.V. ⁸	The Hague, Netherlands	49	Equity	EUR	–	Corporate

¹ Set up in 2005.

² Acquisition in 2005. See Note 5.

³ CT Cinetrade AG has stakes in KITAG Kino-Theater Zurich AG (80%), KITAG Kino-Theater Bern AG (80%), KITAG Kino-Theater Basel AG (100%), Plazavista Entertainment AG (100%), ML MediaLizenz AG (100%), Chriteco AG (100%), Teleclub AG (67%) and TC Services AG (67%).

⁴ Fully owned subsidiary of Swisscom Mobile AG. SICAP AG has a subsidiary in Singapore.

⁵ Swisscom Eurospot AG has subsidiaries in Germany, France, United Kingdom, the Netherlands, Luxembourg, Spain, Portugal, Italy and Austria.

⁶ Worklink AG is Swisscom's employment company. Although Swisscom only holds 40% share in voting rights and capital in Worklink AG, the company is fully consolidated because, from an economic viewpoint, Swisscom carries the major financial risks and also obtains the major benefits.

⁷ Air Bites has representations in Spain, Poland, Slovakia, Rumania and Bulgaria.

⁸ Joint venture.

⁹ Share from transfer of International carrier services activities. See Note 24.

Notes to the consolidated financial statements

In 2004 the fully consolidated subsidiary debitel was sold. See Note 37. For further information on acquisitions in 2005 and 2004 see Note 5.

40 Dividends

Distributable reserves are determined based on equity as reported in the statutory financial statements of Swisscom AG (holding company) in accordance with Swiss law and not on the equity as reported in the consolidated balance sheet in accordance with IFRS. In accordance with Swiss law regarding appropriation of earnings, share capital, 20% of the general reserves and the reserves for treasury stock cannot be distributed. At December 31, 2005, Swisscom AG's distributable reserves amounted to CHF 3,586 million. The dividend must be proposed by the Board of Directors and approved by the Shareholder Meeting.

Swisscom paid the following dividends in 2005 and 2004:

	2005	2004
Dividend approved by the Shareholder Meeting and paid		
Number of registered shares eligible for dividends (in millions)	61.5	66.2
Dividend on registered shares (in CHF)	14.00	13.00
Dividend paid (in CHF million)	861	861

The Board of Directors will propose a dividend of CHF 16 at the Shareholders' Meeting on April 25, 2006, amounting to a total distribution of CHF 907 million. If the proposal is approved, the dividend will be paid on April 28, 2006. Treasury stock is not eligible for dividend payments.

41 Post balance sheet events

Approval by the Board of Directors

Swisscom Board of Directors approved these consolidated financial statements on March 6, 2006. The consolidated financial statements must be approved by the Shareholders' Meeting on April 25, 2006.

Share buy-back

In order to distribute the entire equity free cash flow from 2005, the Board of Directors decided to launch a share buy-back scheme in the amount of CHF 1.25 billion. In addition the share buy-back will be increased by CHF 1 billion, bringing the total value in 2006 to CHF 2.25 billion.

Acquisition of a 100% stake in Comit

Swisscom IT Services have acquired a 100% stake in Comit AG, an IT service provider to banks. The transaction was completed on January 4, 2006. At the time the consolidated financial statements were approved, only a provisional balance sheet was available. The purchase price is CHF 66 million. The carrying value of net assets per the provisional balance sheet prior to the acquisition totaled CHF 18 million. Net assets comprises cash of CHF 18 million, receivables and other current assets of CHF 10 million, tangible and intangible assets of CHF 2 million, less liabilities of CHF 12 million. At the time the consolidated statements were approved, the opening balance sheet had not been finalized and it was therefore not possible to include the required disclosures in accordance with IFRS.

Acquisition of a 100% stake in Cybernet

Swisscom Fixnet signed a contract for the acquisition of the Internet service provider Cybernet (Schweiz) AG on October 20, 2005. The 100% acquisition remains subject to the approval of the Competition Commission. As a result of this pending approval it was impractical to include the required disclosures in accordance with IFRS.

Acquisition of a business area from Siemens, Switzerland

Swisscom Solutions AG acquired the business area Telephone equipment and IP communication platforms for medium and large business customers from Siemens Switzerland. The business area acquired also offers applications, services, integration, operation and maintenance of data networks. The acquisition was completed on February 28, 2006 and the purchase price is CHF 25 million. As the acquisition was completed just prior to the approval and issuance of Swisscom's consolidated financial statements, it was impractical to include the required disclosures in accordance with IFRS.

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 in 1999, Medgate has become the leading Swiss center in the field of telemedicine. Medgate is an associated undertaking and will be consolidated in accordance with the equity method.

42 New accounting pronouncements

With effect from January 1, 2006 or at a later date, a number of new standards and amendments to published International Financial Reporting Standards (IFRS) will become effective. Swisscom has not chosen to apply these new standards or amendments early. The standards, revisions and interpretations which are relevant to Swisscom are outlined below:

IAS 19 (revised) „Employee benefits“: Actuarial gains and losses arising from adjustments to actuarial assumptions and deviations between assumptions and actual development, may be reported in consolidated equity in the period in which they arose. The application of the new alternative treatment of taking the actuarial gains and losses on balance sheet could have a significant impact on Swisscom's presentation of its net assets. Swisscom has not yet decided which method it will apply to record actuarial gains and losses from January 1, 2006. In addition the disclosure requirements have been extended. Swisscom will apply the revised standard from January 1, 2006.

