

Facts & Figures

CHF in millions, except where indicated		2007	2006
Swisscom Group			
Net revenue		11,089	9,652
Operating income (EBITDA) ¹		4,501	3,786
EBITDA as % of net revenue		40.6	39.2
Operating income (EBIT) ²		2,515	2,351
Net income		2,071	1,904
Net income attributable to equity holders of Swisscom Ltd		2,068	1,598
Equity at end of period		6,004	4,480
Equity ratio ³	%	25.4	28.7
Number of full-time equivalent employees at end of period ⁴	FTE	19,844	17,068
Average number of full-time equivalent employees ⁵	FTE	18,755	16,734
Revenue per employee	CHF in thousands	591	577
EBITDA per employee	CHF in thousands	240	226
Cash flow provided by operating activities		3,437	3,264
Operating free cash flow attributable to equity holders of Swisscom Ltd ⁶		2,077	2,207
Capital expenditure		2,025	1,324
Net debt at end of period ⁷		10,337	4,379
Swisscom Ltd			
Net income		1,276	1,665
Equity at end of period		4,854	4,459
Distributable reserves at end of period		2,574	2,179
Dividend		1,036 ¹⁰	881
Key figures per share			
Par value per share at end of period	CHF	1.00	1.00
Average number of shares outstanding	In mio.	51.802	55.299
Price per share high	CHF	486.00	466.50
Price per share low	CHF	402.50	388.00
Closing price at end of period	CHF	442.00	461.25
Net income	CHF	39.92	28.90
Equity	CHF	107.60	79.80
Ordinary dividend	CHF	18.00 ¹⁰	17.00
Extraordinary dividend	CHF	2.00 ¹⁰	–
Pay-out ratio ⁸	%	45.09	58.83
Market capitalisation at end of period ⁹		22,896	23,894

1 Definition operating income (EBITDA): operating income before depreciation, amortization and impairment on tangible and intangible assets, gain on sale of subsidiaries, net financial result, share of profit of investments in associates and income tax expense.

2 Definition operating income (EBIT): operating income before gain on sale of subsidiaries, net financial result, share of profit of investments in associates and income tax expense.

3 Equity as a percentage of total assets.

4 Excludes 275 and 429 full-time equivalent employees of Worklink at December 31, 2007 and 2006, respectively.

5 Excludes 352 and 471 full-time equivalent employees of Worklink in 2007 and 2006, respectively.

6 Definition operating free cash flow attributable to equity holders of Swisscom Ltd: Operating income (EBITDA), change in operating assets and liabilities less net capital expenditure on tangible and intangible assets.

7 Definition net debt: financial liabilities and liabilities from collecting activities less cash and cash equivalents, current financial assets, receivables from collecting activities, financial assets from cross-border lease agreements and non-current derivative financial instruments.

8 Representing gross dividend as a percentage of earnings per share.

9 Closing price at end of period, multiplied by number of shares outstanding at end of period.

10 In accordance with the proposal of the Board of Directors to the Annual General Meeting.

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In 2007, Swisscom directed its company consistently towards the needs of its customers and took a great step with the acquisition of Fastweb. These two strategically important milestones build the foundation for a sustainable and profitable growth of Swisscom.

Swisscom remained solid even in 2007: Net revenue increased by 14.9 per cent to CHF 11.1 billion, the operating income (EBITDA) rose by 18.9 per cent to CHF 4.5 billion. This development is significantly marked by the acquisition of Fastweb in May 2007. In comparison of net revenue without the Italian subsidiary and special items, net revenue increased slightly by 0.3 per cent compared to the previous year. Without special items and the first consolidation of Fastweb, EBITDA decreased by 75 million (–1.9 per cent). Net income amounts to CHF 2,068 million after deduction of the minority interests and increased by 29.4 per cent compared to the previous year. Earnings per share even increased by 38.1 per cent to CHF 39.92 as consequence of the repurchase of 25 per cent of Swisscom Mobile and the share buy-back in 2006.

Swisscom decided due to the small volume of trade to withdraw from the New York stock exchange. The delisting was effected in summer, deregistration at the end of 2007. With the over-the-counter trading of Swisscom securities in the form of American Depositary Shares (ADR) in US dollar and the exemption from the obligations of the applicable U.S. legislation, especially the large administrative expense and other costs connected with the US admission to official quotation no longer apply. It goes without saying that we continue to commit ourselves to the present high standards of corporate governance and the transparency for shareholders.

Convinced by performance

With 5.0 million mobile subscribers, approximately 3.7 million fixed-line lines and almost 1.6 million broadband access lines as well as 19,844 full-time positions, Swisscom continues to be the leading telecommunications company in Switzerland. In addition to the area-wide supply of analogous and digital networks, broadband fixed-line network of Swisscom was available to 98 per cent of the population as of end of 2007 as well. Switzerland will now be the first country in the world to warrant this service area-wide via the universal services. Swisscom was awarded the order for provision of the universal services until 2017. In the mobile communications market, Swisscom covers 99 per cent of the population via GSM and 90 per cent via UMTS. The expansion of HSPA progresses rapidly and ensures mobile data services for a growing number of users.

Competition works

However, in 2007 also was the starting shot for the unbundling of the last mile. In April 2007, the revised Telecommunications Act (Fernmeldegesetz) came into effect. The parliament confirmed the successful principle of the competition regarding the infrastructure and limited the unbundling to the existing copper wires infrastructure. Thanks to this liberal and investment-promoting regulation, the customers in Switzerland will continue to benefit from the best telecommunication infrastructures and offers in the world at attractive prices even in future. Swisscom implemented the intention of the legislator quickly and unbundled the connections in the central offices for other providers. The first competitors launched their competitive offers already in summer 2007. As of the end of 2007, already 210 sites were converted for the offers of new providers and it was possible to achieve more than one third of Swiss households. The unbundling was realized in no other country more quickly than in Switzerland.

Growth step to Italy

Decreasing prices have marked the telecommunication business in Switzerland for years. Thus, the prices for telecommunication services have reduced by approximately 50 per cent on average since the liberalization in 1998. In the past years, Swisscom was able to compensate this deficiency in receipts by the growth in the mobile communications, the broadband access lines and in the business divisions close to the core business as well as by efficient cost management in each case. However, the question as to how Swisscom can find back to the path of growth remained unanswered. Now, in the last year Swisscom succeeded in taking an important step towards growth by acquiring Fastweb. The Italian broadband market has great potential. Fastweb develops 130 cities in Italy with the state-of-art glass fiber infrastructure and has made the largest investments already in the past years.

Besides the step towards Italy, another awakening happened within Swisscom in the past year. Swisscom moved much more closely towards its customers in 2007. As of end of 2007, Swisscom combined the group companies Fixnet, Mobile and Solutions, which were previously organized according to technologies, in one company and replaced it by one customer-oriented organization. Residential customers, small and medium-sized enterprises and corporate business are served by Swisscom now in a «one-stop shop». At the same time, Swisscom centralized the organization of the specialists for the related technology and information technology, who are able to develop solutions for the future across the borders of fixed-line and mobile networks jointly and in a cost-oriented manner, in one department.

In this new organization and with the new image, Swisscom is armed for the challenges of market and technology. For the financial year 2008, Swisscom expects net revenue of around CHF 12.3 billion as well as an operating income (EBITDA) of CHF 4.8 billion. The investments will be between CHF 2.1 billion and CHF 2.2 billion.

Disclaimer

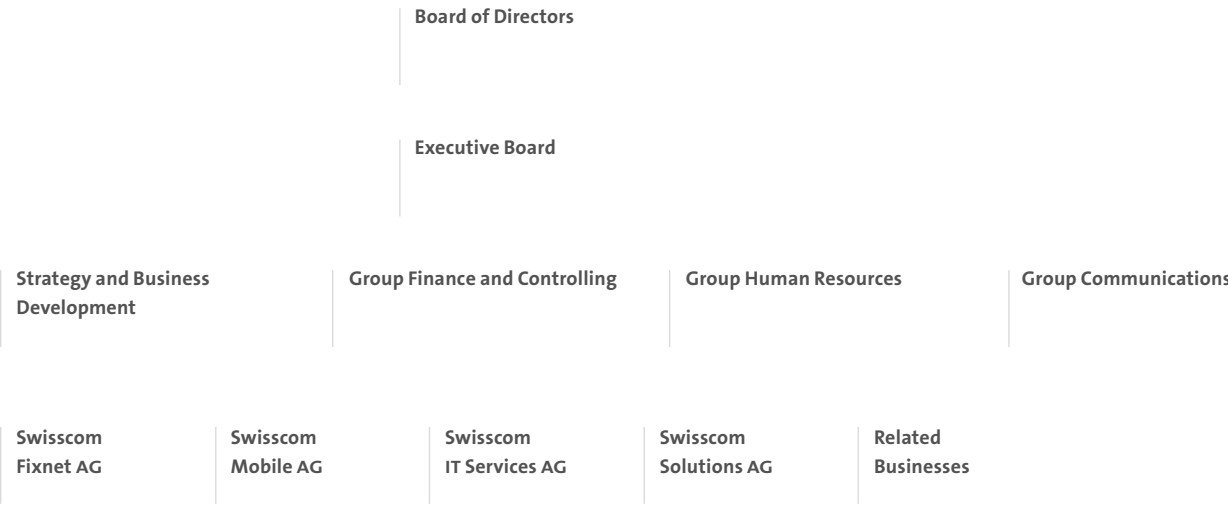
The annual report consists of the following parts: organization, market and environment, strategy and risk factors, financial review, consolidated financial statements and financial statements of Swisscom Ltd, Corporate Governance, remuneration report and sustainability report. All parts have been prepared in conformity with the applicable regulations. For a better understanding, equal information is partly presented in different parts of the annual report due to different requirements.

Corporate structure financial year 2007

The structure of segment reporting for the financial year 2007 explained under «Business segments» is based on the corporate structure legally applicable as of 31 December 2007.

In 2007, the focus of Fixnet and Mobile was on the residential customers segment. Furthermore, Mobile also served the needs of small and medium-sized companies, whereas Solutions focused on the concerns of large corporate business. In order to provide a one-stop service for large corporate accounts, the services for large corporate business of Fixnet and Mobile were transferred to Solutions in the year under review. In addition, Mobile took over the responsibility for Swisscom shops from Fixnet.

Swisscom Company Structure as of 31 December 2007



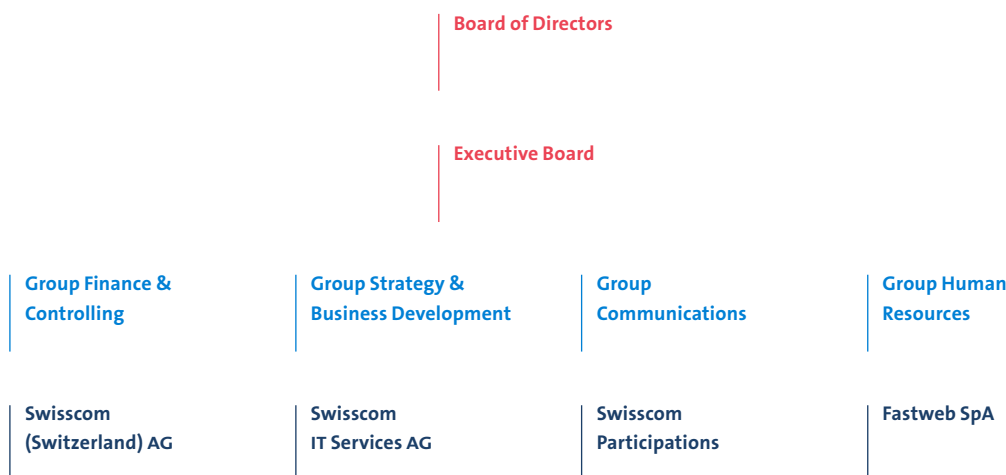
Reorganization as of January 1, 2008

As of August 1, 2007, Swisscom reorganized and has since then shown the consistent focus of the company on its customers' needs in its organization as well. The step was legally effected as of beginning of 2008: Instead of the former group companies Fixnet, Mobile and Solutions, the business divisions residential customers, small and medium-sized companies and corporate business with focus on the respective target group have been consolidated under the roof of Swisscom (Switzerland) AG as of 1 January 2008. Each business division is responsible for the complete design of the customer experience for its customer group that is the design of the range offered, the marketing, the advice and service. Since the technical platforms for offerings in fixed-line and mobile communications converge increasingly, fixed-line and mobile infrastructures as well as IT platforms would be combined in a single division at the same time. The supporting functions of financing, human resources and strategy of the three previous group companies are centralized in the course of the reorientation.

The new group structure provides the complete range of Swisscom as a one-stop shop. This structure allows for the change in technology through the convergence of fixed-line and mobile communications and the supplementation by media and entertainment. With the consequent focus on the customer, a single point of contact in the company as well as simple solutions for the customer is created.

The modification of organization as well as the acquisition of Fastweb results in changes in the management of Swisscom. Reorganization was implemented as of August 1, 2007 with respect to management and with legal effect as of January 1, 2008. Fastweb, Swisscom IT Services and the various participations bundled in the division of Swisscom Participations will be managed as independent companies in the future.

Swisscom Company Structure as of 1 January 2008



With 5.0 million mobile subscribers, approximately 3.7 million fixed lines and 1.6 million broadband access lines, Swisscom is the leading telecommunications company in Switzerland. 19,844 employees (full-time positions) generated a turnover of CHF 11.1 in the financial year 2007.

Swisscom covers approximately two thirds of the domestic demand for services and products in the fields of voice over IP and data communication for residential and corporate business with its group companies on the Swiss market. Within the framework of the license for securing an area-wide universal service, Swisscom is present as provider also in sparsely populated areas of the country. In June 2007, Swisscom obtained this license for another 10 years (2008–2017). Providing broadband internet access and additional services are part of the universal service for the first time. Furthermore, Swisscom is active in IT-Infrastructure outsourcing and in the management of communication infrastructures in the domestic market.

Thanks to the acquisition of the Italian provider Fastweb, Italian's second largest provider of broadband telecommunication services, Swisscom has been present in one of Europe's most interesting broadband markets since May 2007. Approximately 1.3 million customers in more than 130 cities use Fastweb's innovative range of completely IP-based broadband, voice and TV services via the most modern broadband lines. The company is headquartered in Milan. In the financial year 2007, Fastweb realized a turnover of EUR 1.4 billion (CHF 2.4 billion) with approximately 3,100 thousand employees.

The provision of broadband and Internet-based services for hotel guests and conference participants is another exclusively international Swisscom business field: Swisscom operates local networks in hotels and convention centers in Europe as well as in the USA through a subsidiary. To consolidate its market position in this segment, Swisscom enters into partnerships with leading international hotel chains.

In Eastern Europe, Swisscom further extends its activities due to future prospects of the broadband market. Its aim is to participate in the potential of these growth markets by offering reliable and reasonably-priced broadband products via targeted acquisitions of small local Internet service providers.

TIME¹-Markt in Switzerland

According to official statistics published by OfCOM (the Swiss Federal Office for Communications), some 300 registered and licensed national and international operators currently offer varied ranges of services on the Swiss market ten years after the opening of the Swiss telecommunications market.

The focus currently is on telecommunications and information services. The telecommunication services comprise primarily the business fields of network-based communications, mobile communications, IP-based voice and data communications, and value-added services. Media and entertainment services are a relatively young branch of business. Today, it comprises above all digital television, which is being marketed along with Internet access and telephony as a triple play offering via the Internet/cable network.

The market volume of the telecommunications and the IT market together are estimated at approximately CHF 17 billion, the media and entertainment market at approximately CHF 8 billion.

1 The time market comprises the technologically converging markets telecommunications, information technology, media and entertainment

Market characteristics and trends

Advanced maturity and intensive competition

The Swiss market is one of the most highly developed markets in the international comparison. It distinguishes itself by a varied offer of services around voice and data communication, media and entertainment as well as permanent innovation. Residential and business customers are well informed, cost-conscious and highly discerning when it comes to quality, security and service. As telecommunications and information technology increasingly converge, integrated solutions are increasingly gaining importance in the business customers' market segment. But only providers having corresponding competences at their disposal are capable of delivering these solutions.

The market for fixed-line telephony is largely saturated. Swisscom has 3.7 million connections. Traditional voice communication becomes less important. Several companies as Skype are pushing their way onto the market with alternative telephony offerings via the Internet (VoIP). The sector will continue to have to grapple with declining price. The companies respond to this challenge through measures aimed at cost reductions and increase in efficiency as well as innovative offerings that add value for telecommunications customers and are rewarded by them accordingly.

The revised Telecommunications Act (Fernmeldegesetz (FMG)) entered into force on 1 April 2007. It governs in particular the access of other providers of telecommunications to the local loop. Swisscom's competitors are provided full access to the unbundled local loop, access to ducts and leased lines. Swisscom does not believe that it is market-dominated in the market for bitstream access, and it therefore does not offer competitors bitstream access on a cost-oriented basis. Unbundling is restricted to copper wires; their effect on the market will largely depend on the access prices finally determined by the authorities.

The Swiss mobile communications market has also reached a high degree of saturation. As of the end of 2007, Swisscom had more than 5.0 million mobile subscribers. In an intensively competitive market with comparable offerings from different providers, the jostle for market share is focused primarily on pricing arguments. Against the backdrop of the regulation of the roaming rates through the European Commission, Swisscom decided to reduce the prices as of 22 September 2007. Swisscom passes the lower purchase prices negotiated with the European mobile operators on to its customers by lowering the rates.

2 «Roaming» only affects calls of a Swisscom Mobile customer who is abroad. Calls from Switzerland to foreign countries are not included in this term. Roaming rates arise between Swisscom Mobile and the respective partner network used by the end customer and between Swisscom Mobile and its customers.

Regarding Internet connections, demand for high bandwidths is constantly rising. The market has potential and is accordingly fiercely competitive. Swisscom's DSL ranges, marketed by Swisscom and a raft of other providers, are out in front. The millionth DSL access line was installed back in 2005. Now in 2007, Swisscom has around 1.6 million broadband access lines. In addition to the growth of the number of broadband connections, the broadband market also excels by another increase in the transmission bandwidths. Swisscom increased this significantly by introducing VDSL.

The entire Swiss television and video market has a market volume of approximately CHF 1 billion. Today, analogous cable television has a market share of approximately 60 per cent. At present, the market for digital cable- or IP-based television experiences strong growth and many customers switch from analogous cable television to new digital offerings. With Bluewin TV, Swisscom has launched a product based on IP technology and approximately 70,000 customers have already taken advantage of the offering as of the end of 2007.

Development of the European telecommunication sector

The EU Commission attempts to exert an increased influence on the harmonization of the sector regulation within the EU member countries. National regulation authorities, however, (as well as the respective state governments) still play an important role in the organization of their market environment.

Although it is not an EU member country, also Switzerland is influenced by regulatory impacts and the activities of large European telecommunication groups.

Market shares held by principal providers

Swisscom's strong market position

Swisscom is the most important provider of telecommunications and IT services in all key business segments in Switzerland. Swisscom's main competitors include Cablecom, Orange, Sunrise, and Tele2: nationally active companies that offer a telecommunications services for residential and business customers.

Following a reduction in Swisscom's share of the fixed-line telephony and mobile communications markets due to the entry of competitors, these shares have now stabilized at roughly two-thirds of total market volume. In recent years, Swisscom has constantly gained ground in the field of high-speed Internet access, and now occupies first place in this market segment as well. Swisscom also entered the market of digital television in 2006.

The Swisscom brand: a name you can count on

The Swisscom brand was created in the context of the transformation of the former PTT companies into a post and telecommunications company and in particular in view of its going public in 1998 and has since been developed systematically on an ongoing basis. Today, Swisscom has top position in Switzerland in terms of brand recognition, with rankings of 88.1 per cent (unprompted) and 96.9 per cent (prompted).

In July 2007, Swisscom reached the highest values in the competitive environment regarding general awareness for its fixed-line customers with 8.34 and its mobile customers with 8.33 (on a scale of 1-10). Sunrise and Tele2 are ranking in the middle with values of 7.96 and 7.94, respectively. Cablecom reaches 7.27. In mobile communications, Orange with 7.87 and Sunrise with 7.75 follow far behind Swisscom. Swisscom is miles ahead of its competitors when it comes to reputation: In all, 39 per cent of residential customers say that Swisscom has an excellent reputation.

Based on the new company strategy and the guiding principle, Swisscom decided to adapt the brand architecture: In the future, the umbrella brand Swisscom will be strengthened, the sub-brands Fixnet, Solutions, and Mobile will disappear, Bluewin will become the product name for internet services offered by Swisscom. The look of the umbrella brand has been developed further. In addition to the existing telecommunications and IT skills, it also expresses the media and entertainment skills in the Swisscom brand.

The new brand is based on the stable foundations of the existing brand – visibility is adapted to the challenges of the future. The new flexible approach offers sufficient leeway in order to appear as an up-to-date brand, adapted to the media and near to the customer with new products and services in the years to come.

As a part of the new appearance, the logo was presented to the public and to the employees on December 14, 2007. The new brand identity has been introduced as of March 1, 2008.

In 2007, reporting is provided according to the following business segments:

- Fixnet
- Mobile
- Solutions
- Fastweb
- Others
- Corporate

The following descriptions of business fields are structured according to the mentioned group structure as of December 31, 2007. The description of the business segments and reporting for the year 2008 are based on the new organization structure.

Fixnet

Swisscom Fixnet covers fixed-line communications within Swisscom. It designs, constructs and maintains network infrastructure and sells its network and other services to individuals and companies of small and medium size and to resellers. Under the Bluewin brand, Swisscom Fixnet offers comprehensive Internet and broadband services for home networks.

CHF in millions, except where indicated	2007	2006	Change
Net revenue	4,474	4,687	–4.5%
Operating income (EBITDA)	1,898	1,802	5.3%
Capital expenditure	835	602	38.7%
Number of full-time equivalent employees at end of period	7,069	6,671	6.0%
Number of lines at end of period	5,288	5,115	3.4%

CHF in millions	2007	2006	Change
Net revenue	4,474	4,687	–4.5%
Therof traffic retail revenue	920	974	–5.5%
Therof traffic wholesale revenue	269	351	–23.4%
Therof access revenue	2,136	2,078	2.8%

Products and services

Swisscom provides services, including analogue, digital and broadband access services, to residential and business customers.

Access

The voice access service, provided over the public switched telephone network (PSTN), connects a customer's premises and the PSTN for basic voice, facsimile and Internet services. Each PSTN access line provides a single telecommunications channel. Swisscom offers its PSTN customers a wide range of supplementary services including caller identification, call forwarding, call waiting, engaged line callback, three-party conference calling and caller identification suppression services.

Number of lines in thousands	2007	2006	Change
PSTN lines	2,871	2,891	–0.7%
ISDN lines	815	856	–4.8%
Total number of PSTN/ISDN lines	3,686	3,747	–1.6%
Broadband lines retail	1,164	936	24.4%
Broadband lines wholesale	438	432	1.4%
Total broadband lines	1,602	1,368	17.1%

Swisscom's digital voice access services are provided over the integrated services digital network (ISDN). ISDN allows a single access line to be used for a number of purposes simultaneously, including voice, Internet, data and facsimile transmission. ISDN provides higher quality connections with faster transmission of signals, and increases the broadband capacity of the access network. ISDN also supports a full range of supplementary services.

Swisscom is the leading Internet service provider for residential customers (retail customers) in Switzerland, offering a broadband Internet access over lines (DSL) and a narrowband Internet access as a dial-up service over ISDN and PSTN lines. In addition, Swisscom Fixnet offers broadband Internet access to other Internet service providers on a wholesale level.

In recent years, DSL technology recorded a large growth. DSL offers significantly higher transmission speeds compared to ISDN. DSL is based on PSTN and allows – like ISDN – the simultaneous use of telephony and Internet services. The growth of DSL connections compensates for the decline of ISDN connections.

Swisscom seeks to increase the number of subscribers to broadband access services by offering new broadband services and significantly increasing the bandwidth of its DSL lines. Swisscom continues to complement its existing network with VDSL technology.

Traffic

Swisscom provides national and international fixed-line voice telephony services to residential and small and medium-sized business customers.

Residential customer traffic has decreased in recent years, mainly due to a significant decline in local area traffic and analogue Internet traffic. In 2007, the strong growth in the number of broadband access lines contributed to the reduction in Internet traffic, while increased competition reduced voice traffic. Swisscom expects that this development will continue.

Swisscom is in a good position to maintain the leading position in national and cross-border telephony traffic in the Swiss market. Swisscom aims at consolidating and increasing the market share and increasing customer loyalty.

Swisscom provides various wholesale services to other telecommunications providers, including network operators, service providers and resellers. Swisscom's range of wholesale services includes interconnection services, which Swisscom offers to all licensed operators, registered service providers and others entitled to interconnection under the Telecommunications Act.

Swisscom and Belgacom, the leading telecommunications company in Belgium, formed a joint venture company, named Belgacom International Carrier Services (BICS), combining their international wholesale activities.

Swisscom generates further revenue from traffic from the operation of payphones, operator services and from the sale of prepaid cards.

Bluewin TV

In line with the corporate strategy, Fixnet launched its IP TV service under the name Bluewin TV service at the beginning of November 2006. Thanks to the launch of Bluewin Radio Services and Bluewin TV, customers can really experience the convergence of telecommunications, Internet technology, multimedia and entertainment.

Other services

Other services comprise the sale of customer equipment, the provision of leased lines and the operation of a directories database.

Competition

In the area of fixed network telephony and related services, Swisscom faces intense competition, particularly in the national and international calling markets. Price competition has intensified due to increased competition from cable network operators and from Internet service providers. Swisscom expects price competition to further intensify in 2008.

In order to strengthen its competitive position in the retail fixed-line market, Swisscom aims to increase its market position in the broadband access services and to strengthen customer loyalty through first-class service and top quality. The demand for broadband services will continue to increase. Swisscom continues to be active on the residential customer market for broadband services. Swisscom believes that combining its core activities, voice and Internet, with multimedia services, such as TV and video on demand (a so-called «triple-play» strategy), will be an effective means of competing with cable network operators.

Mobile

Counting more than five million customers, Swisscom Mobile is the number one in the Swiss mobile telecommunications business. It operates a Swiss-wide mobile broadband network and is constantly extending it, Swisscom Mobile's GSM network serves more than 99 per cent of the Swiss population, the UMTS network is available to approximately 90 per cent of the population. With the combination of the five technologies of GPRS, EDGE, UMTS, HSPA, and WLAN, Swisscom can offer its customers a mix of technologies unique throughout Switzerland and leading throughout Europe. Furthermore, the cooperation with Vodafone will be continued under a cooperation agreement. As of 2007 Swisscom Mobile manages the Swisscom shops.

CHF in millions, except where indicated	2007	2006	Change
Net revenue	4,015	3,974	1.0%
Operating income (EBITDA)	1,817	1,801	0.9%
Capital expenditure	368	334	10.2%
Number of full-time equivalent employees at end of period	2,812	2,991	-6.0%

Subscribers in thousands, except where indicated	2007	2006	Change
Postpaid	3,013	2,805	7.4%
Prepaid	1,994	1,827	9.1%
Total number of subscribers	5,007	4,632	8.1%

Product and services

Voice

As the leading provider of mobile communication services in Switzerland, Swisscom offers its customers mobile telephony services in Switzerland as well as abroad. Swisscom has roaming agreements with 454 mobile network operators worldwide covering 190 countries/regions and earns revenue from those operators when their subscribers make mobile phone calls in Switzerland.

Main products: Swisscom currently offers a wide variety of mobile products, including pre- and post-paid products where calls are charged on a minute or hour basis per call (every 60 minutes).

Since 1995, the number of mobile customers in the Swiss marketplace has grown each year, with overall market penetration reaching 107 per cent at the end of 2007. Swisscom expects growth in the mobile market to continue, this being based on the increasing customer demand for a second SIM card for data services. With growing market penetration, Swisscom increasingly focuses on customer retention.

In CHF or minutes	2007	2006	Change
Total average revenue per user per month (ARPU)	60	65	-7.1%
Therof ARPU voice	37	41	-10.2%
Therof ARPU data	12	11	6.4%
Total average minutes per user per month (ARPU)	129	124	3.5%

Data and value added services

These services include the sending of SMS and MMS messages as well as data traffic and data services. Data traffic is generated mainly through the use of Internet services such as web browsing or e-mail or via the mobile telephone as well as through the Internet connection of PCs through wireless broadband services (product Mobile Unlimited).

The mobile data service Vodafone live! allows customers to take and send picture messages, download games and ring tones and to access information and entertainment services, such as live television, Napster Mobile Music and specific mobile video services. These mobile entertainment and mobile data services are constantly upgraded either globally through Vodafone or locally through Swisscom.

The main motor for the turnovers of data services are services of e-mail synchronization, converted Internet accesses as well as mobile entertainment.

Other services

Other services mainly consist of revenue from the sale of mobile handsets to third-party outlets and to customers in the Swisscom shops. Furthermore, the revenues from the business activities of SICAP and Minick are included.

Swisscom uses both Swisscom shops and third-party distribution channels to distribute equipment. As of January 1, 2007 responsibility for overseeing the Swisscom shops was effectively transferred from Fixnet to Mobile. Thus, Mobile manages in all 110 Swisscom shops (this number includes the franchisees and Globus shops).

SICAP, a wholly owned subsidiary of Swisscom Mobile AG provides prepaid billing services to mobile network operators worldwide and so-called over-the-air (OTA) solutions, through which prepaid GSM SIM-card settings can be modified. Further, the 100 per cent subsidiary of SICAP, SICAP France, provides software solutions for remotely managed devices and messaging platform services as part of a range of customized mobile multimedia services.

Minick develops and operates mobile communication services for network operators and companies of the media and entertainment sector. Minick offers corporate customers services in the field of mobile direct and dialogue marketing. Minick operates an own messaging as well as hosting center for mobile internet access. Furthermore, Minick manages more than 300 mobile Internet portals for network operators around the world.

Competition

In its mobile business, Swisscom faces competition primarily from the two other established mobile licensees in Switzerland, Orange and TDC (Sunrise), which also hold Swiss UMTS licenses. In December 2003, ComCom awarded GSM licenses to two other competitors, Tele2 and In&Phone. Tele2 launched a city network in Zurich in June 2005 and plans to expand its services to other cities by building out its own network and through a national roaming agreement it entered into with TDC (Sunrise). In&Phone has launched campus networks throughout Switzerland and entered into a national roaming agreement with TDC (Sunrise) in early 2006. Swisscom expects competition, especially for business customers, to remain strong in 2008 due to increased tariff pressure and competing enhanced data solutions. Competition for residential customers is expected to be driven by handset subsidies, with enhanced customer service quality growing in importance.

Solutions

Swisscom Solutions is the leading full-service provider of communications solutions for corporate customers – from individual services to complete offers. It operates the traditional and IP-based voice and data communications for corporate customers, manages communications infrastructures, designs, constructs and operates comprehensive communications solutions. Early in 2007, Swisscom Solutions integrated the missions of consulting and sale for mobile communications into its corporate customer service.

CHF in millions, except where indicated	2007	2006	Change
Net revenue	1,224	1,224	–
Operating income (EBITDA)	112	70	60.0%
Capital expenditure	39	42	–7.1%
Number of full-time equivalent employees at end of period	2,019	1,929	4.7%

Products and services

Connectivity

Swisscom provides national and international fixed-line voice telephony services to business customers. A description of these voice telephony services, which Swisscom also provides to residential customers, is listed under Fixnet. The use of IP-based services as an alternative to the traditional fixed-line services will increase in future. These services have considerably improved regarding quality and convenience during the last years.

Swisscom is the leading provider of national leased lines in Switzerland. Leased lines are fixed point-to-point connections between separate locations, which may be used by the customer for voice and high volume data or video transmission. Leased lines are used by business customers to operate their own private networks and by resellers for their information services. Swisscom also offers leased line services on a wholesale basis. National leased line customers can use managed leased line services. Through active fault management and automatic rerouting in case of network failure, Solutions' managed leased line services guarantee up to 99.97 per cent end-to-end availability. The number of national leased lines has declined in recent years, as customers increasingly switch to high capacity services based on Internet Protocol (IP) which allow for a higher flexibility for customer applications.

Swisscom's Intranet services consist primarily of managed VPN (Virtual Private Networks) services. Other services within the range of Intranet services include remote access services, which enable access to a company's Intranet through all commercially available access technologies and encryption services for customers with strict security requirements.

Communication and Collaboration

Swisscom offers customers custom-made modular solutions for the configuration, installation and operation of their business communication. Solutions sells complete communication solutions together with other Swisscom areas and companies or external partners.

Furthermore, Swisscom offers services of product integration including configuration, provision, implementation and support of private branch extensions (PBXs), local area networks (LANs), private network services and other data and telecommunications infrastructures.

In the field of customer service, Solution offers a complete range of operation and maintenance services for PBXs and company LANs. Swisscom performs remote operation and maintenance of the customer's PBX or LAN and / or operates and maintains them through the nationwide technology team of Solutions as well as through partners. For company LANs, Solutions has also introduced a large number of services intended to avoid equipment failure and ensure that the systems are repaired in case of failure and quickly become operational again.

Business Process Optimization

In this business segment, Swisscom offers business numbers that corporate customers use in order to grant their customers access to information services. Services of customer interaction management are included in this segment as well.

Outsourcing

Outsourcing services consist primarily telecommunications services. Solutions expanded its outsourcing activities by means of national and international contracts. The demand for combined IT and telecommunications solutions (provided by Solutions in cooperation with Swisscom IT Services) increases as more and more companies focus on their core activities. This creates great potential for growth for the outsourcing segment.

Other services

Swisscom offers its business customers rental agreements for PBXs. Furthermore, Solutions offers its customers international VPN and messaging services, security solutions and live event support through partnerships.

Competition

The market is characterized by a high penetration, IP-based services, overcapacities and, as a result, high price pressure. Consequently, Swisscom has experienced a decrease in revenues in most of its customer segments. In contrast, Swisscom's revenues derived from complex telecommunications solutions are rising. Swisscom will focus on meeting customers' needs for complex solutions and complement its range just like up to now through new developments, partnerships or acquisitions.

Leased line tariffs continued to decline above all due to increased competition from other infrastructure-based companies such as electrical power and cable network operators with their own telecommunication infrastructure and services, whose high bandwidth offerings have become more widely available and have declined in price.

In the area of international services, Solutions faces stiff price competition due to over-capacity in the international market.

Fastweb

Fastweb is Italy's second largest broadband telecommunications provider. The basis for these services is one of the first IP-based (Internet protocol) networks worldwide on which voice, data, Internet and TV services are offered. Fastweb offers its innovative services in all larger cities and agglomerations in Italy. In 2007, Fastweb realized a turnover of EUR 1.4 billion (CHF 2.4 billion) and EBITDA of EUR 480 million (CHF 790 million). Customer base amounted to approximately 1.3 million as of December 31, 2007. Fastweb also has an important market position in the corporate customer business. Among other things, Fastweb is the most important supplier for data services of public administration in Italy.

Fastweb was founded in 1999 and was the first company worldwide to offer IPTV in 2001. The company is headquartered in Milan and the company currently has approximately 3.100 employees at present.

EUR in millions, except where indicated	2007
Net revenue	1,433
Operating income (EBITDA)	480
Capital expenditure	541
Number of full-time equivalent employees at end of period	3,128
Number of customers at end of period	1,313

Products and services

Fastweb serves all market segments including large corporate customers, small and medium-sized enterprises (SME) and residential customers. The varied product range comprises voice, data, Internet, TV (IPTV) services and video on demand. Complete network services (virtual private networks VPN) and customer-specific solutions are included in the portfolio as well. The services are either offered directly via its own optical fiber network (fiber to the Home, fiber to the Office) or based on unbundled connections. The services excel by high quality, reliability and user friendliness. Thanks to these features and the growing broadband market, Fastweb has been able to realize a strong growth of turnover for all products and customer segments during the last years.

For summer 2008, Fastweb plans the introduction of mobile communication services based on a MVNO contract (virtual network operator). The corresponding contracts were concluded in December 2007. With this, Fastweb offers its customers mobile services in addition to fixed-network products and advances to the position of a full telecommunications provider in Italy.

Competition

With a market share of approximately 13 percent, Fastweb is the second largest provider in the broadband market after Telecom Italia. Thanks to the high quality, an above-average turnover per customer can be realized compared to its competitors. Broadband market penetration amounts to approximately 40 per cent in Italy as of the end of 2007, which is essentially lower than the European average. Therefore, a growth of the market is expected for the next years. In addition to Telecom Italia, the most important competitors in the business with residential customers and small and medium-sized companies in this growth market are the competing companies Tiscali, Wind, and Vodafone (after the acquisition of Tele 2 in 2007). Fastweb is number two after the dominant Telecom Italia in the corporate customer business as well. Wind and BT Albacom are the other important market participants.

Other

The business segment «Others» mainly comprises Swisscom IT-Services (incl. Comit), Swisscom Broadcast, the Accarda Gruppe (Billag AG and Alphapay AG, Accarda AG sale in July 2007 and others), Antenna Hungária (until July 2007) as well as Hospitality Services and Airbites Central & Eastern Europe.

Swisscom IT services (incl. Comit)

Swisscom IT Services is one of Switzerland's leading IT service providers. Its core business covers the integration and the operation of complex IT infrastructures. Business with external customers accounts for about half of the company's revenue.

Swisscom IT Services has a long and full IT competence in the sectors of telecommunication and financial services. Based on this competence, it offers IT services also to medium-sized and rather large companies and institutions of other sectors, as in the field of public administration and healthcare. Together with its subsidiary Comit, acquired at the beginning of 2006, the IT service provider attends to numerous customers in the financial sector and is the market leader in this sector.

Swisscom Broadcast

Swisscom Broadcast is the leading provider of radio services as well as cross-platform services for customers in the media sector and for wireless communications for rescue and security organizations in Switzerland. Today, main customers are broadcasters, security and emergency services, and telecommunications providers. Swisscom Broadcast's infrastructure comprises more than 500 transmission sites and 2,000 transmitters.

Swisscom Broadcast's range includes the provisioning and terrestrial distribution of analogue and digital transmission signals as well as telehousing (sharing site facilities).

Swisscom Broadcast continues to deal with the technologies of DVB-T (Digital Video Broadcasting – Terrestrial) and DVB-H (Digital Video Broadcasting – Handhelds). At the end of September 2007, it received the license for the development of the digital mobile television according to the DVB-H standard in Switzerland from the Swiss Federal Communications Commission (ComCom) in a competition based on criteria. The introduction of DVB-T and DAB (Digital Audio Broadcasting) has been completed to the major extent. Audiovisual transmission using IP technology is also gaining in importance and its development is set to continue.

Billag AG

Since 1998, Billag has been responsible for collecting fees for radio and television reception on behalf of the Swiss Federation. The collection volume amounts to approximately CHF 1.2 billion. Billag is also responsible for providing information about the obligation to register and to pay the fees to the general public. Its services support the «service public» in the area of broadcasting and television.

In cooperation with Swisscom IT Services, Billag has a highly sophisticated, specialized know-how for mass processing of invoices

Hospitality Services

Swisscom Hospitality Services offers Internet-based services for hotel guests and conference participants in Europe and Northern America.

Hospitality Services operates a high-speed Internet network in more than 2,400 hotels with 200,000 rooms throughout Europe and Northern America. In addition, the company provides specific communications solutions for approximately 8,500 events worldwide. This makes Hospitality Services, together with other Swisscom subsidiaries, the world's leading provider of high-speed Internet-based services.

Airbites Central & Eastern Europe

Airbites Central & Eastern Europe (Airbites) provides broadband services for residential customers as well as for small and medium-sized corporate customers in Eastern European cities, in particular in Romania, Bulgaria, Poland, and the Ukraine.

In the residential customer business, Airbites P2P (peer-to-peer, file sharing) offers applications and telephony products of high quality. Airbites aims at becoming a «triple-play provider» in the residential customer business in future. Corporate customers receive a direct optical fiber connection of high quality to the Internet. On this basis, additional products and services are offered, such as for example network management, VPN or hosting.

The company plans to include four cities in the Ukraine and one in Romania to the Airbites range in 2008.

Corporate

«Corporate» includes the headquarter divisions, shared services for group companies, Swisscom Immobilien AG and the employment company Worklink.

Swisscom Immobilien AG

Swisscom Immobilien AG's core competence is the integrated Facility Management (FM), that's the management of buildings and the procurement and provision of all marketable real estate resources according to the requirements.

Swisscom owns and operates a number of fixed-line and mobile telecommunications networks to provide its diverse range of products and services. Swisscom's fixed-line network and almost all of its data networks are managed by Fixnet – Swisscom's mobile networks are managed by Mobile.

Reduction of network complexity and cost optimization has been central aspects of Swisscom's network strategy. This comprised in particular the development and enhancement of strategic growth platforms for broadband and IP technologies.