IFRS 7 „Financial instruments: Disclosures“: IFRS 7 replaces IAS 30 „Disclosures in the Financial Statements of Banks and Similar Financial Institutions“ and disclosure requirements of IAS 32 „Financial Instruments: Disclosure and Presentation“ and will become effective on January 1, 2007. The goal of the new standard is to provide information on the amount, timing and probability of future cash flows resulting from financial instruments that may be of relevance for decision-making. Swisscom is currently analyzing the effects of IFRS 7. Swisscom will apply the standard for reporting periods beginning after January 1, 2007.

IAS 39 (revised) „Financial Instruments: Recognition and Measurement, including the amendment to the fair value option“: The revised standard amends the definition of financial assets or liabilities to be measured at fair value and limits the possibilities of classifying financial instruments in this category. Swisscom does not expect that this adjustment will have a significant impact on the classification of its financial instruments, since the company is able to meet the adjusted criteria for classifying the financial instruments as financial assets or liabilities to be measured at fair value. Swisscom will apply the revised standard from January 1, 2006.

Financial statements of Swisscom AG

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

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes) on pages 184 to 186 of Swisscom AG for the year ended December 31, 2005.

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

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

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

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

KPMG Klynveld Peat Marwick Goerdeler SA

Hanspeter Stocker
Swiss Certified Accountant
Auditor in Charge

Christoph Schwarz
Swiss Certified Accountant

Gümligen-Berne, March 6, 2006

Swisscom AG

Income statement

CHF in millions	2005	2004
Net revenue	226	237
Other income	75	7
Gain on sale of fixed assets	3	7
Total	304	251
Personnel expenses	196	158
Other operating expenses	181	127
Depreciation and amortization	9	18
Total operating expenses	386	303
Operating income	(82)	(52)
Financial expense	(77)	(43)
Financial income	179	151
Income from investments	1 921	2 343
Income taxes	(1)	–
Net income	1 940	2 399

Swisscom AG

Balance sheet

CHF in millions	Note	31.12.2005	31.12.2004
Assets			
Current assets			
Cash and cash equivalents		739	1 541
Current financial assets		332	713
Treasury stock	5	1 960	2 002
Trade accounts receivable		–	16
Other receivables from subsidiaries		119	36
Dividend receivable from subsidiaries		1 901	2 203
Other current assets		7	8
Total current assets		5 058	6 519
Non-current assets			
Property, plant and equipment	3	2	34
Investments	4	2 671	2 776
Loans from third parties		7	8
Loans from subsidiaries		3 787	3 762
Total non-current assets		6 467	6 580
Total assets		11 525	13 099
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt		3	2
Current liabilities to subsidiaries		4 667	5 172
Trade accounts payable		16	16
Other liabilities to subsidiaries		21	22
Other current liabilities		231	239
Total current liabilities		4 938	5 451
Long-term liabilities			
Long-term liabilities to subsidiaries		359	374
Accrued liabilities		543	663
Other long-term liabilities		24	27
Total long-term liabilities		926	1 064
Total liabilities		5 864	6 515
Shareholders' equity			
Share capital		61	66
General reserves		277	298
Reserves for treasury stock		2 002	2 002
Retained earnings		3 321	4 218
Total shareholders' equity	6	5 661	6 584
Total liabilities and shareholders' equity		11 525	13 099

Notes to the financial statements

1 General

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

2 Contingent liabilities

Total guarantees in favor of third parties on behalf of Group companies at December 31, 2005, amounted to CHF 673 million (previous year: CHF 245 million). Swisscom AG is severally liable with two other shareholders to cover future losses of an affiliated company.

3 Fire insurance values of property, plant and equipment

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

4 Investments

Swisscom AG recorded impairment charges for 2004 of CHF 5 million (previous year: CHF 20 million) under income from investments. From the sale of other holdings Swisscom achieved a gain of CHF 15 million (previous year: CHF 10 million). Swisscom's significant subsidiaries are detailed in Note 39 to the consolidated financial statements.

5 Treasury stock

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

In May 2005 Swisscom AG launched a share buy-back scheme in the amount of CHF 2 billion. A total of 4,764,200 shares for an average purchase price of CHF 419.80 were bought back. The Board of Directors proposes to apply for a capital reduction at the General Meeting of Shareholders on April 25, 2006 in the amount of the shares acquired as part of this scheme, and subsequently to delete them.

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

6 Equity

Changes in Swisscom AG equity is as follows:

CHF in millions	2005	2004
Balance at beginning of year	6 584	5 046
Dividend	(861)	(861)
Capital reduction	(2 002)	–
Net income	1 940	2 399
Balance at end of year	5 661	6 584

7 Major shareholders

On December 31, 2005 the Swiss Confederation (the "Confederation") as majority shareholder held 62.5% of the shares of Swisscom AG. Under the Telecommunications Enterprise Act (Telekommunikationsunternehmungsgesetz, TUG), the Confederation must hold a majority of the capital and voting rights of Swisscom.

8 Recording of dividends payable by subsidiaries

Dividends from the fully consolidated subsidiaries of Swisscom AG are recorded in the year the dividend is proposed. The respective dividends have been approved at the subsidiaries' Shareholder Meetings.