Swisscom took further steps toward implementing its triple play strategy and all-IP network concept. The rollout of VDSL, the technological successor to ADSL technology, became the focus of development activity on the fixed network. As a result, Swisscom's capital expenditures related to its fixed network totaled CHF 566 million in 2007.

In its mobile network, Swisscom continues to make significant investments in infrastructure in order to maintain high service quality, enable new services, increase broadband coverage and increase capacity. In 2007, the capital expenditures related to its mobile network totaled CHF 191 million.

Through the reorganization as of August 2007 (as of January 1, 2008 with legal effect), the IT platforms and the fixed-line and mobile communications infrastructures in the segment «Network & IT» were combined under a single responsibility. Thus, Swisscom has an integrated network and IT unit that speeds up migration towards a modern IT- and IP-based network platform (all-IP). Thanks to the new organizational structure, the requirements in the fields with customer contact (so called Customer Facing Units, CFU) residential customers, small and medium-sized companies and large companies are now realized consistently.

In total, Swisscom intends to invest a total of CHF 7 to 8 billion in its fixed-line and mobile networks for the next five years.

Fixed-line networks

Swisscom operates a highly sophisticated PSTN/ISDN network infrastructure, principally for the provision of public voice telephony, several data networks and a continuously enhanced broadband and IP network that transmits Internet, voice over IP and TV traffic. These networks form the access networks and the extensive national transmission infrastructure. Swisscom's broadband service is available to approximately 98 per cent of the population of Switzerland.

In keeping up with the general trend toward IP-based networks and services, Swisscom continues to upgrade and optimize its broadband and IP capabilities. In 2007, the entire IP network was upgraded to the next generation of high capacity routers and Ethernet access rings as well as IP-based VDSL components (so-called digital subscriber line access multiplexer (DSLAM) were installed. On the other hand, the legacy data networks such as frame relay and asynchronous transfer mode (ATM) were scaled down.

Mobile telecommunications networks

Swisscom's mobile services use the global system for mobile communications (GSM) standard as well as the Universal Mobile Telecommunication System (UMTS), the dominant digital standards in Europe and much of the rest of the world. Swisscom's GSM network serves 99 per cent of the population of Switzerland, and the UMTS network serves 90 per cent of the population.

Swisscom Mobile is the leading public wireless LAN (PWLAN) network operator in Switzerland, currently operating approximately 1,026 hotspots in Switzerland. In addition, Swisscom Mobile offers access to additional hotspots through roaming agreements, mainly with Hospitality Services.

Through recent capacity enhancements and functional upgrades of its network, such as the implementation of Enhanced Data Rates for GSM Evolution (EDGE) and high-speed downlink packet access (HSPA) technology, Swisscom is able to provide customers with a variety of enhanced services such as live-TV. Swisscom's EDGE service is available to 99 per cent of the population of Switzerland.

In cooperation with Swisscom Broadcast, Swisscom Mobile has also been testing the digital transmission standard DVB-H (Digital Video Broadcasting Handheld), which is based on radio broadcasting technology and provides mobile users TV reception on handheld devices. Swisscom provides its customers with broadband connections without interruptions experience with the technology mix of HSPA, UMTS, EDGE and WLAN.

Swisscom's business activity is strongly influenced by regulatory requirements and obligations. The most important influence in the financial year 2007 was due to the coming into effect of the revised Telecommunications Act (Fernmeldegesetz, FMG) and the associated implementation guidelines on April 1, 2007. The main focus of the new legal framework is on the unbundling of the last mile, thus the new access services that dominant providers have to offer to competitors at cost-based prices. On account of months of preparatory work, Swisscom was able to offer the new regulated access services as of the date of the entry into effect of the new regulation.

Regulated access services under the Telecommunications Act

Since January 1, 1998, Swisscom has been providing interconnection services for other telecommunications companies in Switzerland. Interconnection regulates the interconnection of the networks of Swisscom and alternative providers of telecommunications services. Since 2000, Swisscom has determined the prices of these services according to the cost calculation method LRIC (long-run incremental costs) prescribed by law. In 2004, providers of telecommunications services made a request with the Federal Communications Commission (ComCom) for lowering the interconnection prices invoiced to them by Swisscom. With partial order of December 14, 2007, ComCom determined the prices for the years 2004–2006 in two of four cases and thus lowered the prices charged by Swisscom by 15–20 per cent. Swisscom accepted these price reductions and waived the appeal with the Federal Administrative Court (Bundesverwaltungsgericht). These two (partially decided) proceedings as well as the two other proceedings (not yet decided) have been extended to the prices of the years 2007 and 2008 by the Federal Office of Communications (BAKOM). Further decisions of ComCom are expected for the first six months of 2008.

Unbundling of the last mile and / or new access services

Swisscom has prepared itself intensively for the introduction of the new access services included in the law and was able to complete the product development already before this date. With the introduction of the duty to unbundle, the corresponding basis range of Swisscom was available to the competitors.

On the one hand, the offer published by Swisscom comprises the completely unbundled access to the subscriber's connection. The use of two-core copper metal line makes it possible for Swisscom's competitors to make their own offerings from the simple telephone connection to multi-media network connection, that is the entire range of the services that can be realized on the copper network, including a self-operated broadband connection.

In addition to the completely unbundled access to the subscriber's connection, Swisscom has offered the offsetting of subscriber's connections of fixed-line network, rented lines, the access to cabling and – as an additional service – the collocation (provision of areas for technical equipment in the exchange) at cost-based prices from April 1, 2007 on.

Several competitors could not agree to the prices of Swisscom in particular for the access services and filed the corresponding requests with ComCom. Decisions of ComCom are expected for the first six months of 2008. Although Swisscom could not reach an agreement with the competitors on a main item of the contract in these cases, it agreed to already provide the access services concerned nevertheless.

No market dominance in the broadband market

Swisscom refrained from including the fast bitstream access in the regulated basis offer since – in its opinion – there is no market dominance by Swisscom. This would be a necessary condition for an obligation to offer bitstream access. In the broadband market, Swisscom competes in particular with operators of cable television networks. Correspondingly, its position in the market is not dominant, Swisscom also filed an appeal with the Federal Administrative Court for a corresponding negative decision of ComCom that was based on an opinion made by the Competition Commission (Wettbewerbskommission, Weko). Swisscom takes the view that ComCom's opinion as well as ComCom's decision are based on wrong assumptions in central items of analysis, that the competitive situation has been examined insufficiently and that the principles and guidelines set in the final and absolute decision on the appeal by the Appeal Commission for issues of competition (today: Federal Administrative Court) of June 30, 2005 – in the same matter – have been ignored so that in the end Swisscom's market domination was not proven successfully. The decision whether Swisscom has a dominant position in the end-customer market despite competing infrastructures and intensive competition, is pending before the Federal Administrative Court in last instance. The decision is expected during the second six months of 2008 at the earliest.

Universal service

One of the main objectives of the telecommunications regulation remains the «reliable and affordable universal supply with telecommunications services for the entire population in all parts of the country» (art. 1 FMG). The scope of services as well as guidelines regarding quality and prices are fixed by the Federal Council (Bundesrat). The universal services obligation is embodied in the law and is regulated in detail in the license. Swisscom was granted the license for another ten years (2008–2017).

The universal service obligation now also includes a broadband Internet access. Switzerland thus is the first country to have a regulated broadband coverage in the entire country. Swisscom is confident that it will successfully meet this challenge as well. More than 98 per cent of the Swiss households have a broadband connection based on the fixed network already now.

Since the new requirements are formulated neutral as to technology and since exceptions are accepted in case of technical or economical reasons, investment needs for the new obligation remain acceptable. Therefore, Swisscom renounced the utilization of a financial compensation for the first five years of license. The more the price pressures increase whether by competition or regulation, the more difficult to offer the same services at the same conditions all over the country. Therefore, Swisscom has reserved a compensation for the second half of the term of the license in order to limit the entrepreneurial risks associated with the long period of the license.

Mobile termination

On 5 February 2007, the Competition Commission imposed a fine of CHF 333 million against Swisscom for alleged misuse of termination fees. Swisscom filed an appeal against this order of the Competition Commission with the Federal Administrative Court. The appeal with the Federal Administrative Court shows that Swisscom has had the lowest mobile termination fees of all mobile communications providers for years and does not take any advantage of these fees. On account of the low termination fees and the higher volume of outgoing calls, Swisscom has made net payments to its competitors Sunrise and Orange for years and so to speak «subsidizes» its competitors. Swiss rates belong to the lowest rates in the international comparison in the area of the fixed-line as well. Furthermore, sanction is not admissible when it is not foreseeable. It is not foreseeable which price level the Competition Commission considers to be not discriminating. Swisscom expects that the Federal Administrative Court will annul the order of the Competition Commission. The decision of the Federal Administrative Court is expected during the second six months of 2008.

Swisscom continues to focus its research and development efforts on four main areas:

- extending its range of communication services by exploiting the increasing convergence of fixed-line telecommunication, mobile telecommunication, information and entertainment technologies
- enhancing the quality of service and customer care
- researching of network technologies for new services
- cost efficiency.

Furthermore, in line with its strategy, Swisscom responds to changing market needs. As of 2007, Swisscom focused its strategic emphasis on expansion of existing and the establishment of new business segments.

Business ideas are developed with focus on the following areas:

- communication and information services that seamlessly integrate a wide range of networks, applications and devices using technologies such as Voice over IP, web technologies, voice-controlled interactions and intelligent network technologies;
- multimedia information and entertainment services provided via broadband for various access networks and terminals: They serve for mobile entertainment and are used on different channels (fixed and mobile voice, broadband internet and TV);
- emerging network technologies enabling fixed and mobile broadband services, including home-networking;
- current software technology trends and their impact on the efficiency of creating new services, their quality and security;
- analysis of how innovations can be implemented more quickly involving the customers and external partners;
- electromagnetic compatibility arising from existing and new service delivery technologies.

In particular, Swisscom takes into account social and socio-economic trends and surveys customers and the general public regarding their behavior as well as the usability and marketing of products and services.

Furthermore, Swisscom invests in venture capital funds. See chapter Strategy «Expansion of business activities».

Swisscom is able to react quickly to promising new technologies having a high business potential by developing them as so-called «innovation ventures». From this, Whisher (an online service for the combination of private wi-fi facilities for a jointly used network) and Me2Me (recording of own everyday information for later use on mobile devices or PC) emerged as own companies. Various ventures are currently being tested in market tests, e.g. Starfruit (connection of virtual world Second Life with real world) and Skimondo (mobile navigation and information services skiers on the slope and in the tourist sites).

Swisscom pursues technologies and applications in the areas of mobile communication, multimedia services, identity management and authentication services, applications for home networks and networks of the next generation as well as migration towards VoIP. Moreover, Swisscom participates in several international organizations, e.g. the Wireless World Research Forum (WWRF) and «Fireworks», a group of telecommunications operators which jointly observe standardization activities in order to secure their common interests.

Swisscom pursues a number of research initiatives with industrial partners, universities, institutes and research labs. Under these initiatives, Swisscom and its partners carry out joint projects and share research and development results. Various research projects are funded by the European Commission's Sixth Framework Program.

Swisscom has a variety of patents and licenses to protect suitable investments.

To enable Swisscom's strategy to be lived and implemented uniformly by all employees, Swisscom introduced a new set of guiding principles in 2007. They detail how our employees can live our customer promise «Exactly what you need; simple, one-stop solutions; unbeatable quality and service» in their daily work and how they should put their all into meeting our customers needs under the maxim «I am Swisscom». The guiding principles set out exactly what customers, employees, partners, shareholders and the public can expect from Swisscom.

Customers

- We earn the trust of each and every customer. Today and in the future.

Employees

- We create a stimulating working environment and attractive jobs, and provide scope for development.
- We reward customer focus, initiative and performance.
- We are a fair and responsible partner.
- We promote diversity and individual responsibility.

Partners

- We build on partnerships that bring mutual benefits.
- Cooperation is uncomplicated and characterized by fairness.

Shareholders

- Our long-term perspective allows us to create sustainable added value and to enter new areas of business.

Public

- We communicate openly and transparently.
- We are aware of our special responsibility in Switzerland, both now and in the future.
- We are committed to ensuring that all of Switzerland can participate in the information society.
- We treat the environment with respect.

Swisscom is active in a highly dynamic market that is characterized by constant change: changing needs characterize the demand and control the range offered. In the segment of corporate customers, regular changes in technology and process improvements additionally influence Swisscom's chances of realizing new business.

Swisscom's company strategy communicated in spring 2006 pursues three objectives in order to handle this market:

- strengthen the competitive position and broaden the creation of value in the core business Switzerland;
- develop further substantial efficiency potentials;
- identify and concretize growth options outside the current core business in Switzerland or abroad, based on a clear industrial and strategic logic.

Taking into account the expectations of the main shareholder stipulated by the Federal Council for the period 2006-2009, Swisscom specified its position in the market and developed further and implemented the three-pillar strategy in the course of the year under review. Whereas the pillar 1 «Maximize» mainly aims at optimizing the core business, pillar 2 «Extend» and pillar 3 «Expand» focus on growth.

Maximize existing business activities in the home market (pillar 1)

Swisscom intends to further extend its already high level of customer loyalty by building on its range of products and services and excellent customer care. Residential customers expect an increasingly integrated and convergent range of voice, data and multimedia services that are simple to operate and can securely be accessed via terminal devices. Swisscom develops its product range consistently according to these needs and strengthened it in the year under review e.g. with IP-based telephony or the introduction of a VDLS range for end users.

Swisscom addresses future needs of corporate customers in a similar manner through a range of convergent Information and Communications Technologies (ICT). In the year under review, e.g. the OnePhone both for large and medium-sized corporate customers and the VoIP offer for small and medium-sized companies were launched. Highest priority is attached to improvements in the international connectivity and customer service for large corporate business.

Corporate strategy



Thanks to the reorientation, Swisscom lays the foundation for offering a complete range of products and services to its customers as a one-stop shop in the future: This makes the range of products and services even more attractive. The optimization of network and information technology infrastructure will lead to simplification and thus enable significant cost savings.

These measures will allow Swisscom to face the future challenges in its home market while continuing to provide its customers with the highest level of service.

Extend business activities to new markets and customer segments (pillar 2)

Swisscom wants to offer to its customers a wide range of information and communication services: To this effect, it continues to continuously develop its business activities along the value chain in Switzerland and abroad.

In the year under review, the range in the area of information technology for large customers was extended by integrated IT solutions in order to be able to offer multi-year project and outsourcing contracts. Furthermore, the range offered in the area of desktop management and convergence solutions (e.g. Unified Communications or One Workplace) was extended considerably.

Residential customers were provided with a new range of services last year in particular from Bluewin TV, Swisscom's IPTV.

Expand the business activities for compensating for the decline of cash flow in core business (pillar 3)

In order to continue to grow and to compensate for the decreasing cash flow in the core business, Swisscom expands its business activities, based on its core competences, to markets which have not yet reached the level of development of Swiss market. For achieving these goals, Swisscom organically develops new business in Switzerland or abroad and acquires companies within the limits of its financial possibilities and based on the Federal Council's strategic objectives.

In the year under review, Swisscom expanded into the strongly growing Italian broadband market with the acquisition of Fastweb, the biggest competitor of Telekom Italia. Swisscom's subsidiary «Swisscom Central & Eastern Europe» that offers broadband connections and value-added services in five countries of Eastern Europe under the brand name of «Airbites» also records a strong growth.

In order to notice the potential in innovative and potentially disruptive business fields early and directly, Swisscom invests in venture capital funds focused on technology companies having a high potential of growth.

The sale of Antenna Hungária that was acquired by Swisscom in 2005 resulted in an important, single inflow of liquid funds as well.

Explanations on risk management are included in the chapter Corporate Governance.

The following paragraphs explain the areas of risk and / or individual risks that must be considered to be essential among the identified risks in the group and that can influence the financial position and the results in future.

Regulation and procedures

Regulatory provisions lead to risks for Swisscom that can influence the company's future results and financial position. The focus is mainly on the regulation of the prices of access services as well as orders of authorities and / or their instance of appeal which may result in short-term outflow of funds. Regulation can also have effects on the design of products and services as well as on decisions regarding investments.

The assessment of Swisscom's market dominance regarding the fast bitstream access may also lead to short-term outflow of funds and determine the pricing and the design of products as well as investment strategy. However, given the competition of infrastructures (especially with cable network operators) Swisscom, considers it rather improbable that it will be classified as dominant on the market here.

The legislator's intention inherent in the revised Telecommunications Act to regulate existing infrastructures only is of decisive importance for the investment activity and thus the development of telecommunications infrastructure in Switzerland. Newly built infrastructures such as fiber optical networks are excluded from the applicable regulation. The corresponding protection of property encourages making risky investments in the construction of such fiber optic networks. In order not to affect these investment projects, it is essential that the new regulatory framework conditions remain stable in the medium and in the long term so that the investment and business activity becomes predictable. Discussions on a speedy revision (thus aggravation) of the regulatory framework conditions would be detrimental to the corresponding investment projects. Today, Swisscom considers a revision to be improbable.

One of the main objectives of the telecommunication regulation remains the universal service obligation. Swisscom will provide the universal service for another 10 years (2008–2017) according to its license. Since the new requirements are formulated neutral as to technology and since exceptions are accepted in case of technical or economical reasons, investment needs for the new obligation remain acceptable. Therefore, Swisscom renounced the utilization of a financial compensation for the first five years of license. The more the price pressures increase whether by competition or regulation, the more difficult to offer the same services at the same conditions all over the country. Therefore, Swisscom has reserved compensation during the second half of the term of the license in order to limit the entrepreneurial risks associated with the long period of the license.

Swisscom is potentially affected by the Antitrust Law (Kartellgesetz) just for its size. The focus is on possible abusive behavior of dominant companies. High sanctions can be imposed on the company for such behavior as the case may be. Swisscom ensures through an internal compliance program that the requirements made by the Antitrust Law are complied with in its business activity. Nevertheless, several antitrust procedures are currently pending.

On 5 February 2007, the Competition Commission imposed a fine of CHF 333 million against Swisscom for excessive termination fees. Swisscom filed an appeal against this order of the Competition Commission with the Federal Administrative Tribunal. On account of the explanations given, Swisscom expects that the Federal Administrative Court will annul the order of the Competition Commission. The decision of the Federal Administrative Court is expected during the second six months of 2008.

On 20 October 2005, the Competition Commission opened an inquiry against Swisscom on account of information laid by a competitor. The inquiry is explained by indications suggesting that Swisscom abuses its dominant position in the broadband market by fixing excessively high prices for the ADSL wholesale offering so that no sufficient profit margin remains compared to the end-customer prices charged by Swisscom (margin squeeze). Furthermore, they had to inquire whether the prices of the ADSL wholesale offerings are cases of forced payment of unreasonable prices. Swisscom has stated up to now that there is an effective competition in the broadband market and that the pricing for ADSL and the corresponding wholesale products would be admissible even if Swisscom had a dominant position on the market. No predictions can be made on the further action of the Competition Commission.

Competition in Switzerland

The Swiss telecommunications market is marked by intensive competition, which has led to considerable price cuttings for voice and data traffic during the last years, both in the declining fixed-line field and in the still growing mobile communications field.

Swisscom expects that the competitive pressure will continue in future on account of the development of the market and competition as well as the possibilities that the unbundling of the last mile offers to competitors. Continuously falling prices and loss of market shares would have corresponding negative effects on the turnover and profitability for Swisscom, in particular when the costs cannot be reduced simultaneously to the same extent.

In the broadband market that is still growing as well, technological progress and fight for market shares with cable network operators have also resulted in a multiplication of the bandwidths, for which partially considerable investments have been necessary and will continue to be necessary. Depending on the market development, there is a risk that these investments cannot be amortized at all or only partially.

In addition to increasing pressure by competitors, Swisscom is faced with the challenge of replacing the products and services that today are still mainly based on traditional infrastructure by new products and services based on Internet protocol (IP). If Swisscom does not manage to launch high-quality, convergent bundle offerings at interesting prices within a useful period of time, then this might have a negative effect on market shares and financial development as well.

The quality of service has a decisive influence on Swisscom's future competitive position as well. There is the risk that Swisscom does not manage to distinguish itself through the quality of service and thus to justify the slightly higher prices. Loss of customers has a direct negative effect on the target achievement.

Another risk is an increase in costs for customer acquisition and retention. This could be caused in particular by the fight for the remaining customers in the mobile communications and broadband market, since growth rates are declining in the markets still growing up to now and the markets are slowly coming to saturation.

Products and services

An increasing substitution of traditional for new technologies and products takes place on account of persistent technological convergence and the fast change in technology, which may result in further drops in prices and turnover both in voice and in data traffic. In particular the still increasing penetration of mobile phones and the possibilities for telephony via Internet protocol (VoIP) created through the higher bandwidths for data transmission represent a considerable risk for traditional fixed-line voice telephony.

Another risk is insufficient willingness to innovate, a lack of or insufficiently designed development processes or an excessive complexity of the product range. This may result in newly developed products and services not being launched at all or not in good time and thus the customers' demand not being satisfied fast enough or through insufficiently developed products only.

For achieving the revenue targets, Swisscom must manage to make the customers sufficiently understand the added value of existing or new products and services and thus to create customer acceptance for these services. In particular regarding the considerable investments in broadband development of both the mobile and the fixed-line network, there is a risk of the increases in use and turnover of the corresponding products and services not materializing as expected.

Health and environment

In the past, possible negative effects on environment and health have repeatedly been associated with electromagnetic radiation such as for example radiation emitted by antennas for mobile communication or mobile terminal devices. The topic is a matter of an partially controversial debate in the media and in the public.

The problems of public acceptance in particular in connection with the location of antennas for mobile communication make network construction more difficult for Swisscom already today. There is a risk of the rules and regulations in effect regarding the electromagnetic emission being stiffened or new rules and regulations being put into force in the future. This would cause costs for additional antennas or other measures for complying with the rules and regulations for Swisscom. Public perception regarding negative effects of electromagnetic radiation on environment and health could further complicate the construction of antennas for mobile communications or other wireless networks in the future even without a stiffening of the legal provisions and result in an increase in costs.

The reservations associated with possible effects of radio radiation and the use of mobile terminal devices, however, also represent a risk regarding the intensity of use. If scientific studies prove a significant effect of electromagnetic radiation on human well-being, this could have a negative influence on the use of wireless technologies, in particular mobile telephony, and thus on Swisscom's business development.

Network and IT infrastructures

Swisscom's operations highly depend on technical infrastructures such as telephone and data networks and information technology. Force majeure, human failure, hardware and software failure, but to an increasing extent also criminal acts committed by third persons (e.g. computer viruses) can cause damage or interruptions of functions in these fields. This may not only result in costs for repairing the damage, but also in lower customer satisfaction with correspondingly negative effect on Swisscom's reputation and a decrease in turnover.

Another risk is the fact that infrastructure increasingly faster becomes obsolete, which is driven by the change in technology. On account of the ongoing further development of old and the integration of new systems in the past, Swisscom's IT system landscape is very complex. For example, the lack of harmonization could hinder Swisscom's ability to increase its competitiveness and to use other potentials for cost reduction.

The current development also increasingly requires the integration of technologies and devices for the provision of multimedia services. They are expected to account for a large part of future growth (e.g. triple-play strategy through the launch of TV). If Swisscom has problems integrating such infrastructure or if problems occur during the operation of these devices in connection with the existing infrastructure, this might result in a delay in the implementation of the growth strategy and a decrease in customer satisfaction, which both could have negative effects on Swisscom's reputation and business development.

Value of Fastweb

In May 2007, Swisscom acquired the Italian company Fastweb at acquisition costs of CHF 5.1 billion. As of the time of acquisition, Fastweb had net debts amounting to CHF 1.8 billion. The significant items covered in the acquisition balance sheet are the fixed assets, goodwill and other intangible assets, especially trademark and customer relationships. Due to the acquisition of Fastweb, Swisscom was able to increase the growth potential significantly. The sustainable value of the assets depends on whether the forecasted growth in net revenue in the business plan will be achieved. The impairment test carried out within the framework of preparing the financial statement did not result in a need for reduction of the value. If the future growth turns out to be lower than predicted, there will be the risk that a reduction of the value of the goodwill will have to be recorded.

The discussion of the Group's results should be read in conjunction with the consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the statement provisions of Swiss law of obligations. The most important accounting principles are described in No. 2 in the Notes to the consolidated financial statements.

Summary

Swisscom reported an increase in net revenue in 2007 of 14.9% to CHF 11 089 million and in operating income (EBITDA) of 18.9% to CHF 4 501 million. The development of business was significantly influenced by the acquisition of Fastweb in May 2007. Fastweb's share of the net revenue was CHF 1 473 million and of EBITDA CHF 498 million. Comparable net revenue increased slightly year-over-year by 0.3% or CHF 27 million. However, due to costs for the launch of new products and the development of new business areas EBITDA decreased year-over-year by 1.9% or CHF 75 million.

Net income increased by 8.8% to CHF 2,071 million. Earnings per share rose by 38.1% to CHF 39.92 as a result of the repurchase of a 25% stake in Swisscom Mobile in December 2006 and last year's share buy-back scheme. Swisscom expects net revenue of CHF 12.3 billion for the 2008 financial year and an operating income (EBITDA) of approximately CHF 4.8 billion. Capital expenditure is expected to be between CHF 2.1 billion and CHF 2.2 billion.

CHF in millions, except where indicated	2007	2006	Change
Net revenue	11,089	9,652	14.9%
Goods and services purchased	(2,348)	(1,840)	27.6%
Personnel expenses	(2,442)	(2,278)	7.2%
Other operating expenses	(2,229)	(2,044)	9.1%
Capitalized costs and other income	431	296	45.6%
Operating income (EBITDA)	4,501	3,786	18.9%
Depreciation, amortization and impairment	(1,986)	(1,435)	38.4%
Operating income (EBIT)	2,515	2,351	7.0%
Gain on sale of subsidiaries	162	—	—
Financial income and financial expense, net	(191)	(51)	274.5%
Share of profit of investments in associates	32	30	6.7%
Income before income tax expense	2,518	2,330	8.1%
Income tax expense	(447)	(462)	−3.2%
Income from continuing operations	2,071	1,868	10.9%
Income from discontinued operations	—	36	—
Net income	2,071	1,904	8.8%
Net income attributable to equity holders of Swisscom Ltd	2,068	1,598	29.4%
Net income attributable to minority interests	3	306	—
Average number of shares outstanding (number in millions)	51.802	55.299	−6.3%
Earnings per share (in CHF)	39.92	28.90	38.1%

Acquisition of Fastweb

The financial statements are significantly influenced by the acquisition of Fastweb and its first-time consolidation. After the successful completion of the friendly takeover bid, Swisscom holds 82.1% of the capital and voting rights in Fastweb. Fastweb's shares are still quoted on Milan Stock Exchange. Acquisition costs amounted to CHF 5.1 billion. Fastweb is included in the consolidated financial statements from the date of the acquisition and is presented as a separate segment. In 2007, Fast-

web's share of the Swisscom consolidated net revenue was CHF 1,473 million and EBITDA CHF 498 million. Swisscom's net debt increased by CHF 6.8 billion as a result of the acquisition. The purchasing price was financed virtually completely through loans. On the date of the acquisition Fastweb's net debt amounted to CHF 1.8 billion. Swisscom Ltd paid back the major part of Fastweb's debts taken over in June 2007 and refinanced them through bank loans. Goodwill of CHF 3.0 billion resulted from the acquisition. In addition the trademark and existing customer relationships were measured at CHF 1.8 billion and recognized in the opening balance sheet as intangible assets.

Disposal of subsidiaries

In July 2007 Swisscom sold its card business (Accarda) and the Hungarian subsidiary Antenna Hungária and in December 2007 the business activities of Infonet (Switzerland) AG. The sales generated a net cash inflow of CHF 804 million and net gain of CHF 162 million. The consolidated income statement for 2007 includes net revenue of CHF 161 million (previous year CHF 272 million) and EBITDA of CHF 29 million (previous year CHF 45 million) from the subsidiaries sold.

Net revenue and operating income (EBITDA)

Net revenue in 2007 increased year-over-year by CHF 1.4 billion (+14.9%) to CHF 11.1 billion as a result of the acquisition of Fastweb and one-off items. On a comparable basis net revenue increased slightly year-over-year by CHF 27 million (+0.3%). The decline in traditional fixed-line business was compensated for by the growth in project and outsourcing business with corporate customers as well as the continuing increase in the number of the broadband access lines and mobile subscribers and growth in new business areas.

The operating income (EBITDA) increased by CHF 715 million (+18.9%) to CHF 4 501 million. The increase in EBITDA is mainly attributable to the recognition of provisions in 2006 of CHF 180 million for interconnection proceedings Fixnet and CHF 49 million for contractual risks in Swisscom IT Services' project business as well as the takeover of Fastweb (CHF 498 million). In 2007 CHF 91 million of these provisions for interconnection proceedings of Fixnet could be released through the income statement. The sale of the subsidiaries Antenna Hungária and Accarda in 2007 had the opposite effect as their net revenue and EBITDA fell year-over-year by CHF 91 million and CHF 16 million respectively following the sale. Without these effects EBITDA decreased by CHF 75 million (−1.9%). Costs in connection with the launch of new products and the development of new business areas could not be compensated for by cost savings. In 2007, mainly the new products Bluewin TV and the interactive TV remote control Betty had a negative effect on EBITDA of around CHF 50 million each.

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

CHF in millions	Revenue	EBITDA
Financial statements as of December 31, 2007	11,089	4,501
Financial statements as of December 31, 2006	9,652	3,786
Changes to the previous year	1,437	715
Analysis of changes to the previous year		
Impact of acquisition of Fastweb	1,473	498
Effect of sale of Antenna Hungária and Accarda	(91)	(16)
Effect of provisions for proceedings relating to interconnection of Fixnet	–	271
Effect of retroactive price adjustments of roaming tariffs Mobile	28	(12)
Effect of provisions for contractual risks from IT projects	–	49
Other changes	27	(75)
Total changes to the previous year	1,437	715

Goods and services purchased

CHF in millions	2007	2006	Change
Raw material and supplies	23	24	–4.2%
Purchased services	317	214	48.1%
Customer premises equipment and trade goods	676	630	7.3%
National traffic fees	473	533	–11.3%
International traffic fees	408	410	–0.5%
Traffic fees of foreign operations	451	29	–
Total goods and services purchased	2,348	1,840	27.6%

Expenditure on goods and services purchased increased by CHF 508 million (+27.6%) to CHF 2,348 million year-over-year. Adjusted to take into account the acquisition of Fastweb (CHF 510 million), the sale of subsidiaries and the retrospective adjustment in international outbound roaming tariffs in the previous year, expenditure on goods and services purchased was CHF 32 million down year-over-year. Lower wholesale prices for international roaming and lower costs in wholesale traffic as a result of lower volumes had a more marked effect than the increase in costs of materials and services purchased due to the growth in the areas of outsourcing and system integration and the increase in volume of mobile traffic and the costs of Bluewin TV and Betty.

Personnel expenses

CHF in millions	2007	2006	Change
Salaries and wages	1,921	1,741	10.3%
Termination benefits	–	14	–
Salaries and wages of the employment company Worklink	44	82	–46.3%
Social security expenses	213	166	28.3%
Pension cost	163	175	–6.9%
Share-based payments	9	17	–47.1%
Other personnel expenses	92	83	10.8%
Total personnel expenses	2,442	2,278	7.2%

Personnel expenses rose by CHF 164 million (+7.2%) to CHF 2,442 million, mainly as a result of the acquisition of Fastweb (CHF 189 million). This was partially offset by lower costs for termination benefits and the employment company Worklink. Year-over-year headcount increased by 2,776 full-time equivalent employees or 16.3% to 19,844. Adjusted to take into account disposals and acquisitions of subsidiaries, especially the acquisition of Fastweb and the sale of Antenna Hungária and Accarda, headcount increased by 630 full-time equivalent employees as a result of developments in growing business areas. Adjusted to take into account changes in scope of consolidation, headcount in Switzerland increased by 239 full-time equivalent employees.

Total salaries and wages expenses in the employment company Worklink AG fell year-over-year by CHF 38 million to CHF 44 million. The number of participants decreased from 429 to 275 full-time equivalent employees mainly as a result of employees retiring.

The headcount at year-end was as follows:

Number	31.12.2007	31.12.2006	Change
Fixnet	7,069	6,671	6.0%
Mobile	2,812	2,991	-6.0%
Solutions	2,019	1,929	4.7%
Fastweb	3,128	–	–
Other	3,846	4,574	-15.9%
Corporate	970	903	7.4%
Total full-time equivalent employees	19,844	17,068	16.3%

Participants in the two social plan programs, Outplacement (50 full-time jobs) and in the employment company Worklink (275 full-time jobs) are not included in the headcount reported as at December 31, 2007.

Other operating expenses

CHF in millions	2007	2006	Change
Rent	277	187	48.1%
Maintenance	267	213	25.4%
Loss on disposal of fixed assets	39	19	105.3%
Energy	96	77	24.7%
Information technology	174	178	-2.2%
Advertising and promotion	218	171	27.5%
Commissions	364	254	43.3%
Contractors and consultancy	293	285	2.8%
Allowance for bad debts	42	39	7.7%
(Release) recognition of provision for proceeding relating to interconnection of Fixnet	(91)	180	–
General and administration	204	168	21.4%
Other operating expenses	346	273	26.7%
Total other operating expenses	2,229	2,044	9.1%

Other operating expenses rose year-over-year by CHF 185 million (+9.1%) to CHF 2,229 million. Changes in scope of consolidation led to a net increase of CHF 375 million, of which Fastweb accounted for CHF 404 million. The previous year includes the recognition of additional provisions of CHF 180 million for interconnection proceedings. As a result of the ruling of ComCom, CHF 91 million of these provisions for interconnection proceedings could be reversed in the fourth quarter of 2007. Adjusted by these one-off items, other operating expenses increased by CHF 101 million. Costs of market launches of new products such as Bluewin TV and Betty as well as for the development of new markets such as Airbites Central & Eastern Europe could not be offset by cost savings.

Capitalized costs and other income

CHF in millions	2007	2006	Change
Capitalized costs	264	192	37.5%
Gain on sale of property, plant and equipment	38	27	40.7%
Income from employment company Worklink (personnel hire)	11	17	-35.3%
Reversal of provision and allowance for bad debts from interconnection proceedings Fastweb	66	–	–
Other income	52	60	-13.3%
Total capitalized cost and other income	431	296	45.6%

Capitalized costs and other income rose year-over-year by 45.6% or CHF 135 million to CHF 431 million, of which Fastweb accounted for CHF 128 million. The remaining increase is a result of higher gains from sales of real estate at Swisscom Immobilien AG as well as higher capitalized costs due to the development of network infrastructure and internally generated software.

Operating income (EBITDA)

CHF in millions	2007	2006	Change
Net revenue	11,089	9,652	14.9%
Goods and services purchased	(2,348)	(1,840)	27.6%
Personnel expenses	(2,442)	(2,278)	7.2%
Other operating expenses	(2,229)	(2,044)	9.1%
Capitalized costs and other income	431	296	45.6%
Operating income (EBITDA)	4,501	3,786	18.9%
Margin as % of net revenue	40.6	39.2	

In 2007 Swisscom reported an increase in net revenue of CHF 1,437 million (+14.9%) and the operating income (EBITDA) of CHF 715 million (+18.9%). EBITDA margin increased accordingly by 39.2% to 40.6%.

Adjusted by these one-off items, the year-over-year net revenue increased by CHF 27 million (+0.3%) and EBITDA decreased by CHF 75 million (-1.9%). Higher revenue in growing business areas could not offset the costs of the launch of new products. On a comparable basis EBITDA margin decreased from 41.6% to 40.7%.

Depreciation, amortization and impairment

CHF in millions	2007	2006	Change
Depreciation	1,502	1,280	17.3%
Amortization	411	155	165.2%
Impairment on goodwill and other intangible assets	73	–	–
Total depreciation, amortization and impairment	1,986	1,435	38.4%

The increase in depreciation, amortization and impairment of CHF 551 million to CHF 1,986 million is mainly attributable to the acquisition of Fastweb (CHF 520 million) and impairments on goodwill and other intangible assets of CHF 73 million. As a result of the termination of business activities at Betty and the impairment test on goodwill at Minick, impairments of CHF 58 million were recognised. Depreciation and amortization on Fastweb include amortization from the date of the acquisition of CHF 137 million on intangible assets, such as trademark and customer relationships which were recognized in the acquisition balance sheet within the scope of purchase price allocation and amortized over the estimated useful life of between 7 and 11 years. From 2008 amortization will amount to CHF 206 million.

Net financial result

CHF in millions	2007	2006	Change
Interest income	136	117	19
Interest expense	(396)	(144)	(252)
Net interest	(260)	(27)	(233)
Present value adjustment on provisions	(3)	(11)	8
Interest on provision for Interconnection proceedings	(1)	(75)	74
Net result from available-for-sale financial assets	–	69	(69)
Net result from financial assets at fair value through profit or loss	81	(1)	82
Foreign exchange gains (foreign exchange losses)	3	(7)	10
Other financial income and expense, net	(11)	1	(12)
Total financial income and financial expense, net	(191)	(51)	(140)

Net financial expense increased by CHF 140 million to CHF 191 million year-over-year. On the one hand loans taken out to finance the repurchase of a 25% share in Swisscom Mobile in December 2006 and the acquisition of Fastweb in May 2007 led to an increase in net interest expense of CHF 233 million. On the other hand a net gain of CHF 72 million was recognized in the second quarter of 2007 from currency hedges in connection with the acquisition of Fastweb. In 2006 interest expense of CHF 64 million was recognised in connection with the provisions for interconnection proceedings. This was largely offset by gains of CHF 63 million from the sale of financial assets.

Associate companies

Share of profit of investments in associates rose year-over-year by CHF 2 million to CHF 32 million. The result mainly comprises the share of net income from Belgacom International Carrier Services, Cinetrade and PubliDirect.

Income tax expense

CHF in millions	2007	2006	Change
Current income tax expense	462	483	–4.3%
Deferred income tax expense	(15)	(21)	–28.6%
Total income tax expense	447	462	–3.2%
Effective income tax rate	17.8%	19.8%	

Income tax expense amounted to CHF 447 million (previous year CHF 462 million), which corresponds to an effective income tax rate of 17.8% (previous year 19.8%). Income tax payments decreased year-on-year by CHF 27 million to CHF 469 million. Not including one-off items, an effective income tax rate of 22% is expected for the following years.

Discontinued operations

In 2006 provisions of CHF 36 million recognised for guarantees in connection with the sale of debitel could be reversed.

Net income and earnings per share

CHF in millions, except where indicated	2007	2006	Change
Operating income (EBITDA)	4,501	3,786	18.9%
Depreciation, amortization and impairment	(1,986)	(1,435)	38.4%
Operating income (EBIT)	2,515	2,351	7.0%
Gain on sale of subsidiaries	162	–	–
Financial income and financial expense, net	(191)	(51)	274.5%
Share of profit of investments in associates	32	30	6.7%
Income tax expense	(447)	(462)	–3.2%
Income from discontinued operations	–	36	–
Net income	2,071	1,904	8.8%
Net income attributable to equity holders of Swisscom Ltd	2,068	1,598	29.4%
Net income attributable to minority interests	3	306	–
Average number of shares outstanding (number in millions)	51.802	55.299	–6.3%
Earnings per share (in CHF)	39.92	28.90	38.1%

Net income rose in 2007 by CHF 167 million (+8.8%) to CHF 2,071 million. The increase in EBITDA was offset by higher depreciation and amortization and net financial expenses. The gain from the sale of the subsidiaries Antenna Hungária and Infonet had a positive effect on net income in the amount of CHF 162 million. Net income attributable to equity holders of Swisscom Ltd rose by 29.4% year-over-year to CHF 2,068 million following the repurchase of a 25% stake in Swisscom Mobile in December.

Earnings per share are calculated on the basis of net income attributable to equity holders of Swisscom Ltd and the average number of shares outstanding. As a result of the omission of Vodafone's minority stake in Swisscom Mobile as well as last year's share buyback program and the consequent lower average number of shares outstanding, earnings per share rose by 38.1% to CHF 39.92.

Provisions and contingent liabilities

In April 2006 the Federal Court partially approved the price reductions ordered by the communications commission (ComCom) in the interconnection proceedings Fixnet initiated in 2000. ComCom concluded that Swisscom had charged excessive prices for certain interconnection services in comparison with other Telecom service providers in the years 2000 to 2003. As a result of the Federal Court's decision Swisscom increased its provisions by CHF 180 million in the second quarter of 2006. This increase is recognised under other operating expenses. In addition, provisions were increased by the respective interest impact. In view of ComCom's decision provisions of CHF 109 million could be reversed in 2007. Of this CHF 91 million were recognised under EBITDA and CHF 18 million in the financial result. On December 31, 2007 provisions amounted to CHF 356 million. Up to December 31, 2007 Swisscom had made payments totaling CHF 181 million. Payments in 2007 amounted to CHF 80 million.