Proposed appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors proposes to the General Meeting of Shareholders on April 25, 2006 the following appropriation of retained earnings of CHF 3,321 million for the year ended December 31, 2005:

CHF in millions	31.12.2005
Dividend on registered shares*	907
Balance to be carried forward	2 414
Total retained earnings	3 321

* Excluding treasury stock

Subject to the approval of this proposal, the dividend will be paid out to shareholders on April 28, 2006 as follows:

Per registered share	CHF
Gross dividend	16.00
Less 35% withholding tax	5.60
Net dividend	10.40

1 Principles

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

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

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

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

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

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

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

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

2 Group structure and shareholders

Group structure

Swisscom is a corporate group with independently-operating subsidiaries. The aim of this group structure is to increase transparency for management and shareholders while allocating clear responsibilities to the subsidiaries for their respective submarkets. Autonomy also allows them to enter into strategic partnerships as Swisscom Mobile AG did with the mobile phone operator Vodafone in 2001. The group companies are divided into three categories "strategic", "important", and "other". In the 2005 fiscal year Swisscom Fixnet AG, Swisscom IT Services AG, Swisscom Mobile AG and Swisscom Solutions AG, were classified as strategic group companies. At January 1, 2006, the group of important companies comprised Accarda AG, Antenna Hungária Rt, Billag AG, COMIT AG, cablex AG, Infonet Schweiz AG, PubliDirect Holding AG, Swisscom Broadcast AG, Swisscom Directories AG, Swisscom Eurospot AG and Swisscom Immobilien AG. All other companies are classified as "other".

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

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

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

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

Swisscom AG is listed in the "EU-Compatible Segment" of the SWX Swiss Exchange (Securities No. 874251, ISIN CH0008742519, Symbol SCMN) and in the form of American Depositary Shares (ADS) on the New York Stock Exchange (NYSE: Securities No. 949527, ISIN US8710131082; Ticker-Symbol: SCM). At December 31, 2005, Swisscom AG's stock market capitalization was CHF 23 523 million.

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

A diagram of the Group structure is shown in Chapter Overview, page 17 of the Management Report. Note 39 to the consolidated financial statements contain a list of the major subsidiaries.

Significant shareholders

Under the Telecommunications Enterprise Act (TUG), the Swiss Federal Government has a majority holding in the company in terms of both capital and votes. According to a press release from the Swiss Federal Department of Finance, as at December 20, 2005, it held CHF 38.4 million (62.45%) of the total number of issued shares of Swisscom AG. On April 25, 2006 the Board of Directors will apply to the Shareholders' Meeting for a capital reduction amounting to the total of shares in the 2005 share buy-back program of CHF 4.76 million (7.75%). Taking this into account the total number of registered shares will be 56.7 million.

In the Swiss Official Gazette of Commerce of July 26, 2005, Swisscom AG announced that – by having legally reduced its share capital to CHF 61,482,761 (by destroying the shares bought back in the share buy-back program 2004) – it had gone below the notifiable limit value of 5%.

In the Swiss Official Gazette of Commerce of October 5, 2005, Swisscom AG announced that – by having bought own shares back, aiming at a future capital reduction and/or financing of an acquisition – it had exceeded the notifiable limit value of 5% and was holding a total of 8,094,761 registered shares (5.003%) of the company at September 29, 2005. The voting right of these shares is dormant.

On March 3, 2005 it was disclosed by “The Capital Group Companies, Inc. (CGC)”, that they had gone below the notifiable limit value of 5%, by holding 3,297,865 registered shares of Swisscom AG, or 4.98% of the voting rights. Please refer to the publication of the disclosure in the Swiss Official Gazette of Commerce of March 23, 2005.

Cross-shareholdings

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

3 Capital structure

Capital

At December 31, 2005, Swisscom AG’s share capital amounted to CHF 61,482,761, divided into 61,482,761 registered shares with a par value of CHF 1 per share. The shares have been paid up in full.

Authorized and conditional capital

There is no authorized or conditional share capital.

Changes in capital

Changes in shareholder’s equity of Swisscom AG in the individual financial statements under commercial law in the years 2003 to 2005:

In CHF millions	Share capital	General reserves	Retained earnings	Shareholders' equity Total
Balance at January 1, 2003	596	298	4 322	5 216
Net income	–	–	1 154	1 154
Dividend	–	–	(794)	(794)
Capital reduction	(530)	–	–	(530)
Balance at December 31, 2003	66	298	4 682	5 046
Net income	–	–	2 399	2 399
Dividend	–	–	(861)	(861)
Balance at December 31, 2004	66	298	6 220	6 584
Net income	–	–	1 940	1 940
Dividend	–	–	(861)	(861)
Capital reduction	(5)	(21)	(1 976)	(2 002)
Balance at December 31, 2005	61	277	5 323	5 661

A resolution to reduce capital through repayment of part of the par value (CHF 8 per share, CHF 530 million in total), in addition to the dividend, was adopted at the General Meeting of Shareholders on May 6, 2003. The share capital was thus reduced from CHF 596 million to CHF 66 million.

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

A resolution to repurchase shares in addition to the dividend was adopted at the General Meeting of Shareholders on April 26, 2005. This was carried out between May 17 and December 19, 2005. The buy-back was carried out using a second transaction line at virt-x, installed especially for this purpose. All in all, 4,764,200 shares were bought back at an average purchase price of CHF 419.80, amounting to a total of CHF 2 billion.

At the regular General Meeting of Shareholders on April 25, 2006, the Board of Directors plans to propose a capital reduction equaling the number of registered shares bought back and subsequently to void the shares.

Shares, participation certificates and profit-sharing certificates

Each of the 61,482,761 registered shares of Swisscom AG has a par value of CHF 1. All registered shares are eligible for dividends, with the exception of treasury shares held by Swisscom AG. There are no preferential rights. The registered shares of Swisscom AG are not issued in certificate form but are held as uncertificated securities in the holdings of SIS SegallInterSettle AG (registered shares with no right to printed certificates). Shareholders can at any time request free confirmation from Swisscom AG of the registered shares they own. However, shareholders have no right to have their shares printed and physically delivered to them. Swisscom AG may print uncertificated shares at any time. If registered shares are printed, Swisscom AG may issue certificates for multiple registered shares. Registered shares bear the signatures of two members of the Board of Directors; these may be facsimile signatures.