In the proceedings initiated against Swisscom Mobile in connection with mobile termination fees, the Secretariat of the WEKO issued a decision on February 5, 2007, in which it comes to the conclusion that Swisscom Mobile had a market-dominant position from April 1, 2004 to May 31, 2005 and violated Swiss Antitrust Law during this period by demanding disproportionately high termination fees. WEKO orders sanctions of CHF 333 million. Swisscom refutes WEKO's claims in the decision and intends to appeal to the administrative Court. In view of its legal assessment Swisscom is of the opinion that it is unlikely that sanctions will be imposed and has therefore not recognized any provisions in the 2007 consolidated financial statements.

The financial review reports on the following segments:

- **Fixnet**
- **Mobile**
- **Solutions**
- **Fastweb**
- The segment **Other** mainly comprises the Group companies Swisscom IT Services, comprising mainly Swisscom IT Services AG and Comit AG, Swisscom Broadcast, Antenna Hungária (included up to its sale on July 19, 2007), the Accarda Group, consisting of Billag AG, Accarda AG (included up to its sale on July 2, 2007) and Medipa AG, Airbites Central & Eastern Europe, Hospitality Services and Betty.
- **Corporate** includes Group Headquarter divisions, shared services for subsidiaries, the real estate company Swisscom Real Estate AG and the employment company Worklink AG.

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

CHF in millions	Net revenue ¹			EBITDA		
	2007	2006	Change	2007	2006	Change
Fixnet	4,474	4,687	–4.5%	1,898	1,802	5.3%
Mobile	4,015	3,974	1.0%	1,817	1,801	0.9%
Solutions	1,224	1,224	–	112	70	60.0%
Fastweb	1,473	–	–	498	–	–
Other	1,338	1,334	0.3%	113	118	–4.2%
Corporate	643	637	0.9%	102	23	343.5%
Intercompany-elimination	(2,078)	(2,204)	–5.7%	(39)	(28)	–
Total	11,089	9,652	14.9%	4,501	3,786	18.9%

¹ Includes intersegment revenue.

Fixnet

The Fixnet segment comprises primarily access services to residential and corporate customers, broadband access services, national and international fixed-line telephony traffic for residential customers as well as small and medium-sized enterprises, use of fixed-line network by other telecommunication providers, payphone services, operator services and prepaid calling cards. Fixnet also provides leased lines, offers television services, sells customer equipment and operates a directories database.

The development of Fixnet is presented in the following table:

CHF in millions	2007	2006	Change
Revenue from external customers	3,861	4,006	−3.6%
Intersegment revenue	613	681	−10.0%
Net revenue	4,474	4,687	−4.5%
Segment expenses (incl. intercompany)	(2,576)	(2,885)	−10.7%
EBITDA	1,898	1,802	5.3%
Margin as % of net revenue	42.4	38.4	
Depreciation and amortization	(724)	(753)	−3.9%
EBIT	1,174	1,049	11.9%

CHF in millions or number	2007	2006	Change
Capital expenditure	835	602	38.7%
Number of full-time equivalent employees at end of period	7,069	6,671	6.0%

Revenue from Fixnet with external customers decreased by 3.6% to CHF 3,861 million compared with the previous year. The decrease in the number of analogue and digital access lines (PSTN/ISDN) and traffic revenue as a result of price reductions and the competition with cable network companies and substitution through mobile telephony could only be partially offset by the continued strong growth in broadband access lines and TV services.

Fixnet's total segment expenses decreased year-over-year to CHF 309 million (−10.7%). This is mainly due to provisions of CHF 180 million recognized in the previous year for interconnection proceedings and the reversal of provisions of CHF 91 millions for interconnection proceedings in the fourth quarter of 2007. Not including these one-off items, segment expenses remains on the same level as the previous year despite costs of launching new products and technologies. The main reasons are the lower volumes in wholesale traffic and cost savings.

Operating income (EBITDA) of CHF 1,898 million (+5.4%) was up year-over-year mainly as a result of the changes in provisions for interconnection proceedings. Adjusted by these one-off items, operating income decreased by CHF 174 million. (−8.8%) year-over-year, since the decline in revenue could only be partially offset by cost savings.

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

Fixnet/Net revenue

CHF in millions	2007	2006	Change
Local and long-distance traffic	358	371	−3.5%
Fixed-to-mobile traffic	338	355	−4.8%
Internet traffic	28	48	−41.7%
International traffic	196	200	−2.0%
Total retail traffic	920	974	−5.5%
Wholesale traffic	269	351	−23.4%
Other traffic	89	105	−15.2%
Access	2,136	2,078	2.8%
Other revenue	447	498	−10.2%
Total revenue from external customers	3,861	4,006	−3.6%
Intersegment revenue	613	681	−10.0%
Total net revenue	4,474	4,687	−4.5%

Number of lines in thousands	31.12.2007	31.12.2006	Change
PSTN lines	2,871	2,891	−0.7%
ISDN lines	815	856	−4.8%
Total number of PSTN/ISDN lines	3,686	3,747	−1.6%
Broadband lines retail	1,164	936	24.4%
Broadband lines wholesale	438	432	1.4%
Total broadband lines	1,602	1,368	17.1%

Retail traffic volume in millions of minutes	2007	2006	Change
Local and long-distance traffic	6,060	6,312	−4.0%
Fixed-to-mobile traffic	943	926	1.8%
Internet traffic	890	1,487	−40.1%
Total national traffic	7,893	8,725	−9.5%
International traffic	908	903	0.6%
Total retail traffic	8,801	9,628	−8.6%

Wholesale traffic volume in millions of minutes	2007	2006	Change
Wholesale traffic	14,517	16,160	−10.2%

Revenue from retail traffic fell by 5.5% to a total of CHF 920 million. The decline in local and long-distance traffic and Internet traffic is, above all, attributable to the pressure of competition with cable network companies, substitution through mobile telephony and the continuing migration of Internet traffic to xDSL. Revenue in fixed-to-mobile declined mainly as a result of price reductions in connection with lower termination prices.

Revenue from wholesale traffic fell by 23.4% to a total of CHF 269 million. The decline is mainly due to a 10.2% lower volume of traffic and price reductions in inter-connection rates.

Access revenue rose by 2.8% to CHF 2,136 million. Revenue from broadband (xDSL) increased by CHF 103 million (+15.4%) to CHF 773 million. The number of broadband access lines increased year-over-year by 17.1% to 1.6 million lines. This business included 1.2 million lines subscribed to by retail customers and 0.4 million

by the customers of other providers. The number of analogue and digital access lines (PSTN/ISDN) decreased by 61,000 (–1.6%) to 3.7 million, mainly as a result of strong competition with cable network companies and substitution through mobile telephony. As at December 31, 2007, approximately 70,000 Bluewin TV customers were registered.

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

Fixnet/Segment Operating Expenses and Depreciation and Amortization

CHF in millions	2007	2006	Change
Goods and services purchased	441	484	–8.9%
Personnel expenses	831	827	0.5%
Other operating expenses	520	724	–28.2%
Intersegment expenses	956	990	–3.4%
Capitalized costs and other income	(172)	(140)	22.9%
Total segment expenses	2,576	2,885	–10.7%
Depreciation and amortization	724	753	–3.9%

Fixnet's total segment expenses decreased year-over-year to CHF 2,576 million (10.7%). Expenditure on goods and services purchased decreased mainly as a result of lower traffic volume. The increase in personnel expenses is attributable to the increased headcount (+6.0%). Costs for termination benefits decreased by CHF 12 million. Other operating expenses decreased by CHF 205 million. This is mainly due to the recognition of additional provisions of CHF 180 million in the previous year for interconnection proceedings and the reversal of provisions of CHF 91 million for interconnection proceedings in the fourth quarter of 2007. Adjusted by these one-off items, other operating expenses increased by CHF 66 million year-over-year. The increase in costs in connection with the launch of Bluewin TV and new technologies could not be fully offset by cost savings. The decrease in expenses with other segments is due to the reduction in termination prices at Mobile.

Mobile

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

The development of Mobile is presented in the following table:

CHF in millions	2007	2006	Change
Revenue from external customers	3,757	3,660	2.7%
Intersegment revenue	258	314	-17.8%
Net revenue	4,015	3,974	1.0%
Segment expenses (incl. intercompany)	(2,198)	(2,173)	1.2%
EBITDA	1,817	1,801	0.9%
Margin as % of net revenue	45.3	45.3	
Depreciation, amortization and impairment	(439)	(389)	12.9%
EBIT	1,378	1,412	-2.4%

CHF in millions or number	2007	2006	Change
Capital expenditure	368	334	10.2%
Number of full-time equivalent employees at end of period	2,812	2,991	-6.0%

Revenue from external customers increased year-over-year 2.7% to CHF 3,757 million. This is mainly due to the continuing increase in the number of subscribers, growth in new data services as well as the two acquisitions in the previous year of Minick und Swapcom. As a result of increased revenue and cost savings, EBITDA rose by CHF 16 million (+0.9%) to CHF 1,817 million. Not including the retrospective adjustment of international roaming tariffs in the first quarter of 2006 described below, EBITDA was CHF 28 million higher year-over-year. Despite strong competition, the EBITDA margin of 45.3% could be maintained.

Capital expenditure is slightly higher year-over-year, mainly because of the refurbishment of the Swisscom Shops.

Headcount fell by 6.0% to 2,812 full-time equivalent employees as a result of the transfer of a sales unit to Swisscom Solutions and measures to increase efficiency.

Mobile/Net revenue

CHF in millions	2007	2006	Change
Connectivity voice	2,028	2,040	-0.6%
Connectivity data and value added services	779	667	16.8%
Base fees	607	633	-4.1%
Other revenue	343	320	7.2%
Total revenue from external customers	3,757	3,660	2.7%
Intersegment revenue	258	314	-17.8%
Total net revenue	4,015	3,974	1.0%

Number of subscribers in thousands	31.12.2007	31.12.2006	Change
Postpaid	3,013	2,805	7.4%
Prepaid	1,994	1,827	9.1%
Total number of subscribers	5,007	4,632	8.1%

In CHF, minutes or millions	2007	2006	Change
ARPU in CHF	60	65	-7.7%
AMPU in minutes	129	124	4.0%
Number of SMS messages in millions	2,278	2,107	8.1%

The lower traffic and subscription fees resulting from new tariff models and the reduction in termination prices are almost fully offset by a higher number of subscribers and the growth from new data services. The average revenue per user per month (ARPU) fell from CHF 65 to CHF 60. This includes data services of CHF 13 (previous year CHF 12). At the beginning of 2006 Mobile concluded new roaming agreements with a number of foreign mobile phone providers. These new agreements included a reduction in prices for international roaming traffic, effective retrospectively as of April 2005. In the first quarter of 2006, these retrospective price adjustments led to a decline in revenue from incoming roaming traffic of CHF 28 million and a decline in expenditure on outgoing roaming traffic of CHF 40 million.

The main reason for the decline in intersegment revenue is lower traffic volume from other network operators using Swisscom Fixnet lines.

The number of subscribers increased year-over-year by 375,000 net (+8.1%) to 5,007,000 subscribers. The Churn rate is 0.92% per month and at the same level as in the previous year. At the end of 2007 the Liberty family had 2.2 million subscribers and the pre-paid product M-Budget Mobile, 360,000 subscribers.

Mobile/Segment Operating Expenses and Depreciation and Amortization

CHF in millions	2007	2006	Change
Goods and services purchased	988	960	2.9%
Personnel expenses	339	364	-6.9%
Other operating expenses	526	508	3.5%
Intersegment expenses	376	365	3.0%
Capitalized costs and other income	(31)	(24)	29.2%
Total segment expenses	2,198	2,173	1.2%
Depreciation, amortization and impairment	439	389	12.9%

Excluding the already mentioned retrospective adjustment of international roaming tariffs of CHF 40 million in the first quarter of 2006, expenditure on goods and services purchased was down slightly year-over-year, despite the small company acquisitions and a higher volume of calls terminated for other operators. The decrease is due to a reduction in termination prices for other operators at the beginning of 2007 and lower wholesale prices for international roaming. Moreover, headcount could be reduced by 6.9% as a result of the shift of a sales unit to Swisscom Solutions and measures to increase efficiency. On the other hand operating expenses rose by 3.5% year-over-year, due to higher service and subscriber acquisition costs for new customers in view of the strong competition.

The increase in intersegment expenses is due to commission payments in connection with the shift of the sales unit to Swisscom Solutions.

Solutions

«Solutions» primarily offers corporate customers voice and data connectivity services, as well as communication infrastructure solutions and optimization and outsourcing of business processes. The business activities of Infonet Switzerland (AG) were sold to British Telecom on December 1, 2007. As of January 1, 2007 a sales unit with 90 full-time equivalent employees was transferred from Mobile to Solutions to ensure a better mobile communication service to corporate businesses.

The development of Solutions is presented in the following table:

CHF in millions	2007	2006	Change
Revenue from external customers	1,060	1,076	–1.5%
Intersegment revenue	164	148	10.8%
Net revenue	1,224	1,224	–
Segment expenses (incl. intercompany)	(1,112)	(1,154)	–3.6%
EBITDA	112	70	60.0%
Margin as % of net revenue	9.2	5.7	
Depreciation, amortization and impairment	(46)	(34)	35.3%
EBIT	66	36	83.3%

CHF in millions or number	2007	2006	Change
Capital expenditure	39	42	–7.1%
Number of full-time equivalent employees at end of period	2,019	1,929	4.7%

Solutions' revenue from external customers decreased year-over-year by 1.5% or CHF 16 million to CHF 1,060 million. The decline in revenue as a result of keen competition and price pressure could not be compensated for by higher revenue in business process optimization and outsourcing projects. EBITDA on the other hand rose by 60.0% to CHF 112 million as a result of costs savings and a stronger concentration on products and services with higher margins. The increase in headcount by 90 full-time equivalent employees' year-over-year is a result of the transfer of a sales unit from Swisscom Mobile.

Solutions/Net revenue

CHF in millions	2007	2006	Change
Connectivity	501	547	-8.4%
Communication and collaboration	262	269	-2.6%
Business process optimization	92	87	5.7%
Outsourcing	84	42	100.0%
Other revenue	121	131	-7.6%
Total revenue from external customers	1,060	1,076	-1.5%
Intersegment revenue	164	148	10.8%
Total net revenue	1,224	1,224	-

Traffic volume in millions of minutes	2007	2006	Change
Local and long-distance traffic	1,463	1,540	-5.0%
Fixed-to-mobile traffic	257	246	4.5%
Total national traffic	1,720	1,786	-3.7%
International traffic	358	342	4.7%
Total national and international traffic	2,078	2,128	-2.3%

Revenue from connectivity services decreased by 8.4 % to CHF 501 million as a result of lower prices and competitive pressure and, due to the downward market trends caused by substitution effects and changes in communication behavior. Moreover, substitution effects resulting from the migration of leased lines to lower priced Internet-based products (IP) as well as the optimization of customer networks and cannibalization as a result of outsourcing business have also contributed to this decline.

Overall, however, the downward trend in data connectivity services and communication and collaboration is compensated for by the growth in the areas business process optimization, big outsourcing projects and higher intersegment revenue because of the new customer segmentation.

Solutions/Segment Operating Expenses and Depreciation and Amortization

CHF in millions	2007	2006	Change
Goods and services purchased	223	240	-7.1%
Personnel expenses	289	279	3.6%
Other operating expenses	61	43	41.9%
Intersegment expenses	545	600	-9.2%
Capitalized costs and other income	(6)	(8)	-25.0%
Total segment expenses	1,112	1,154	-3.6%
Depreciation, amortization and impairment	46	34	35.3%

Segment expenses decreased by 3.6% to CHF 1,112 million due on the one hand to revenue-related lower purchasing volumes from other segments. Changes in the product mix and lower purchasing prices led to a decline of 7.1% to CHF 223 million in the costs of expenditure on goods and services purchased. The increase in personnel expenses and other operating expenses is mainly due to the transfer of a sales unit from Swisscom Mobile at the beginning of 2007. Additional starting-up costs in connection with outsourcing projects account for the increase in other operating expenses.

Depreciation, amortization and impairment increased year-over-year by CHF 12 million to CHF 46 million due to one-off amortization and adjustments to the useful lives of intangible assets.

Fastweb

Fastweb is included in the consolidated financial statements since the completion of the takeover on May 22, 2007. Fastweb is the second-largest provider of broadband telecommunication services in Italy. Their wide product portfolio comprises voice, data, Internet, TV (IPTV) services and video on demand for residential and corporate customers. They also provide network services and customized solutions.

The development of Fastweb is presented in the following table:

Fastweb/Full year

EUR in millions	2007	2006	Change
Revenue from external customers	1,433	1,260	13.7%
Net revenue	1,433	1,260	13.7%
Goods and services purchased	(537)	(466)	15.2%
Personnel expenses	(185)	(175)	5.7%
Other operating expenses	(389)	(372)	4.6%
Capitalized costs and other income	158	54	192.6%
Total segment expenses	(953)	(959)	-0.6%
EBITDA	480	301	59.5%
Margin as % of net revenue	33.5	23.9	
Depreciation, amortization and impairment	(382)	(389)	-1.8%
EBIT	98	(88)	-
Financial income and financial expense, net	(66)	(79)	-16.5%
Share of profit of investments in associates	(1)	(1)	-
Income before income tax expense	31	(168)	-
Income tax expense	(156)	44	-
Net loss	(125)	(124)	0.8%

Number of customer in thousands	31.12.2007	31.12.2006	Change
Number of customers	1,313	1,062	23.6%

EUR in millions or number	2007	2006	Change
Capital expenditure	541	529	2.3%
Number of full-time equivalent employees at end of period	3,128	3,075	1.7%

Fastweb recorded a constantly high growth in revenue, EBITDA and customers in 2007. Net revenue increased by 13.7% to EUR 1,433 million (CHF 2,359 million) and EBITDA by 59.5% to EUR 480 million (CHF 790 million). The increase in EBITDA is on the one hand due to operative growth, as the number of customers increased by 23.6% to over 1,313,000. On the other hand various one-off items also made a positive contribution to the operating income of net EUR 70 million.

In December 2007 the regulating authorities issued a decision about prices for Fastweb's interconnection services charged to Telecom Italia and other network operators. As a result Fastweb was able to reverse provisions of EUR 26 million and allowances for bad debt on receivables of EUR 14 million through profit and loss. Other income also includes a payment by Telecom Italia of EUR 61 million for unlawful win-back campaigns. Costs of EUR 15 million were incurred in connection with Swisscom's friendly takeover bid as well as costs from other periods of EUR 16 million. Adjusted to take into account these one-off items, net revenue increased by 15% and EBITDA by 29%.

For the first time earnings before income taxes of Fastweb amounting to EUR 31 million was positive. Despite the improvement in the operating income, net loss was more or less unchanged at EUR 125 million (previous year EUR 124 million) due to one-off income tax expenses of EUR 110 million.

On January 1, 2008 a number of amendments in Italian company tax law entered into force, in particular lower income tax rates. The reassessment of the deferred income tax assets at the new lower income tax rate, led to a write off of EUR 65 million. In addition, the offset of income tax losses carry forward of EUR 1.2 billion was reassessed and the previous carrying amount of the deferred income tax assets reduced by EUR 55 million.

Capital expenditure on property, plant and equipment and intangible assets increased slightly from EUR 529 million to EUR 541 million. Of this EUR 444 million was attributable to property, plant and equipment and EUR 97 million to intangible assets. Capitalized costs amounted to EUR 34 million (previous year EUR 28 million).

Fastweb/From Date of Acquisition

CHF in millions	2007
Revenue from external customers	1,473
Net revenue	1,473
Goods and services purchased	(510)
Personnel expenses	(189)
Other operating expenses	(404)
Capitalized costs and other income	128
Total segment expenses	(975)
EBITDA	498
Margin as % of net revenue	33.8
Depreciation, amortization and impairment	(520)
EBIT	(22)
Number of subscribers in thousands	31.12.2007
Number of subscribers	1,313
CHF in millions or number	2007
Capital expenditure	568
Number of full-time equivalent employees at end of period	3,128

Following the acquisition, Fastweb's share of revenue presented in the Swisscom consolidated financial statements was CHF 1,473 million (EUR 889 million) and of EBITDA CHF 498 million (EUR 301 million). EBITDA includes one-off items of CHF 44 million (EUR 27 million). The income for unlawful winback campaigns of EUR 61 million and costs in connection with Swisscom's takeover bid, as well as costs from other periods totalling EUR 17 million are presented in the opening balance sheet as of May 22, 2007 as receivables or liabilities and had no further impact on Swisscom's result.

Depreciation and amortization on Fastweb presented in Swisscom's consolidated financial statements include depreciation and amortization of CHF 137 million (EUR 82 million) on intangible assets for trademark and customer relationships assessed within the scope of purchase price allocation of a total of CHF 1,789 million (EUR 1,080 million) was recognised in the opening balance sheet. This will be amortized over 7 to 11 years.

Fastweb's share of Swisscom's net income before financing costs amounts to CHF 98 million (EUR 59 million). The one-off items included in Fastweb's income tax expense of EUR 110 million had virtually no impact on the consolidated financial statements. The impairment of deferred income tax assets resulting from the changes in tax law was largely offset by the effect of deferred income tax liabilities on intangible assets recognised within the scope of purchase price allocation. The write off resulting from reassessments of income tax loss carry forwards was taken into consideration in the opening balance sheet and did not have a negative effect on Swisscom's income tax expense.

Other

The segment Other mainly comprises the Group companies Swisscom IT Services, Swisscom Broadcast, Antenna Hungária (included up to its sale on July 19, 2007), the Accarda Group, consisting of Billag AG, Accarda AG (included up to its sale on July 2, 2007) and Medipa AG, Airbites Central & Eastern Europe, Hospitality Services and Betty (business activity discontinued at the end of 2007).

The development of Other is presented in the following table:

CHF in millions	2007	2006	Change
Revenue from external customers	862	840	2.6%
Intersegment revenue	476	494	-3.6%
Net revenue	1,338	1,334	0.3%
Segment expenses (incl. intercompany)	(1,225)	(1,216)	0.7%
EBITDA	113	118	-4.2%
Margin as % of net revenue	8.4	8.8	
Depreciation, amortization and impairment	(206)	(208)	-1.0%
EBIT	(93)	(90)	3.3%

CHF in millions or number	2007	2006	Change
Capital expenditure	187	219	-14.6%
Number of full-time equivalent employees at end of period	3,846	4,574	-15.9%

Revenue from external customers rose year-over-year by 2.6% or CHF 22 million to CHF 862 million. The sale of Antenna Hungária and the card business Accarda led to a decline in revenue of CHF 91 million in 2007. These declines were offset by higher revenue from Swisscom IT Services in the areas of IT outsourcing and financial services, as well as the growth of Hospitality Services.

Last year's segment expenses include the recognition of provisions of CHF 49 million for contractual risks in Swisscom IT Services' project business. Without taking these one-off items into consideration, segment expenses increased by CHF 58 million (+4.9%). The main reasons for this increase were the costs of developing new business abroad and discontinued activities for the interactive TV remote control Betty. These items led to a decrease in EBITDA of 4.2% to CHF 113 million.

Capital expenditure was CHF 32 million lower than last year (14.6%). The decrease can be partly attributed to the sale of Antenna Hungária (CHF -15 million) as well as to Swisscom Broadcast (CHF -23 million). Airbites Central & Eastern Europe, on the other hand, recorded an increase in capital expenditure of CHF 14 million as a result of the acquisition of neighboring networks in Central and Eastern Europe.

Headcount in the segment Other decreased by 728 full-time equivalent employees. The sales of Antenna Hungária and the card business from Accarda were responsible for the reduction of 1,000 full-time equivalent jobs, whereas in the growth areas Swisscom IT Services, Hospitality Services and Airbites Central & Eastern Europe, 260 additional full-time equivalent employees were taken on.

Other/Net revenue

CHF in millions	2007	2006	Change
Swisscom IT Services	430	346	24.3%
Swisscom Broadcast	134	152	−11.8%
Accarda Group	106	118	−10.2%
Antenna Hungária	96	162	−40.7%
Hospitality Services	81	58	39.7%
Airbites Central & Eastern Europe	13	3	333.3%
Other	2	1	100.0%
Total revenue from external customers	862	840	2.6%
Intersegment revenue	476	494	−3.6%
Total net revenue	1,338	1,334	0.3%

The increase in revenue at Swisscom IT Services of 24.3% to CHF 430 million can be attributed mainly to higher revenue from IT outsourcing and financial services. The decline in revenue at Swisscom Broadcast of CHF 18 million (−11.8%) is mainly attributable to the amendments to the contract with the Swiss radio and television corporation SRG. The increase in revenue in the Hospitality Services by 39.7% to CHF 81 million is on the one hand attributable to the increase in use of Internet connection services in hotels and conference centers by corporate customers and on the other hand to the acquisition of a subsidiary in June 2006. The remaining increase in revenue was mainly due to the acquisition of neighboring networks by Airbites Central & Eastern Europe.

Other/Segment Operating Expenses and Depreciation and Amortization

CHF in millions	2007	2006	Change
Goods and services purchased	177	164	7.9%
Personnel expenses	580	559	3.8%
Other operating expenses	340	393	−13.5%
Intersegment expenses	144	143	0.7%
Capitalized costs and other income	(16)	(43)	−62.8%
Total segment expenses	1,225	1,216	0.7%
Depreciation, amortization and impairment	206	208	−1.0%

Segment expenses increased slightly by 0.7% to CHF 1,225 million year-over-year. Segment expenses fell by CHF 74 million as a result of the sale of Antenna Hungária and Accarda. Segment expenses in 2006 included provisions of CHF 49 million for contractual risks in Swisscom IT Services' project business. Without taking these one-off items into consideration, operating expenses increased by CHF 132 million (+12.1%). This increase is on the one hand due to higher revenue. On the other hand costs of CHF 59 million were incurred in connection with interactive TV remote control Betty.

Higher revenue in the growth areas is reflected in an increase in expenditure on goods and services purchased of CHF 13 million (+7.9%). The increases in expenditure at Betty, Swisscom IT Services and Hospitality Services can only be partially offset by the decrease resulting from the sale of Antenna Hungária and Accarda. The increase in personnel expenses of CHF 21 million (+3.8%) is mainly attributable to the recognition of provisions for termination benefits of CHF 14 million at Swisscom IT Service in the fourth quarter of 2007. The decline in other operating expenses of CHF 53 million (–13.5%) is due partly to the sale of Antenna Hungária and Accarda, but mainly to the recognition of provisions in 2006 of CHF 49 million for contractual risks in Swisscom IT Services' project business. Moreover, the development of new business areas also led to higher costs.

Corporate

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

The development of Corporate is presented in the following table:

CHF in millions	2007	2006	Change
Revenue from external customers	76	70	8.6%
Intersegment revenue	567	567	–
Net revenue	643	637	0.9%
Segment expenses (incl. intercompany)	(541)	(614)	–11.9%
EBITDA	102	23	343.5%
Margin as % of net revenue	15.9	3.6	
Depreciation and amortization	(63)	(58)	8.6%
EBIT	39	(35)	–

CHF in millions or number	2007	2006	Change
Capital expenditure	48	140	–65.7%
Number of full-time equivalent employees at end of period	970	903	7.4%

Net revenue increased slightly year-over-year by 0.9% to CHF 643 million. EBITDA increased by CHF 79 million to CHF 102 million. The main reasons are lower expenditure on termination benefits, higher gains from real estate sales at Swisscom Immobilien AG and cost savings.

The decline in capital expenditure of CHF 92 million (–65.7%) can be attributed to a group-wide project run by Swisscom Immobilien AG in the previous year to optimize workplaces. Compared with the previous year, internal group transfers led to an increase in headcount of 7.4% to 970 full-time equivalent employees.

Corporate/Net revenue

CHF in millions	2007	2006	Change
Swisscom Immobilien AG	72	66	9.1%
Other	4	4	—
Total revenue from external customers	76	70	8.6%
Intersegment revenue	567	567	—
Total net revenue	643	637	0.9%

Revenue from external customers rose by 9.1% to CHF 72 million. The increase is due to higher revenue at Swisscom Immobilien AG for services for third parties.

Corporate/Segment Operating Expenses and Depreciation and Amortization

CHF in millions	2007	2006	Change
Personnel expenses	214	249	−14.1%
Other operating expenses	381	377	1.1%
Expense with other segment	64	75	−14.7%
Capitalized costs and other income	(118)	(87)	35.6%
Total segment expenses	541	614	−11.9%
Depreciation and amortization	63	58	8.6%

Segment expenses fell by 11.9% to CHF 541 million. Expenditure for termination benefits, including expenditure on the employment company Worklink AG, decreased from CHF 85 million to CHF 38 million year-over-year. Capitalized costs and other income comprise income from transactions of shared services and other services to other subsidiaries of CHF 68 million (previous year CHF 34 million), and gains from the sale of real estate of CHF 39 million (previous year CHF 26 million).

Cash flows

CHF in millions	2007	2006	Change
Cash flow provided by operating activities	3,437	3,264	173
Cash flow used in investing activities	(6,219)	(4,257)	(1,962)
Cash flow provided by financing activities	3,065	641	2,424
Net increase (net decrease) in cash and cash equivalents	283	(352)	635

On the one hand there was an increase in cash flow provided by operating activities and financing activities and on the other higher cash flow used in investing activities. Cash flows in 2007 were significantly influenced by the acquisition of Fastweb. Acquisition costs of CHF 5.1 billion were financed virtually completely through bank loans. Swisscom Ltd paid back the major part of Fastweb's debts and refinanced them through bank loans. Equity holders of Swisscom Ltd and minority interests received payouts of CHF 1.0 billion (previous year CHF 3.4 billion). At the end of 2006 a share of 25% in Swisscom Mobile was bought back from Vodafone. The transaction was wholly financed by bank loans.

Cash flows from operating activities

CHF in millions	2007	2006	Change
Operating income (EBITDA)	4,501	3,786	715
Change in operating assets and liabilities and other payments or receipts from operating activities	(443)	(7)	(436)
Interest paid and received, net	(231)	(28)	(203)
Dividends received	4	9	(5)
Other financial income received	75	–	75
Income taxes paid	(469)	(496)	27
Cash flow provided by operating activities	3,437	3,264	173

Cash flow provided by operating activities increased year-over-year by CHF 173 million to CHF 3,437 million. On the one hand EBITDA increased and on the other net financial expenses increased and net operating assets decreased. Net interest expenses rose by CHF 233 million due to bank loans taken out to finance the acquisition of Fastweb in May 2007 and the repurchase of a 25% stake in Swisscom Mobile in December 2006. Net operating assets dropped mainly because of a decrease in pension obligations by CHF 125 million, as well as lower provisions, especially provisions for interconnection proceedings. Payments of CHF 80 million were made in 2007 for interconnection proceedings.

Cash flows from investing activities

CHF in millions	2007	2006	Change
Capital expenditure	(2,025)	(1,324)	(701)
Proceeds from sale of fixed assets	56	49	7
Acquisition of Fastweb, net of cash and cash equivalents acquired	(5,002)	–	(5,002)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(29)	(246)	217
Acquisition of a 25% share in Swisscom Mobile AG	–	(4,258)	4,258
Proceeds from sale of subsidiaries, net of cash and cash equivalents sold	804	–	804
Acquisition and sale of investments in associates, net	(9)	(9)	–
Proceeds from other current and non-current financial assets	145	1,809	(1,664)
Investments in current and non-current financial assets	(159)	(278)	119
Cash flow used in investing activities	(6,219)	(4,257)	(1,962)

In 2007 net cash of CHF 6,219 million was used in investing activities, mainly in connection with the acquisition of Fastweb in May 2007. Acquisition costs including transaction costs directly attributable to the acquisition amounted to EUR 3.1 billion (CHF 5.1 billion). A total of CHF 38 million was paid in 2007 for the acquisition of a number of smaller companies. The increase in capital expenditure on property, plant and equipment and other intangible assets is mainly attributable to capital expenditure by Fastweb amounting to CHF 568 million. Net cash of CHF 804 million was generated from the sales of Antenna Hungária, Accarda and Infonet. This cash flow was used to pay back bank loans. The previous year includes the repurchase of the 25% in Swisscom Mobile for CHF 4.25 billion. Other acquisitions in 2006 include the acquisition of the remaining 25% in Antenna Hungária, the acquisition of Comit and several smaller companies. A total of CHF 255 million net was paid for this in 2006. In order to release cash, long-term fixed-term deposits amounting to CHF 1.5 billion were not extended in the previous year.

Capital expenditure on tangible and intangible assets

CHF in millions	2007	2006	Change
Fixnet	835	602	38.7%
Mobile	368	334	10.2%
Solutions	39	42	–7.1%
Fastweb	568	–	–
Other	187	219	–14.6%
Corporate	48	140	–65.7%
Intercompany-elimination	(20)	(13)	53.8%
Total capital expenditure	2,025	1,324	52.9%

The increase in capital expenditure of CHF 701 million (+52.9) to CHF 2 025 million is mainly due to Fixnet and Fastweb. Capital expenditure of CHF 568 million can be attributed to Fastweb since the acquisition in May 2007. The increase in capital expenditure at Fixnet of CHF 233 million (+38.7%) is primarily due to the development of the network infrastructure in order to launch the new VDSL technology. Higher capital expenditure at Mobile in of CHF 34 million (+10.2%) is mainly due to the refurbishment of Swisscom Shops. The decline in capital expenditure in the Corporate division of CHF 92 million (–65.7%) can be attributed to a group-wide project run by Swisscom Immobilien AG in the previous year to optimize workplaces. Capital expenditure includes capitalized costs of CHF 264 million (previous year CHF 192 million).

Cash flows from financing activities

CHF in millions	2007	2006	Change
Issuance of financial liabilities	15,431	4,264	11,167
Repayment of financial liabilities	(11,375)	(54)	(11,321)
Share-based payments	(9)	(17)	8
Share buy-back	–	(2,348)	2,348
Dividends paid to equity holders of Swisscom Ltd	(881)	(907)	26
Dividends paid to minority interests	(101)	(297)	196
Cash flow provided by financing activities	3,065	641	2,424

Cash flow provided by financing activities in 2007 amounted to CHF 3,065 million. This was mainly attributable to the bank loan taken out to finance the acquisition of Fastweb. CHF 5.1 billion was paid for Fastweb, financed almost entirely through bank loans. Swisscom paid back the major part of Fastweb's bank liabilities in June 2007 and refinanced them through bank loans. In 2007 dividend payouts of CHF 881 million were made to Swisscom Ltd shareholders and CHF 101 million to minority interests. Of the dividends paid to minority interests, CHF 89 million (EUR 54 million) were paid to minority shareholders in Fastweb. Before the acquisition, the General Meeting of Shareholders of Fastweb agreed to the payment of a dividend of EUR 300 million due in October 2007. In connection with the repurchase of the 25% share in Vodafone to Swisscom Mobile AG, in December 2006 dividends are no longer due to the minority shareholders. In the previous year treasury shares of CHF 2.2 billion was repurchased. The share buy-back scheme in 2006 also includes a payment of CHF 136 million in withholding tax in connection with the 2005 share buy-back scheme.

Net debt

CHF in millions	31.12.2007	31.12.2006	Change
Bonds	1,510	–	1,510
Bank loans	7,171	4,243	2,928
Private placement	1,427	–	1,427
Financial liabilities from cross-border lease agreements	1,177	1,459	(282)
Finance lease obligation	609	637	(28)
Other financial liabilities	420	244	176
Liabilities from collecting activities	21	128	(107)
Total	12,335	6,711	5,624
Cash and cash equivalents	(957)	(673)	(284)
Current financial assets	(151)	(142)	(9)
Receivables from collecting activities	(12)	(385)	373
Financial assets from crossborder-lease agreements	(862)	(1,125)	263
Non-current derivative financial instruments	(16)	(7)	(9)
Net debt	10,337	4,379	5,958

Net debt consists of total financial liabilities and liabilities from collection activities less cash and cash equivalents, current financial assets, receivables from collection activities and financial assets from cross-border lease arrangements as well as non-current derivative financial instruments. 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. Financial liabilities consist of finance lease obligations and long-term sale and leaseback obligations relating to buildings. The finance lease obligations recognised are covered by non-current financial assets to an extent of CHF 862 million.

Net debt increased year-over-year by CHF 5,958 million to CHF 10,337 million. The increase in net debt is due to the acquisition of Fastweb in May 2007 for acquisition costs of EUR 3.1 billion (CHF 5.1 billion). Bank loans amounting to EUR 1.1 billion (CHF 1.8 billion) were also taken over from Fastweb on the date of the acquisition. Swisscom purchased and refinanced Fastweb's bank liabilities through bank loans. Net cash resulting from the sale of Antenna Hungária and Accarda in July 2007 of around CHF 800 million was used to repay bank loans.

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

CHF in millions	2007	2006	Change
Operating income (EBITDA)	4,501	3,786	715
Change in operating assets and liabilities and other payments or receipts from operating activities	(443)	(7)	(436)
Capital expenditure	(2,025)	(1,324)	(701)
Proceeds from sale of fixed assets	56	49	7
Operating free cash flow	2,089	2,504	(415)
Dividends paid to minority interests	(12)	(297)	285
Operating free cash flow attributable to equity holders of Swisscom Ltd	2,077	2,207	(130)

In accordance with the definitions laid down in Swisscom's return policy, around half of the operating free cash flow is to be paid out less dividend payments to minority interests of subsidiaries. Before the acquisition of Fastweb, the General Meeting of Shareholders of Fastweb agreed to the payment of a dividend of EUR 300 million due in October 2007. When calculating the payout, the dividend due and paid out to the minority shareholders in Fastweb of CHF 89 million (EUR 54 million) was not deducted, since the obligation already existed on the date of the acquisition and the dividend was not generated out of the operative cash flow. In accordance with the return policy, the General Meeting of Shareholders on April 22, 2008 will propose an ordinary dividend of CHF 18 and an extraordinary dividend of CHF 2 per share. Subject to the approval of the proposal, the ordinary and extraordinary dividends will be paid out on April 25, 2008.

Balance sheet

CHF in millions	31.12.2007	31.12.2006	Change
Assets			
Cash and cash equivalents and current financial assets	1,108	815	36.0%
Trade accounts receivable and other receivables	2,890	2,426	19.1%
Property, plant and equipment	8,315	5,795	43.5%
Goodwill	6,920	4,169	66.0%
Other intangible liabilities	2,515	557	351.5%
Investments in associates and non-current financial assets	1,174	1,385	-15.2%
Income tax assets	122	103	18.4%
Other current and non-current assets	632	353	79.0%
Total assets	23,676	15,603	51.7%
Liabilities and equity			
Financial liabilities	12,314	6,583	87.1%
Trade accounts payable and other payables	2,375	1,629	45.8%
Accrued pension cost	618	719	-14.0%
Provisions	1,044	1,105	-5.5%
Income tax liabilities	560	567	-1.2%
Other current and non-current liabilities	761	520	46.3%
Total liabilities	17,672	11,123	58.9%
Equity attributable to equity holders of Swisscom Ltd	5,574	4,413	26.3%
Equity attributable to minority interests	430	67	541.8%
Total equity	6,004	4,480	34.0%
Total liabilities and equity	23,676	15,603	51.7%

The balance sheet as December 31, 2007 was primarily influenced by the acquisition of Fastweb. The carrying amounts of tangible assets, goodwill, other intangible assets and financial liabilities in particular rose as a result of the acquisition. Acquisition costs amounted to CHF 5.1 billion, net assets acquired CHF 2.5 billion, goodwill CHF 3.0 billion and minority interest CHF 0.4 billion. Net assets acquired mainly include property, plant and equipment of CHF 2.7 billion and financial liabilities of CHF 1.9 billion. Furthermore, intangible assets such as trademark and customer relationships were assessed at CHF 1.8 billion and recognised within the scope of purchase price allocation. The acquisition was financed virtually completely by bank loans, which led to an increase in financial liabilities. Equity attributable to equity holders of Swisscom Ltd increased year-over-year by CHF 1.2 billion because net income of CHF 2.1 billion exceeded the dividend payments of CHF 0.9 billion.

Pensions

The obligatory and supplementary retirement provision for Swisscom employees in Switzerland is managed by the company's own comPlan Foundation, which insures employees against the economic consequences of old age, death and disability. At December 31, 2007, comPlan's provisional year-end results prepared under Swiss GAAP showed an over funding of CHF 585 million (previous year CHF 698 million), or a funding ratio of 108% (previous year 112%). The return on plan assets amounted to minus 0.1% (previous year +5.2%).

The measurement 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, 2007, the funded status calculated, based on IFRS, amounted to CHF 852 million (previous year CHF 1,597 million), of which only CHF 618 million (previous year CHF 719 million) is recorded in the balance sheet as a liability. In contrast to Swiss GAAP, this calculation follows IFRS guidelines and takes into account actuarial assumptions for future developments, such as salary and contribution increases or pension indexation as well as employees taking early retirement. The effect of future salary increases, indexation of pension benefits and assumptions for early retirement amounts to some CHF 857 million. In addition, under IFRS the benefit obligation is discounted at a risk free discount rate of 3.31%. In order to calculate the benefit obligation under Swiss GAAP a discount rate of 3.75% is used. This different discount rate under IFRS led to an increase in benefit obligation of CHF 401 million. In addition an obligation of CHF 149 million exists for pensioners of the former PTT Telecom insured through the state pension fund PUBLICA. The unrecorded under funding of CHF 234 million (previous year CHF 878 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.