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

Convertible bonds and options

Swisscom AG has no outstanding convertible bonds as at December 31, 2005. The stock-based compensation programs of Swisscom AG are described in Note 10 to the consolidated financial statements.

4 Board of Directors

Members of the Board of Directors

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

The list below gives an overview of the composition of the Board of Directors at December 31, 2005, the functions of each member within Swisscom, their nationality, year first elected and remaining tenure. In addition details of their career and education as well as other activities and interest such as mandates in important companies, organizations and foundations, permanent functions in important interest groups are included.

Name	Born	Position	Appointed	Expire of the terms of office
Markus Rauh ^{1 2 3}	1939	Chairman	1998	2005
Anton Scherrer ¹	1942	Deputy Chairman	2005	2006
Fides P. Baldesberger ¹	1953	Member	2005	2007
Jacqueline-Françoise Demierre ²	1954	Member, employee representative	1998	2005
Michel Gobet ²	1954	Member, employee representative	2003	2005
Torsten G. Kreindl ¹	1963	Member	2003	2005
Felix Rosenberg ²	1941	Member, government representative	1998	2007
Richard Roy ³	1955	Member	2003	2005
Othmar Vock ³	1943	Member	2005	2007

¹ Member of the Finance Committee.

² Member of the Personnel and Organization Committee.

³ Member of the Audit Committee.

Peter K pfer, Andr  Richoz and Helmut Woelki have retired from the Board of Directors since the Shareholders' Meeting in 2005. Fides P. Baldesberger, Anton Scherrer and Othmar Vock have been newly elected to the Board of Directors.

Markus Rauh

Swiss citizen

Education: Degree in mechanical engineering and doctorate (Dr. sc. tech.) from the Swiss Federal Institute of Technology (ETH) in Zurich

Career: Sperry Univac; Philips AG; 1985 – 1988 Chief Executive Officer of Philips Kommunikationsindustrie AG; 1988 – 1999 Chief Executive Officer of the Wild Leitz / Leica Group; since 1999 independent management consultant

Other mandates: Chairman of the Boards of Directors of Synthes AG, Chur and Anova Holding AG; Member of the Boards of Directors of The Generics Group AG, Madison Management AG and St. Galler Kantonalbank AG; Member of the Executive Board of Economiesuisse; President of the Board of Trustees of the Institute for Technology Management at the University of St. Gallen; Chairman of the Board of Directors of the AO-ASIF Foundation

Anton Scherrer

Swiss citizen

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

Career: Research, consultancy and management in several industrial companies and breweries in Switzerland and abroad, delegate of the Board of Directors of H rlimann Holding AG; executive positions in the Migros-Cooperative Association, as President of the Directorate General and President of the executive retail trade committee of the Migros cooperatives, in the last four years responsible for 14 industrial enterprises and logistic

Other mandates: Chief Executive Officer of Migrosbank, the "Magazine zum Globus" and the international travel agency Hotelplan (until end of June 2005); member of the executive committee of the Institute for Marketing and Trade at the University of St. Gallen

Fides P. Baldesberger

Swiss citizen

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

Career: since 1986 Outils Rubis SA (CEO and managing director)

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

Jacqueline Françoise Demierre

Swiss citizen

Education: Swiss diploma in sales management; diploma in reflex zone massage

Career: Berne Telegraph Office; General Directorate of the PTT; various positions at Swisscom, including responsibility for multinational projects; 1997 – 1998 Commercial Contract Manager key account projects; 1999 – 2000 Senior Sales Consultant corporate clients for Swisscom Mobile; 2001 Relationship Manager for Mobile Communications and the Environment; since 2005 managing director of Swiss Association for Asian Physical and Energy work (SVAKE)

Other mandates: Member of the unions Transfair/PVB and CASC; Member of the board commission for the deactivation fund for nuclear power plants (StiF KA) and disposal fund for nuclear power plants (EntsF KKW)

Michel Gobet

Swiss citizen

Education: Degree in history

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

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

Torsten G. Kreindl

Austrian citizen

Education: Degree in industrial engineering (Dr. sc. techn.)

Career: Chemie Holding AG; W. L. Gore & Associates Inc.; Member of the Management Board of Booz Allen & Hamilton, Germany; 1996 – 1999: Head of Broadband Cable Business Deutsche Telekom and Chief Executive Officer of MSG Media Services GmbH; 1999 – 2005 Partner at Copan Inc.; since 2005 Partner of the European private equity company Grazia Gruppe Equity GmbH

Felix Rosenberg

Swiss citizen

Education: Degree in law (lic. iur.)

Career: Clerk to the local court in Baden; 1974 – 1989 Member of the Cantonal Government of Thurgau; 1989 – 1998 Member of the PTT Executive Board; Chief Executive Officer of Telecom PTT and until end of March 1998 of Swisscom

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

Richard Roy

German citizen

Education: Degree in engineering (university of applied sciences)

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

Other mandates: President of Supervisory Board of Balda AG; Vice President of the Board of Directors of Premiere AG and Realtech AG; member of the Supervisory Board of update software AG; consultant to Permira Beteiligungsberatungs GmbH

Othmar Vock

Swiss citizen

Education: Commercial diploma; MBA IMD, Lausanne; diploma in export management

Career: 1975 – 1983 Commercial Director Ciba-Geigy Group; 1984 – 1990 Financial Director Treasury/Controlling Roche Group; 1990 – 1993 Director of Internal Auditing for the Roche Group; 1993 – 2004 Chief Financial Officer of Givaudan SA

Other mandates: Member of the Admission Office of SWX Swiss Exchange; Member of the Board of Directors of Balda AG and Ivoclar-Vivadent, Schaan

Cross-involvement

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

Composition, election and term of office

With the exception of the government representative, the Board of Directors of Swisscom AG is elected by the General Meeting of Shareholders. It currently comprises nine members but according to the terms of the Articles of Incorporation may comprise between seven and nine. The members are elected individually for two years. The maximum term of office is eight years. By beginning the process of replacing members of the Board of Directors in 2003, Swisscom AG has eliminated the need to elect a completely new Board in 2006, when the existing members' terms of office are due to expire. Members who reach the age of seventy retire from the Board on the date of the next General Meeting.

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

Internal organization, powers and responsibilities

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

The Board of Directors convened on 14 occasions in fiscal 2005, for meetings lasting one to two days. The Board of Directors is convened by the Chairman. Should the Chairman be unavailable, the Deputy Chairman convenes the meeting. The Chairman sets the agenda for the meetings of the Board of Directors. Any board member may request the inclusion of further items on the agenda. Board members receive documents prior to the meeting to allow them to prepare their responses to items on the agenda. The Board of Directors may invite members of the Executive Board, senior employees of Swisscom AG, auditors or other specialists to participate in its meetings, thereby ensuring appropriate reporting to the members of the board. Furthermore, the Chairman of the Board of Directors and the CEO report to each meeting of the Board of Directors on the general course of business and major business transactions, as well as on any measures implemented.

The Board of Directors has three standing and two ad hoc committees to carry out detailed examinations of important issues. Each committee generally comprises two to four members. Each member of the Swisscom Board of Directors also sits on one of the standing committees. The Chairman is a member of all three standing committees; these are chaired by other board members. The duties and responsibilities of the standing

committees are laid down in regulations. All minutes of the standing committee meetings are distributed to all members of the Board of Directors in order to ensure transparency.

Finance committee: This committee is chaired by Torsten G. Kreindl. The other members are Fides P. Baldesberger, Anton Scherrer and Markus Rauh. The committee, which met on eight occasions in fiscal 2005, deals with all financial transactions, such as the establishment or winding up of major group companies, the formation or termination of strategic alliances, medium-term budgeting, and major investments or disposals.

Personnel and organization committee: This committee is chaired by Felix Rosenberg. The other members are Jacqueline Françoise Demierre, Michel Gobet and Markus Rauh. The committee, which met on 6 occasions in fiscal 2005, deals with all organizational issues concerning the Group structure and matters relating to corporate policy, personnel and salary policy, the collective employment agreement and major restructuring projects.

Audit committee: This committee is chaired by Othmar Vock. The other members are Markus Rauh and Richard Roy. The committee met on five occasions in fiscal 2005. The members are classified as independent and also have relevant specialist skills. Othmar Vock is classified as "Financial Expert" in accordance with the US Sarbanes-Oxley Act of 2002 due to his specialist knowledge in the field of finance. The committee covers all internal and external audit work and thus constitutes the central controlling instrument of the Board of Directors. It is responsible for ensuring that appropriate accounting policies, internal financial controls and compliance measures regarding budget and strategic objectives are in place. It is also responsible for reviewing quarterly statements and forecasts, appointing the auditors and commissioning analyses from Swisscom Risk Management. The Finance Committee also monitors the independence of external audits. It decides whether the independence of the auditors would be impaired if they did not manage the audit, as allowed by law. In addition the committee has approved a procedure for handling complaints in connection with external accounting internal control systems of the financial reports and auditing of the annual accounts and for whistle blowing.

Compensation committee and nomination committee: These committees are formed on an ad hoc basis to determine the compensation of the Executive Board and to propose new members of the Board of Directors and the Executive Board. In fiscal 2005, the compensation committee met on one occasion, and the nomination committee met on three occasions.

Board of Directors' management, information and controlling instruments

At the beginning of each month, the CEO gives the Board of Directors a report on the main events over the past month, structured on the basis of positions. When the quarterly period under review has ended, the CEO shall serve interim balances on the Board of Directors, including the corresponding annotations and the other important key figures. Moreover, each member of the Board of Directors is entitled to demand information on all matters of Swisscom AG.

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

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

In addition to its risk management responsibilities, the internal audit department also has a supervisory and controlling function. Its purpose is to identify weaknesses in the internal controlling system, propose appropriate measures and contribute to improving the effi-

ciency and effectiveness of the supervisory and controlling processes. With a view to achieving maximum independence, the internal audit function is outsourced to an external audit company and reports to the Board of Directors.

5 Executive Board

Members of the Executive Board

Under the Articles of Incorporation, the Executive Board must comprise one or more members, who may not simultaneously be members of the Board of Directors. In exceptional circumstances only, temporary membership of the Board of Directors is permitted. Accordingly, the Board of Directors has delegated responsibility for overall executive management of Swisscom AG to the CEO. The CEO is entitled to delegate his powers to a subordinate, in particular to other members of the Executive Board.

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

Michael Shipton was appointed Chief Executive Officer of Swisscom IT Services AG on August 1, 2005. The former Chief Executive Officer of Swisscom IT Services AG, Urs Stahlberger, withdrew from the Executive Board on July 31, 2005 and left the company at the end of 2005, having reached retirement age. The Executive Board has appointed Christoph Brand, former head of Swisscom Fixnet Wholesale, as Chief Strategy Officer for Swisscom AG. He took up his post on August 1, 2005.