Equity

CHF in millions	Attributable to equity holders of Swisscom Ltd	Attributable to minority interests	Total equity
Balance at December 31, 2005	5,979	623	6,602
Income and expense directly recognized in equity, net	(45)	–	(45)
Net income	1,598	306	1,904
Total recognized income and expenses	1,553	306	1,859
Dividend payments	(907)	(297)	(1,204)
Share buy-back	(2,212)	–	(2,212)
Acquisition of minority interests	–	(565)	(565)
Balance at December 31, 2006	4,413	67	4,480
Income and expense directly recognized in equity, net	(26)	(1)	(27)
Net income	2,068	3	2,071
Total recognized income and expenses	2,042	2	2,044
Dividend payments	(881)	(12)	(893)
Acquisition of subsidiaries	–	373	373
Balance at December 31, 2007	5,574	430	6,004

Equity increased by CHF 1,524 million (+34.0%) to CHF 6,004 million in the current year. The increase is due to the fact that net income of CHF 2,071 million exceeded the dividend payouts of CHF 893 million by CHF 1,178 million and minority interests increased as a result of the acquisition of Fastweb by CHF 373 million.

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 Ltd in line with statutory accounting provisions. At December 31, 2007, Swisscom Ltd's shareholders' equity amounted to CHF 4,854 million. After deduction of repurchased treasury shares, shareholders' equity is reduced to CHF 2,681 million. The difference between this amount and the shareholders' equity shown in the consolidated balance sheet is primarily due to retained earnings withheld by subsidiaries as well as to different accounting and valuation methods.

Under Swiss law share capital and 20% of the share capital in the reserves may not be distributed. At December 31, 2007 Swisscom Ltd had distributable reserves of CHF 2,574 million.

		2007	2006
Year-end price	CHF	442.00	461.25
Year high	CHF	486.00	466.50
Year low	CHF	402.50	388.00
Price (loss) gain in the year	%	−4.2%	11.2%
Total trading volume	Shares	39,809,925	31,516,289
Daily average	Shares	159,879	125,065
Total turnover volume	CHF in millions	17,308.82	13,114.29
Daily average	CHF in millions	69.51	52.04

Source: Bloomberg

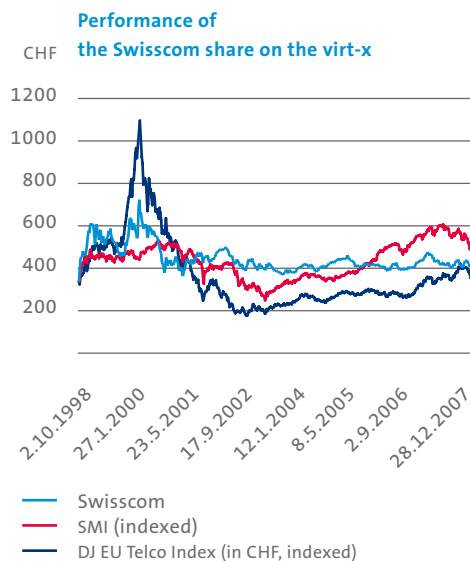
As at December 31, 2007 Swisscom Ltd had 56,718,561 shares entered in the commercial register and 47,481 registered shareholders. Swisscom holds 4,916,618 own shares from the share buy-back scheme in 2006. The Swiss Confederation, which pursuant to the Telecommunications Enterprise Act must hold a majority of capital and voting rights in Swisscom Ltd, holds 52 % of the shares issued.

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

The share price of Swisscom shares fell year-over-year by 4.2% to CHF 442. Dividend payouts increased in 2007 by CHF 1 to CHF 17 per share. The total shareholder return on Swisscom shares in the current year was −0.5%. Since going public in 1998, Swisscom has paid around CHF 19.8 billion to its shareholders. This amount is divided into dividend payments of CHF 7.8 billion, reductions in par value per share of CHF 1.6 billion and in share buy-back schemes of CHF 10.5 billion.

Swisscom Ltd is listed on the pan-European platform SWX Europe Limited (formerly virt-x) in London under the symbol «SCMN» (Security ID: 874251) and in the form of American Depositary Shares (ADS) at a ratio of 1:10 in the USA (Over The Counter, Level 1 Program) under the symbol «SCMWY» (Pink Sheet ID: 69769).

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



Swisscom expects net revenue in 2008 of around CHF 12.3 billion and operating income (EBITDA) of around CHF 4.8 billion. Capital expenditure is expected to be between CHF 2.1 and CHF 2.2 billion.

		2006	2007	2008
Swisscom Group (CHF in billions)	Net revenue	8,776	8,693	slightly down
	EBITDA	3,729	3,898	slightly down
	Capital expenditure	978	1,241	flat
Fastweb (EUR in millions)	Net revenue	1,260	1,433	around 1,640
	EBITDA	301	480	around 530
	Capital expenditure	529	541	around 425
Swisscom Group (CHF in billions) ¹	Net revenue	9.7	11.1	around 12.3
	EBITDA	3.8	4.5	around 4.8
	Capital expenditure	1.3	2.0	2.1–2.2
	Change in operating assets and liabilities	–	(0.4)	around –0.2
	Operating free cash flow	2.2	2.1	2.4–2.5

¹ Swisscom Group includes the segment «Other» and «Group Headquarters» for which no separate guidance is provided.

CHF in millions	1. quarter	2. quarter	3. quarter	4. quarter	2006	1. quarter	2. quarter	3. quarter	4. quarter	2007
Net revenue	2,374	2,398	2,424	2,456	9,652	2,376	2,718	2,988	3,007	11,089
Goods and services purchased	(409)	(466)	(471)	(494)	(1,840)	(441)	(530)	(670)	(707)	(2,348)
Personnel expenses	(594)	(555)	(542)	(587)	(2,278)	(594)	(603)	(599)	(646)	(2,442)
Other operating expenses	(418)	(671)	(445)	(510)	(2,044)	(444)	(611)	(585)	(589)	(2,229)
Capitalized costs and other income	80	74	76	66	296	71	100	99	161	431
Operating income (EBITDA)	1,033	780	1,042	931	3,786	968	1,074	1,233	1,226	4,501
Depreciation and amortization	(348)	(355)	(343)	(389)	(1,435)	(349)	(465)	(498)	(674)	(1,986)
Operating income (EBIT)	685	425	699	542	2,351	619	609	735	552	2,515
Gain on sale of subsidiaries	–	–	–	–	–	–	–	157	5	162
Net financial result	(10)	(12)	(11)	(18)	(51)	(41)	4	(89)	(65)	(191)
Share of profit of investments in associates	(1)	14	4	13	30	4	10	8	10	32
Income tax expense	(131)	(82)	(137)	(112)	(462)	(115)	(146)	(122)	(64)	(447)
Income from continuing operations	543	345	555	425	1,868	467	477	689	438	2,071
Income from discontinued operations	–	32	–	4	36	–	–	–	–	–
Net income	543	377	555	429	1,904	467	477	689	438	2,071
Attributable to equity holders of Swisscom Ltd	459	299	471	369	1,598	461	475	691	441	2,068
Attributable to minority interests	84	78	84	60	306	6	2	(2)	(3)	3
Net revenue by segments¹										
Fixnet	1,211	1,193	1,148	1,135	4,687	1,126	1,118	1,091	1,139	4,474
Mobile	954	989	1,017	1,014	3,974	974	1,005	1,046	990	4,015
Solutions	294	294	303	333	1,224	286	300	304	334	1,224
Fastweb	–	–	–	–	–	–	281	586	606	1,473
Other	316	322	329	367	1,334	344	362	307	325	1,338
Corporate	164	165	159	149	637	158	162	157	166	643
Intercompany-elimination	(565)	(565)	(532)	(542)	(2,204)	(512)	(510)	(503)	(553)	(2,078)
Total net revenue	2,374	2,398	2,424	2,456	9,652	2,376	2,718	2,988	3,007	11,089
EBITDA by segments										
Fixnet	521	323	489	469	1,802	477	468	463	490	1,898
Mobile	462	431	480	428	1,801	452	464	495	406	1,817
Solutions	19	19	19	13	70	18	35	40	19	112
Fastweb	–	–	–	–	–	–	79	156	263	498
Other	36	(7)	52	37	118	20	2	54	37	113
Corporate	1	20	9	(7)	23	10	41	27	24	102
Intercompany-elimination	(6)	(6)	(7)	(9)	(28)	(9)	(15)	(2)	(13)	(39)
Total EBITDA	1,033	780	1,042	931	3,786	968	1,074	1,233	1,226	4,501
Capital expenditure	235	291	326	472	1,324	315	503	525	682	2,025
Operating free cash flow	443	858	672	234	2,207	663	315	624	475	2,077
Number of full-time equivalent employees at end of period	16,544	16,739	16,875	17,068	17,068	17,157	20,498	19,658	19,844	19,844

¹ Includes intersegment revenue.

Number of lines in thousands	1. quarter	2. quarter	3. quarter	4. quarter	2006	1. quarter	2. quarter	3. quarter	4. quarter	2007
Operational data Fixnet										
PSTN lines	2,923	2,911	2,892	2,891	2,891	2,884	2,878	2,871	2,871	2,871
ISDN lines	888	878	867	856	856	843	834	825	815	815
Total number of PSTN/ISDN lines	3,811	3,789	3,759	3,747	3,747	3,727	3,712	3,696	3,686	3,686
Broadband lines retail	775	846	886	936	936	995	1,065	1,118	1,164	1,164
Broadband lines wholesale	414	407	419	432	432	439	441	440	438	438
Total broadband lines	1,189	1,253	1,305	1,368	1,368	1,434	1,506	1,558	1,602	1,602
Retail traffic volume in millions of minutes										
Local and long-distance traffic	1,711	1,547	1,469	1,585	6,312	1,616	1,474	1,421	1,549	6,060
Fixed-to-mobile traffic	231	232	231	232	926	232	237	237	237	943
Internet traffic	470	375	327	315	1,487	288	225	198	179	890
Total national traffic	2,412	2,154	2,027	2,132	8,725	2,136	1,936	1,856	1,965	7,893
International traffic	235	222	217	229	903	232	221	222	233	908
Total retail traffic	2,647	2,376	2,244	2,361	9,628	2,368	2,157	2,078	2,198	8,801
Wholesale traffic volume in millions of minutes										
Wholesale traffic	4,390	4,056	3,807	3,907	16,160	3,918	3,615	3,430	3,554	14,517

Number of subscribers in thousands	1. quarter	2. quarter	3. quarter	4. quarter	2006	1. quarter	2. quarter	3. quarter	4. quarter	2007
Operational data Mobile										
Postpaid	2,669	2,703	2,752	2,805	2,805	2,849	2,895	2,953	3,013	3,013
Prepaid	1,701	1,766	1,811	1,827	1,827	1,858	1,881	1,941	1,994	1,994
Total number of subscribers	4,370	4,469	4,563	4,632	4,632	4,707	4,776	4,894	5,007	5,007
In CHF, minutes or millions										
ARPU in CHF	65	66	66	62	65	59	61	62	58	60
AMPU in minutes	120	125	126	126	124	127	131	129	128	129
Number of SMS messages in millions	521	511	526	549	2,107	559	556	555	608	2,278

Traffic volume in millions of minutes	1. quarter	2. quarter	3. quarter	4. quarter	2006	1. quarter	2. quarter	3. quarter	4. quarter	2007
Operational data Solutions										
Local and long-distance traffic	417	383	366	374	1,540	380	367	356	360	1,463
Fixed-to-mobile traffic	63	62	60	61	246	61	65	65	66	257
Total national traffic	480	445	426	435	1,786	441	432	421	426	1,720
International traffic	90	85	83	84	342	88	90	91	89	358
Total national and international traffic	570	530	509	519	2,128	529	522	512	515	2,078

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Report of the Group Auditors

Consolidated income statement

CHF in millions, except per share amount	Note	2007	2006 restated ¹
Net revenue	5,6	11,089	9,652
Goods and services purchased	7	(2,348)	(1,840)
Personnel expenses	8,9,10	(2,442)	(2,278)
Other operating expenses	11	(2,229)	(2,044)
Capitalized costs and other income	12	431	296
Operating income (EBITDA)		4,501	3,786
Depreciation, amortization and impairment	22,23	(1,986)	(1,435)
Operating income (EBIT)		2,515	2,351
Gain on sale of subsidiaries	4	162	–
Financial income	13	250	189
Financial expense	13	(441)	(240)
Share of profit of investments in associates	24	32	30
Income before income tax expense		2,518	2,330
Income tax expense	14	(447)	(462)
Income from continuing operations		2,071	1,868
Income from discontinued operations	38	–	36
Net income		2,071	1,904
Net income attributable to equity holders of Swisscom Ltd	31	2,068	1,598
Net income attributable to minority interests	31	3	306
Basic and diluted earnings per share (in CHF)			
– from continuing operations	15	39.92	28.25
– from discontinued operations	15	–	0.65
– Net income	15	39.92	28.90

¹ See Note. 2.4. Voluntary change in accounting policies.

Consolidated balance sheet

CHF in millions	Note	31.12.2007	31.12.2006 restated ¹
Assets			
Current assets			
Cash and cash equivalents	16	957	673
Trade accounts receivable and other receivables	17	2,890	2,426
Other financial assets	18	151	142
Inventories	19	156	147
Current income tax assets	14	57	4
Other non-financial assets	20	421	145
Non-current assets held for sale	21	15	19
Total current assets		4,647	3,556
Non-current assets			
Property, plant and equipment	22	8,315	5,795
Goodwill and other intangible assets	23	9,435	4,726
Investments in associates	24	257	221
Other financial assets	18	917	1,164
Deferred income tax assets	14	65	99
Other non-financial assets	20	40	42
Total non-current liabilities		19,029	12,047
Total assets		23,676	15,603
Liabilities and equity			
Current liabilities			
Financial liabilities	25	869	1,568
Trade accounts payable and other payables	26	2,375	1,629
Current income tax liabilities	14	248	217
Provisions	27	384	423
Other non-financial liabilities	29	568	376
Total current liabilities		4,444	4,213
Non-current liabilities			
Financial liabilities	25	11,445	5,015
Accrued pension cost	10	618	719
Provisions	27	660	682
Deferred income tax liabilities	14	312	350
Other non-financial liabilities	29	193	144
Total non-current liabilities		13,228	6,910
Total liabilities		17,672	11,123
Equity			
Share capital	31	57	57
Additional paid-in capital	31	370	370
Retained earnings	31	7,364	6,177
Treasury shares	31	(2,213)	(2,213)
Other reserves	31	(4)	22
Equity attributable to equity holders of Swisscom Ltd		5,574	4,413
Equity attributable to minority interests	31	430	67
Total equity		6,004	4,480
Total liabilities and equity		23,676	15,603

¹ See Note. 2.4. Voluntary change in accounting policies.

Consolidated cash flow statement

CHF in millions	Note	2007	2006
Cash flows from operating activities			
Net income		2,071	1,904
Net income adjustments	34	2,440	1,891
Change in operating assets and liabilities	34	(453)	(16)
Interest paid		(496)	(62)
Income taxes paid		(469)	(496)
Interest received		265	34
Dividends received	24	4	9
Other financial income received		75	–
Cash flow provided by operating activities		3,437	3,264
Cash flows from investing activities			
Capital expenditure	22,23	(2,025)	(1,324)
Proceeds from sale of fixed assets		56	49
Acquisition of Fastweb, net of cash and cash equivalents acquired	4	(5,002)	–
Acquisition of other subsidiaries, net of cash and cash equivalents acquired	4	(29)	(246)
Proceeds from sale of subsidiaries, net of cash and cash equivalents sold	4	804	–
Acquisition of a 25% share in Swisscom Mobile AG	30	–	(4,258)
Acquisition of investments in associates	24	(9)	(12)
Proceeds from sale of investments in associates		–	3
Proceeds from other current financial assets		137	1,803
Investments in other current financial assets		(148)	(271)
Proceeds from other non-current financial assets		8	6
Investments in other non-current financial assets		(11)	(7)
Cash flow used in investing activities		(6,219)	(4,257)
Cash flows from financing activities			
Issuance of financial liabilities		15,431	4,264
Repayment of financial liabilities		(11,375)	(54)
Purchase of treasury shares for share-based payments	9	(9)	(17)
Share buy-back	31	–	(2,348)
Dividends paid to equity holders of Swisscom Ltd	31	(881)	(907)
Dividends paid to minority interests	31	(101)	(297)
Cash flow provided by financing activities		3,065	641
Net increase (net decrease) in cash and cash equivalents		283	(352)
Cash and cash equivalents at beginning of year		673	1,023
Currency translation of cash and cash equivalents		1	2
Cash and cash equivalents at end of year		957	673

Consolidated statement of recognized income and expense

CHF in millions	Note	2007	2006 restated ¹
Currency translation adjustments on foreign operations	31	16	21
Cumulative translation adjustments on foreign operations transferred to income statement	31	(40)	–
Change in fair value of available-for-sale financial assets	31	–	(8)
Gains and losses from available-for-sale financial assets transferred to income statement	31	–	(63)
Change in fair value of cash flow hedges	31	(3)	7
Income tax effect on income and expense directly recognized in equity	31	–	(2)
Income and expense directly recognized in equity, net		(27)	(45)
Net income	31	2,071	1,904
Total recognized income and expenses		2,044	1,859
Attributable to equity holders of Swisscom Ltd	31	2,042	1,553
Attributable to minority shareholders	31	2	306
Effect of change in accounting policies	2	–	(1)
Attributable to equity holders of Swisscom Ltd		–	(1)
Attributable to minority shareholders		–	–

¹ See Note. 2.4. Voluntary change in accounting policies.

1 General information

The Swisscom Group (referred to as Swisscom) offers telecommunication services primarily in Switzerland and Italy. A more detailed description of Swisscom's business activities can be found in Notes 2.18 and 5.

The consolidated financial statements of Swisscom as at December 31, 2007 comprise Swisscom Ltd, the parent company, and its subsidiaries as well as Swisscom's interest in associates and joint ventures. A list of the subsidiaries, associates and joint ventures is presented in Note 41.

Swisscom Ltd is a limited company incorporated in Switzerland and domiciled in Ittigen (Berne). The registered address is: Swisscom Ltd, Alte Tiefenastrasse 6, 3048 Worblaufen. Swisscom Ltd is listed on the SWX Swiss Exchange in Zurich. On December 31, 2007, the Swiss Confederation (the «Confederation») as majority shareholder held 52% of the shares of Swisscom Ltd. The Confederation is obliged by law to remain the majority shareholder of Swisscom.

The reporting period encompasses twelve months. The consolidated financial statements are presented in Swiss Francs (CHF). Unless otherwise stated all amounts are quoted in millions of Swiss Francs.

The balance sheet is classified based on maturity. Assets and liabilities due within one year are classified as current. Accounts due from sales as well as inventories are presented as current items. Deferred tax assets and liabilities are presented as non-current. The income statement is classified based on the nature of expenses.

The Swisscom Board of Directors approved these consolidated financial statements on March 4, 2008. The consolidated financial statements must be approved at the General Meeting of Shareholders of Swisscom Ltd on April 22, 2008.

2 Summary of significant accounting policies

2.1 Basis of preparation

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

The consolidated financial statements are based on historical cost convention, except as disclosed in the accounting policies below, where a standard or an interpretation requires a different valuation method.

Preparing the consolidated financial statements in accordance with IFRS requires management to make estimates. Furthermore the application of uniform, group-wide, accounting and reporting policies requires assumptions to be made by management. Areas with accounting policy choices, requiring judgement, or a higher level of complexity, as well as areas in which assumptions and estimates could have a significant impact on the financial statements are listed in Note 3.

Any changes in the applicable accounting principles are applied retrospectively, unless the transitional provisions of the standards or interpretations require prospective application or retrospective application is not practicable.

2.2 Consolidation

Subsidiaries

Subsidiaries are entities which Swisscom controls. Control exists when Swisscom has the power to govern the financial and operating policies. Control is generally presumed where Swisscom Ltd directly or indirectly holds more than 50% of the voting rights or potential voting rights that are currently exercisable.

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

Acquisitions are presented in the balance sheet using the purchase method. The acquisition costs include the purchase price and directly attributable costs of the transaction. The purchase price includes payments in cash, the fair value of the assets transferred and liabilities assumed, as well as own equity instruments, on the acquisition date.