Jens Alder drew his personal consequences from parliament's changes to the international expansion plans and gave in his resignation as Swisscom CEO with effect from January 20, 2006. The Board of Directors named Carsten Schlöter, former CEO of Swisscom Mobile and member of the Executive Board as Jens Alder's successor. Carsten Schlöter will continue to manage Swisscom Mobile until a replacement is appointed.

Members of the Executive Board at December 31, 2005:

Name	Born	Position	Appointed
Jens Alder	1957	CEO of Swisscom AG (until January 20, 2006)	December 1999
Carsten Schlöter	1963	CEO of Swisscom Mobile AG (from January 20, 2006 CEO of Swisscom AG)	March 2001
Adrian Bult	1959	CEO of Swisscom Fixnet AG	October 2001
Ueli Dietiker	1953	CFO (Chief Financial Officer) of Swisscom AG	April 2002
René Fischer	1965	CEO of Swisscom Solutions AG	August 2002
Stefan Nünlist	1961	Head of Group Communications of Swisscom AG	July 2001
Günter Pfeiffer	1958	Head of Group Human Resources of Swisscom AG	June 2004
Jürg Rötheli	1963 ¹	CEO of Management division Related Business	July 2001
Christoph Brand	1969	CSO (Chief Strategy Officer) of Swisscom AG	August 2005
Michael Shipton	1956 ²	CEO of Swisscom IT Services AG	July 2001

¹ Jürg Rötheli was formerly Head of Group Operations & Related Business of Swisscom AG.

² Michael Shipton was formerly Chief Strategy Officer of Swisscom AG.

Jens Alder

Swiss citizen

Education: Degree in electrical engineering from the Swiss Federal Institute of Technology (ETH); MBA from INSEAD

Career: 1982 – 1991 Alcatel STR AG; 1993 – 1996 Senior Vice Chairman of Network Systems Export of Alcatel STR AG (later called Alcatel Schweiz AG); in the meantime, Vice Chairman of the communications division of Motor Columbus AG; 1996 – 1998 General Manager of the Telecom Unit of Alcatel Schweiz AG; 1998 – 1999 Executive Vice Chairman of Swisscom Network Services; December 1999 – January 2006 Chief Executive Officer at Swisscom AG

From January 1998 – January 2006 member of the Executive Board of Swisscom AG

Other mandates: Chairman of the SGK Swiss society for market research; Chairman of the Management Board of the Swiss Information and Communications Technology Association (SICTA)

Carsten Schlöter

German citizen

Education: degree in business administration

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

Since March 2000 member of the Executive Board of Swisscom AG

Other mandates: Chairman of the "Forum Mobil" Association and Member of Supervisory Board of Vodafone D2 GmbH

Christoph Brand

Swiss citizen

Education: degree in politics (lic. rer. pol.); Advanced Management Program, INSEAD

Career: 1989 – 1995 Ascom AG; 1995 – 1997 Swisscom International; December 1998 – April 2000 Manager at Bluewin AG; Mai 2000 – March 2002 Chief Executive Officer of Bluewin AG; 2000 – 2002 Head of Swisscom Fixnet Wholesale; since August 2005: Chief Strategy Officer of Swisscom AG and member of the Executive Board of Swisscom AG

Adrian Bult

Swiss citizen

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

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

Since January 1998: member of the Executive Board of Swisscom AG

Other mandates: Member of the Management Board the marketing society

Ueli Dietiker

Swiss citizen

Education: Swiss certified public accountant

Career: 1972 – 1988 ATAG Ernst & Young; 1988 – 1994 various positions with Motor Columbus AG, finally CFO of the Motor Columbus Group AG; 1995 – 1998 Chief Financial Officer of Cablecom Holding AG; January 1999 – June 2001 Chief Executive Officer of Cablecom Holding AG; September 2001 to March 2002 Head of Strategic Growth and Related Businesses of Swisscom AG; since April 2002 Chief Financial Officer and Deputy Chief Executive Officer of Swisscom AG

Since September 2001 member of the Executive Board of Swisscom AG

Other mandates: Member of the Board of Directors of Zuckermühle Rupperswil AG

René Fischer

Swiss citizen

Education: degree in business administration (lic. oec. publ.); Effective Management Program for Executives (St. Gallen Business School)

Career: 1989 – 1992 Bank Leu AG; 1992 – 1994 Telekurs AG; 1994 – 1998 Chief Financial Officer of SIG Pack Systems AG; December 1998 to August 2002 Head of Finance and Controlling of Swisscom Fixnet AG; since August 2002 Chief Executive Officer of Swisscom Systems AG, and since July 2004 Chief Executive Officer of Swisscom Enterprise Solutions AG (called Swisscom Solutions AG as of January 1, 2005)

Since August 2002 Member of the Executive Board of Swisscom AG

Stefan Nünlist

Swiss citizen

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

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

Since July 2001 member of the Executive Board of Swisscom AG

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

Günter Pfeiffer

German citizen

Education: Doctorate in economics and business administration (University of Cologne)

Career: 1988 – 1995 Detecon, Director of Holding Projects; 1995 – 1996 T-Mobile, Senior Director International; 1997 – 1999 VEBA-Telekom, Deputy Marketing Chairman; 2000 – 2004 Head of Participation Management at Swisscom AG; since June 2004: Head of Group Human Resources of Swisscom AG

Since June 2004 Member of the Executive Board of Swisscom AG

Jürg Rötheli

Swiss citizen

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

Career: 1993 – 1999 General Counsel Interdiscount Holding AG; Simeco Holding AG; 1995 – 1999 Partner Stampfli, Keller & Partner, Solothurn; January 1999 to June 2001 Head of the General Counsel of Swisscom AG; 2001 – March 2005 Head of Group Operations- & Related Businesses of Swisscom AG; since April 2005 Chief Executive Officer of Management division Related Business

Since July 2001 Member of the Executive Board of Swisscom AG

Michael Shipton

British and Swiss citizen

Education: BSc; PhD

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

Since July 2001 Member of the Executive Board of Swisscom AG

Management contracts

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

6 Compensation, shareholdings, and loans of the Board of Directors and the Executive Board

Content and method determining the compensation and the share-ownership programs

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

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

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

The share programs of Swisscom AG are described in Note 10 to the consolidated financial statements.

Compensation for acting members of governing bodies

Compensation for the members of the Board of Directors in 2005 and 2004 amounted to CHF 2.0 million and CHF 1.9 million respectively. Compensation for the members of the Executive Board in the same business years amounted to CHF 8.2 million in each year. In 2004 CHF 0.6 million were included, arising from other contractual obligations in respect of members of the Executive Board who left the company. The total compensation paid to the CEO amounted to CHF 1.6 million in 2005 and CHF 1.4 million in 2004. This includes 522 shares in 2005 and 592 shares allocated in 2004. No call options were allocated since fiscal year 2004.

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

Compensation for former members of governing bodies

There were no compensation payments to former members of the Board of Directors and the Executive Board in the year under review, nor in the previous year.

Share allotment in the year under review

During fiscal 2005, a total of 1,386 shares were allotted to members of the Board of Directors and 2,158 shares to members of the Executive Board. Swisscom did not allocate any shares to persons, i.e. third parties, closely associated with members of the Board of Directors or the Executive Board.

Share ownership and options

At December 31, 2005, the members of the Board of Directors and persons close to them held a total of 4,693 shares, while the members of the Executive Board and person close to them held a total of 6,955 shares as at the same date. No options were allocated in the year under review.

Stock options allocated and held by the Board of Directors at December 31, 2005¹

	2003
Maturity	25.04.2008
Blocking period	30.04.2006
Exercise period	01.05.2006 – 25.04.2008
Exchange ratio ²	100:1
Number of options allocated	492 000
Number of options held at 31.12.	306 000
Exercise price in CHF	417.90

¹ This table only contains options held by Board of Directors who were in office at December 31, 2005. In addition to the options listed above, a member of the Board of Directors still hold 13,000 options which he acquired under other management stock option schemes.

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

Stock options allocated and held by the Executive Board at December 31, 2005¹

	2001	2002	2003
Maturity	30.05.2006	09.04.2007	25.04.2008
Blocking period	30.05.2004	09.04.2005	30.04.2006
Exercise period	31.05.2004 – 30.05.2006	10.04.2005 – 09.04.2007	01.05.2006 – 25.04.2008
Exchange ratio ²	1:1	1:1	100:1
Number of options allocated	4 070	5 290	798,000
Number of options held at 31.12.	4 070	5 290	798,000
Exercise price in CHF	475.80	569.10	417.90

¹ This table contains options held by members of the Executive Board who were in office at December 31, 2005. In addition to the options listed above, members of the Executive Board still hold 118,000 options (exchange ratio 100:1) which they acquired under other management stock option schemes prior to their election to the Executive Board.

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

Additional fees and remuneration

Neither the members of the Board of Directors and persons close to them nor the members of the Executive Board and persons close to them received fees or other remuneration in fiscal 2005 for additional services performed for the benefit of Swisscom.

Loans to members of governing bodies

During 2005 Swisscom did not provide guarantees or grant loans, advances or credit facilities of any kind either to members of the Board of Directors and persons close to them or to members of the Executive Board and persons close to them. Nor are there any receivables of any nature whatsoever outstanding.

Maximum total compensation paid to the Board of Directors

Total compensation paid to the Chairman of the Board of Directors in 2005 amounted to CHF 507,000. This included the allocated shares and options. In the year under review he was allocated 423 shares. No further options were allocated.

7 Shareholders' participation

Voting-rights and representation restrictions, registration of nominees

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

through the exercise of subscription, option or conversion rights. A group clause applies to the calculation of the percentage restriction.

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

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

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

To facilitate the tradability of the shares on the stock market, the Board of Directors may also, by means of regulations or agreements, permit the fiduciary entry of registered shares with voting rights which exceed the above-mentioned percentage restriction by fiduciaries, provided that the latter disclose their fiduciary capacity (nominees, ADR banks). Fiduciaries must be subject to supervision by a banking or financial market supervisory authority or otherwise offer the necessary assurances of proper business conduct, and must act for the account of one or more unrelated parties. They must also be able to provide evidence of the names, addresses and holdings of the beneficial owners of the shares. In accordance with this provision, the Board of Directors has issued regulations governing the entry of fiduciaries and nominees in the Swisscom share register. The entry of fiduciaries and nominees as shareholders with voting rights is subject to application and the conclusion of an agreement specifying the entry restrictions and the disclosure obligations of the fiduciary or nominee. In particular, each fiduciary or nominee undertakes, within the percentage limit of 5%, not to request entry as a shareholder with voting rights for the account of an individual beneficial owner for any more than 0.5% of the registered share capital of Swisscom AG entered in the commercial register.

No exceptions for fiduciary entry of registered shares with voting rights above the aforementioned percentage limit were granted in fiscal 2005.

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

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

Statutory quorum requirements

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

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

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

Convocation of shareholders

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

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

Representation at the General Meeting

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

Registrations

The voting shares entered in the register have voting rights in the General Meeting of Shareholders. The register is always closed three days prior to the General Meeting of Shareholders. No mutations are executed thereafter. The exact date of the closing is published on the internet and made known to the shareholders along with the invitation.

8 Clauses on changes of control

Obligatory offer

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

Clauses on takeover of control

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

9 Auditors

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

The statutory and Group auditors are appointed annually by the General Meeting.

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

Auditing remuneration and additional remuneration

The remuneration for the auditing services provided by KPMG Klynveld Peat Marwick Goerdeler SA in 2005 amounted to CHF 5.9 million. The remuneration for additional services relating to auditing as well as for tax advice and other consultation services in 2005 amounted to CHF 0.8 million.

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

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

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

Supervision and controlling instruments for evaluating the auditors

It is the responsibility of the Audit Committee to define the supervisory and controlling instruments to evaluate the statutory auditors. These instruments are reassessed yearly. The external auditors participate in the meetings of the Audit Committee, where they report on the performance and results of their activities.

10 Information policy

Swisscom pursues an active and open information policy vis-à-vis the general public and the financial markets. Swisscom publishes consistent, comprehensive and transparent financial information on a quarterly basis. Swisscom meets investors regularly throughout the year, presents its financial results at analysts’ meetings and road shows, attends selected conferences for financial analysts and investors, and keeps its shareholders regularly informed about its business through press communiqués and shareholders’ letters. The company’s quarterly and half-yearly reports together with the Annual Report and annual financial statements are available on the Swisscom website under Investor Relations (www.swisscom.com/ir), or can be ordered directly from Swisscom. The website also contains links to all press releases, presentations and the current Swisscom financial calendar.

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Swisscom Group

Five year review

CHF in millions, except where indicated		2001	2002	2003	2004	2005
Net revenue		10 366	10 415	10 026	10 057	9 732
Operating income before one-time items, depreciation and amortization (EBITDA) ¹		4 209	4 237	4 487	4 388	4 171
Net revenue	%	40.6	40.7	44.8	43.6	42.9
Operating income before one-time items (EBIT) ¹		2 478	2 577	2 808	2 695	2 777
One-time items ¹		4 512	–	–	–	–
Operating income (EBIT)		6 990	2 577	2 808	2 695	2 777
Net income from continuing operations		6 726	2 060	2 319	2 191	2 337
Net income attributable to equity holders of Swisscom AG		5 067	826	1 571	1 596	2 022
Net income		5 293	1 127	1 911	1 948	2 346
Equity		12 941	8 185	8 507	7 453	6 624
Equity ratio ²	%	53.7	48.9	52.1	52.4	49.4
Number of full-time equivalent employees at end of period ³	FTE	17 784	17 171	16 049	15 477	16 088
Average number of full-time equivalent employees ⁴	FTE	17 636	17 426	16 506	15 664	15 455
Revenue per employee	CHF in thousands	588	598	607	642	630
EBITDA per employee	CHF in thousands	239	243	272	280	270
Net cash from operating activities		3 208	3 698	4 708	4 066	3 432
Equity free cash flow ⁵		n/a	1 119	2 913	2 913	2 203
Capital expenditure		1 168	1 127	1 165	1 136	1 087
Net debt (net funds) ⁶		(2 900)	540	(1 880)	(2 518)	(1765)
Key figures per share						
Par value per share at end of period	CHF	17.00	9.00	1.00	1.00	1.00
Weighted-average number of shares outstanding	In million	73.544	67.648	66.200	64.716	59.836
Price per share (high/low)	CHF	492.50 / 358.50	519.00 / 360.00	438.50 / 367.00	470.00 / 399.25	438.50 / 367.00
Net income from continuing operations	CHF	91.46	30.45	35.03	28.42	33.64
Net income	CHF	68.90	12.21	23.73	24.66	33.79
Equity	CHF	165.51	109.45	117.46	104.92	100.29
Dividend	CHF	11.00	12.00	13.00	14.00	16.00
Capital reduction	CHF	8.00	8.00	–	–	–
Pay-out ratio ⁷	%	27.58	163.80	54.78	56.77	47.35
Market capitalization at end of period ⁸		33 833	26 514	27 011	27 543	23 523

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

¹ One-time items in 2001: gain of CHF 671 million on sale of real estate and gain of CHF 3,837 million on partial sale of Swisscom Mobile AG.

² Equity as percentage of total assets.

³ Excluding 194, 252, 360, 475 and 512 Worklink full-time equivalent employees at December 31, 2001, 2002, 2003, 2004 and 2005, respectively.

⁴ Excluding 153, 218, 295, 433 and 498 Worklink full-time equivalent employees in 2001, 2002, 2003, 2004 and 2005, respectively. See Note 9.

⁵ Definition of equity free cash flow: net cash provided by operating activities, net proceeds from the sale and purchase of investments, less net capital expenditure on tangible and intangible assets, issuance and repayment of financial liabilities (excluding leasing liabilities) and dividend payments to minority interests.

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

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

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

Cautionary statement regarding forward-looking statements

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

This communication contains statements that constitute „forward-looking statements“. In this communication, such forward-looking statements include, without limitation, statements relating to our financial condition, results of operations and business and certain of our strategic plans and objectives. Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors which are beyond Swisscom's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behavior of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom's past and future filings and reports filed with

the U.S. Securities and Exchange Commission and posted on our websites. Readers are cautioned not to put undue reliance on forward-looking statements, which speak only of the date

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