All identifiable assets and liabilities on the acquisition date that qualify for recognition are assessed at their fair value, regardless of the extent of minority holdings. The difference between the acquisition costs and the proportionate fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. Any negative goodwill is recorded directly in the income statement.

On consolidation, intercompany balances and transactions, income and expense, holdings and dividends as well as unrealized gains and losses are fully eliminated. Unrealized losses may be an indication of impairment of an asset which has been transferred internally and an impairment test may be required.

Minority interests in subsidiaries are presented in the consolidated balance sheet under equity, but separately from the equity attributable to Swisscom Ltd shareholders. The minority share in net income or loss is presented in the consolidated income statement as a component of the consolidated net income or loss.

The balance sheet date for all subsidiaries consolidated in the financial statements is December 31.

No significant restrictions exist in connection with the transfer of funds from the subsidiaries to the parent company.

Acquisitions and disposals of minority interests in subsidiaries

Acquisitions of minority interests in consolidated subsidiaries are accounted for using the purchase method. If the acquisition costs are higher than the carrying value, the difference is allocated to goodwill. Assets, liabilities and contingent liabilities are not re-measured at the fair value, but presented at their previous carrying value. If minority interests of consolidated subsidiaries are disposed of, without surrendering control, the difference between the proceeds from the sale and the carrying value, including goodwill, is presented as a gain or loss in the income statement.

Where minority interests in Swisscom are held by third parties, and those shares carry a put-option, the minority interests are classified as financial liabilities, unless the put-option requires a prior change in legislation to be exercised.

Investment in associates and joint ventures

Investment in associates and joint ventures where Swisscom has significant influence but does not have control are accounted for using the equity method. This is generally the case in companies where Swisscom Ltd holds 20% – 50% of the voting rights or potential voting rights currently exercisable. Under the equity method, investments in associates are initially recognized at cost on the acquisition date. The purchase price is allocated to Swisscom's share of net assets and goodwill. In the reporting period following the acquisition the carrying value of investments are adjusted for Swisscom's share of profit less their share in dividends distributed. Unrealized gains and losses from transactions with associates are eliminated.

2.3 Foreign currency translation

Transactions in foreign currencies are translated into the functional currency on the transaction date using the exchange prevailing on that date. Monetary assets and liabilities in foreign currencies are translated into the functional currency on the balance sheet date at the year-end rates of exchange. Non-monetary items are translated using the exchange rate prevailing on the transaction date. Translation differences are recorded in the income statement.

The consolidated financial statements are presented in Swiss Francs. Assets and liabilities of foreign operations reporting in a functional currency other than Swiss Francs are translated using exchange rates prevailing at the balance sheet date. The income statement and the cash flow statement are translated at the average rate of exchange for the year. Translation differences are taken directly to the equity.

On disposal of a foreign operation, accumulated exchange differences previously recorded under shareholders' equity are recognized in the income statement as part of the gain or loss on sale.

The exchange rates relevant to the annual financial statements were:

	31.12.2007	Average 2007	31.12.2006	Average 2006
1 EUR	1.65	1.65	1.61	1.58
1 GBP	2.25	2.40	2.39	2.31
1 USD	1.13	1.19	1.22	1.25
100 HUF	0.65	0.66	0.64	0.60

2.4 New and amended accounting principles

Amended International Financial Reporting Standards and Interpretations which are compulsory for this financial year

The following new and amended International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) are relevant to Swisscom and compulsory for financial years beginning on or after January 1, 2007:

IFRS 7 «Financial instruments: Disclosures» and IAS 1 (revised) «Capital Disclosures»: will require additional disclosure on financial instruments and capital management but do not have any influence on the classification or presentation of financial instruments held by Swisscom.

The following standards, interpretations and amendments to standards and interpretations are compulsory for financial years beginning on or after January 1, 2007 but do not have any influence on Swisscom's reporting.

- IFRIC 7 «Adjustments pursuant to IAS 29 Financial Reporting in Hyperinflationary Economies»
- IFRIC 8 «Scope of IFRS 2»
- IFRIC 9 «Reassessment of Embedded Derivatives»
- IFRIC 10 «Interim Financial Reporting and Impairment»

The following standards and interpretations published up to the end of 2007 are not yet effective for the year ended December 31, 2007 and have not been applied in preparing these consolidated financial statements:

IFRS 2 (revised) «Share-based Payment – Vesting Conditions and Cancellations» (effective from January 1, 2009). IFRS 2 (revised) includes changes in respect of vesting conditions and cancellations. Swisscom does not expect the application of this interpretation to have any material impact on their consolidated financial statements.

IFRS 3 (revised) «Business Combinations» (effective from July 1, 2009). IFRS 3 (revised) includes some main changes to the existing requirements of the accounting principles of business combinations. Swisscom will apply IFRS 3 (revised) for business combinations with acquisition date after January 1, 2010.

IFRS 8 «Operating Segments» (effective from January 1, 2009). IFRS 8 will replace IAS 14. The new standard requires that segment reporting must follow the management approach. As a result of the realignment of their business activities in the Swiss core business, Swisscom will adjust their operating segments at the beginning of 2008 and apply IFRS 8 earlier than required, from January 1, 2008. Reporting will now be done based on the following operating segments «Residential Customers», «Small and Medium-Sized Enterprises», «Corporate Business», «Wholesale», «Network and Infrastructure», «Fastweb», «Other operating Segments» and «Group Headquarters».

IAS 23 (revised) «Borrowing Costs» (effective from January 1, 2009). IAS 23 (revised) requires that companies capitalize borrowing costs that are directly attributable to the acquisition of a qualifying asset. The option of recognizing borrowing costs as an expense in the period in which they are incurred is eliminated by this revision. Swisscom will apply IAS 23 (revised) from January 1, 2009.

IAS 27 (revised) «Consolidated and Separate Financial Statements» (effective from July 1, 2009). IAS 27 (revised) includes changes to the existing requirements of accounting for decreases of ownership interest and for purchasing minority interest. Swisscom will apply IAS 27 (revised) for financial years beginning on or after July 1, 2009.

IFRIC 11/IFRS 2 «Group and Treasury Share Transactions» (effective financial year beginning after March 1, 2007): IFRIC 11 addresses how to apply IFRS 2 to share-based payment agreements involving an entity's own equity instruments or equity instruments of another entity in the same group. Swisscom does not expect the application of this interpretation to have any impact on their consolidated financial statements.

IFRIC 12 «Service Concession Agreements» (effective from January 1, 2008). IFRIC 12 addresses how contractual agreements concluded by companies providing public services are presented. Swisscom will review its concessions in the light of this new interpretation. Swisscom does not expect the application of this interpretation to have any material impact on their consolidated financial statements.

IFRIC 13 «Customer Loyalty Programs» (effective from July 1, 2008). IFRIC 13 addresses how points or free or discounted goods or services awarded as part of a customer loyalty program should be presented. Swisscom will review its financial reporting with respect to this new standard.

IFRIC 14/IAS 19 «The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction» (effective from January 1, 2008): IFRIC 14 includes general guidelines as to how to define the limit on a surplus which can be used as an asset in accordance with IAS 19 «Employee Benefits». Swisscom will review its financial statements in the light of this new interpretation.

Voluntary change in accounting policies

Following the acquisition of Fastweb, the method of accounting for one-off installations and connection fees was reviewed in the second quarter of 2007. Swisscom had previously recorded this revenue on the date of installation or connection. Going forward, if these one-off installations and connection fees do not constitute independent services, they will be deferred and recorded over the entire term of the contract in a linear fashion. If, on the other hand, no minimum contract term has been agreed, the revenue will be recorded immediately. These changes were implemented retrospectively. The adjustment reduced equity by CHF 22 million as per January 1, 2006 and resulted in an increase in deferred income tax assets of CHF 6 million and other non-financial liabilities of CHF 28 million. This reduced net revenue and net income in 2006 by CHF 1 million. Earnings and diluted earnings per share for 2006 decreased by CHF 0.02 to CHF 28.90.

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. Cash and cash equivalents are recorded at amortized cost.

2.6 Trade accounts receivable and other receivables

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

All factored receivables that are not eligible for derecognition under IAS 39 remain in the Group's consolidated financial statements although they have been sold from a legal point of view. Factored receivables are therefore included under assets and a financial liability of the same amount is recognized.

2.7 Other financial assets

Other financial assets are classified as «financial assets at fair value through profit or loss», «loans and receivables», «held-to-maturity» or «available-for-sale». The classification depends on the purpose for which the financial asset was acquired. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such designation on a regular basis. 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.

Financial assets will be partially or wholly removed from equity if Swisscom's rights to net funds from the assets either lapse or have been transferred and Swisscom is neither exposed to any risks in connection with these assets nor has any entitlement to remuneration from them.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are assets either held for trading purposes or classified as such when initially recognized. They are assessed at their fair value. Any gains or losses resulting from the subsequent assessment are recorded in the income statement. Swisscom classifies only derivative financial instruments in this category.

Financial assets held-to-maturity

Assets held-to-maturity are fixed term financial assets that Swisscom has the ability and intention to hold to maturity. After their initial recording, at fair value, financial assets are recorded at amortized cost less impairment using the effective interest method. Foreign exchange gains and losses are recorded in the income statement. Financial assets from cross-border lease agreements are disclosed under assets held-to maturity.

Loans and receivables

After their initial recording, at fair value, loans and receivables are recorded at amortized cost less impairment using the effective interest method. Foreign exchange gains and losses are recorded in the income statement. This position primarily contains 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.

Financial assets available-for-sale

All other financial assets are classified as available-for sale. Available-for-sale financial assets are carried at fair value or carrying amount, with all changes in unrealized gains or losses recorded in equity. Currency-related changes in value of borrowing instruments are recorded in the income statement. 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. If the fair value of an unlisted equity instrument cannot be reliably assessed, the shares are recorded at amortized cost.

2.8 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is calculated using the weighted average method. Impairments are included for inventories that are hard to sell. Inventories which can not be sold anymore are written off completely.

2.9 Property, plant and equipment

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

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

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

The amount to be depreciated is equivalent to the cost of the asset less an estimated residual value. If material parts of property, plant and equipment have different estimated useful lives, these parts are recorded separately and depreciated accordingly. The estimated useful lives and residual values are reviewed at a minimum annually and, if necessary, adjusted. Changes to the useful lives are applied prospectively.

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, repair costs and borrowing costs are expensed as incurred. Interest on borrowed capital for plant under construction is expensed immediately.

Gains and losses arising on the disposal of property, plant and equipment are calculated as the difference between the proceeds of the sale and the carrying amount of the property, plant and equipment. They are recognized in the income statement under other income or other operating expenses.

2.10 Intangible assets

Goodwill

Goodwill is the excess of the cost of the business combination over the fair value of Swisscom's share in the net assets acquired on the acquisition date. Goodwill acquired in connection with a business combination is presented under intangible assets. Goodwill is tested for impairment, at a minimum, annually and recorded at cost less any recognized impairment losses. The reversal of any recorded impairment is not allowed. Where a company is disposed of, the carrying amount of the goodwill is removed from equity and presented as a component of the gain or loss on disposal. For the purposes of the impairment test, goodwill is allocated to cash generating units. More specifically goodwill is allocated to those cash generating units that are expected to gain an economic advantage from the business combination that generated the goodwill.

Research and development costs

Research costs are expensed as incurred. Development costs are capitalized under intangible assets if they can be identified as an intangible asset that is expected to generate probable future economic benefit and the costs of this asset can be reliably calculated. The capitalized development costs are amortized using the straight-line method over their estimated useful life. The estimated useful lives are reviewed at least annually and, if necessary, adjusted. Development costs that do not fulfill the requirements for capitalization are expensed as incurred.

Software development costs

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

Other intangible assets

Other intangible assets comprise primarily mobile license fees and purchased software as well as trademarks and customer relationships acquired in a business combination. Mobile license fees and purchased software are capitalized at cost and amortized using the straight-line method over the shorter of their legal or their estimated useful life. Amortization begins when the associated asset is put into operation.

Scheduled depreciation of mobile license fees is based on the term of the contract and begins as soon as the network is ready for operation, unless for any reason a different useful life applies. The estimated useful lives are reviewed at least once annually and, if necessary, adjusted.

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

	Years
Software	3 to 7
UMTS licenses	12
GSM Licenses	7
Customer relationships	7 to 11
Trademark	5 to 10

2.11 Non-current assets held for sale

Non-current assets or groups of assets that are classified as held for sale are presented in the balance sheet separately under current assets at the lower of carrying value or fair value less costs to sell. Any impairment resulting from the initial classification is recognized in the income statement. Assets and groups of assets held for sale are no longer amortized.

2.12 Impairments

Impairments of financial assets

At the end of each period, the carrying amounts of the financial assets for which the change in fair value is not recognized in the income statement are assessed for any objective evidence of impairment. An impairment charge is recorded where there is objective evidence of impairment, such as where the borrower is in bankruptcy, default or other significant financial difficulty.

The impairment of a financial asset recorded at amortized cost is calculated as the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

A significant or prolonged decline in the fair value of an available-for-sale financial asset below its original cost will be considered objective evidence of impairment.

Individually significant financial assets are assessed for possible impairment at the end of each period on an individual basis. Trade accounts receivable are grouped on the basis of similar credit risk characteristics, assessed for impairment jointly and adjusted if necessary. When assessing the estimated future cash flows in the portfolio, loss history will be taken into account as well as agreed conditions of payment.

Impairments on trade accounts and other accounts receivables are presented as other operating expenses. Impairments on other financial assets are presented as financial expense. In the event of an impairment of financial assets held-for-sale, all losses previously recognized in equity will be transferred to the income statement.

If, at a later balance sheet cut-off date, the fair value objectively increases, due to events occurring after the impairment was recorded, the impairment will be correspondingly reduced. The reversal of impairment for financial assets assessed at amortized cost will be recorded in the income statement. In the event of financial asset classified as available-for-sale, the reversal of impairment is recognized directly in equity.

Impairment of goodwill

Goodwill is allocated to cash-generating units and assessed for impairment annually. The impairment test will be performed in the fourth quarter after completion of business planning. If there is any indication during the year that goodwill might be impaired, then the cash generating unit is tested for impairment at this time. An impairment loss is recorded if the recoverable amount of a cash-generating unit is lower than the carrying amount. The recoverable amount is the higher of fair value less cost to sell and value in use. The method used to test impairment is described in Note 23.

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 substantially transfer all the risks and rewards of ownership to a group company are classified as finance leases. Finance leases are initially capitalized at an amount equivalent to the lower of the fair value and the present value of the minimum lease payments. The corresponding finance lease liability is recorded as the lower of the fair value and the present value of minimum lease payments, less financing costs. Assets classified as finance leases are amortized, using the straight line method, over the shorter of their estimated useful lives and the term of the lease. Interest on the lease installments is presented as interest expense over the lease term using the effective interest method. Leasing agreements for land and buildings are recorded separately if the lease payments can be allocated accordingly. Gains on sale and leaseback transactions resulting in finance leases are deferred and released over the lease term as other income, while losses on sale and leaseback transactions are recognized immediately.

Leasing agreements which do not transfer all the risks and rewards of ownership are classified as operating leases. Payments are recorded in the income statement using the straight line method over their estimated useful lives. Gains and losses on sale and leaseback transactions resulting in operating leases are recorded immediately in the income statement.

2.14 Financial liabilities

Financial liabilities are initially recorded at fair value less direct transaction costs and subsequently at amortized cost using the effective interest method.

2.15 Trade accounts payables and other liabilities

Trade accounts payables and other liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method.

2.16 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 economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are valued at the present value of the future cash flows. The discount rates used are market interest rates.

Termination benefits

Costs relating to the implementation of workforce reduction measures are recognized 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. A liability is recognized 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.

Costs for dismantling and restoration

Swisscom has a legal obligation in Switzerland to dismantle transmitter stations and to restore the property owned by third parties, on which the stations were situated, to their original state. The costs associated with dismantling these stations 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 as financial income.

2.17 Treasury shares

Treasury shares are presented as a reduction in equity. Gains or losses on the sale of treasury shares are also recognized under consolidated equity within retained earnings.

2.18 Net revenue

Net revenue is measured at the fair value of the consideration received without value added tax. Swisscom records net revenue when it expects a future benefit from the transaction and the amount can be reliably estimated.

When Swisscom acts as the principal, 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.

Where a contractual arrangement consists of more than one component, revenue shall be determined separately for each identifiable component. Total arrangement consideration relating to the multi-element contract is allocated among the different units based on their relative fair values. If the fair value of outstanding services can be measured reliably but the fair value for services already rendered cannot be determined the value of the services rendered will be calculated using the net-residual value method.

Revenue in the individual Swisscom segments is recognized as follows:

Fixnet

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

Installation and/or connection fees are deferred and recorded over the minimum term of the contract in a linear fashion. If no minimum contract term has been agreed, the revenue will be recorded on the date of installation and/or connection. Revenue from telephony is recorded at the time the call is made. Revenue from the sale of prepaid call cards is deferred and recorded on the basis of the actual minutes used or when it expires. Revenue from leased lines is recorded over the rental period. Revenue from the sale of equipment is recorded at the time of delivery.

Mobile

The «Mobile» segment consists principally of mobile telephony, which includes domestic and international traffic for calls made in Switzerland or abroad by Swisscom's customers and roaming by foreign operators whose customers use Swisscom's networks. It also consists of value-added services numbers, data traffic as well as the sale of mobile handsets. Revenue from mobile telephony is recorded on the basis of the actual minutes used. Value-added services such as text or multimedia news, as well as the sale of equipment, are recorded at the time the service is provided or the equipment is delivered.

Solutions

The «Solutions» segment is primarily comprised of fixed-line voice telephony services to business customers, leased lines, intranet services, management of communication infrastructures. Other business fields of the Solutions segment include applications and services as well as the integration, operation and maintenance of data networks. Revenue from customer-specific production contracts are accounted for using the percentage-of-completion-method which is based on the ratio of costs incurred to the estimated overall costs. Revenue for long-term outsourcing contracts is recorded based on services provided to the customer. Start-up and integration costs of new outsourcing transactions are capitalized as other assets and recorded as expense over the contract period. Revenue from maintenance is recorded equally over the term of the maintenance contracts.

Fastweb

Fastweb is the second-largest fixed provider of broadband telecommunication services in Italy. Their wide product portfolio comprises language, data, Internet, TV (IPTV) services and video on demand for residential and corporate customers. They also provide network services and customized solutions.

Installation and/or connection fees are deferred and recorded over the minimum term of the contract in a linear fashion. If no minimum contract length has been agreed, the revenue will be recorded on the date of installation and/or connection. Revenue from telephony is recorded at the time the call is made. Revenue from the sale of prepaid call cards is deferred and recorded on the basis of the actual minutes used or when it expires. Revenue from customer-specific production contracts are accounted for using the PoC-method which is based on the ratio of costs incurred to the estimated overall costs.

2.19 Customer acquisition costs

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

2.20 Share-based payments

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

2.21 Post-employment benefits

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, 2007. Current service costs are charged to the income statement in the periods in which the services are rendered. The effects of changes in actuarial assumptions are charged or credited to the income statement over a period approximating the average expected remaining service period 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 or 10% of the fair value of plan assets. 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 in the income statement.

2.22 Capitalized costs and other income

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.

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

2.23 Financial income and financial expense

Financial income primarily includes interest income, income from dividends, gains from the disposal of financial assets held-for-sale, changes in the fair value of financial assets at fair value through profit or loss and gains from hedge transactions recorded in the income statement. Interest income is recorded in the income statement using the effective interest method. Income from dividends is recognized on the date that the right to receive payment is established.

Financial expense primarily includes interest expenses, cash value adjustments of provisions, changes in the fair value of financial assets at fair value through profit or loss, impairments on other financial assets as well as losses on hedge transactions recorded in the income statement. Interest expenses are recorded in the income statement using the effective interest method.

Foreign exchange gains and losses are recorded at their net value.

2.24 Income taxes

Income taxes include all current and deferred taxes directly related to gains. Taxes not directly related to gains such as taxes on property and capital are recorded as other operating expenses.

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 temporary difference is realized. Deferred tax assets are recorded only if it is probable that benefits will be realized in the future.

2.25 Government grants

Grants from government bodies for the acquisition or construction of property, plant and equipment reduce the acquisition or manufacturing costs of the asset in question. Other subsidies and assistance are deferred and released over the contractual term or expected useful life of an asset.

2.26 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. If the notes to the consolidated financial statements do not specify otherwise, the fair value on the balance sheet date corresponds more or less to the carrying value presented in the balance sheet.

The carrying values of trade accounts receivable and liabilities and other receivables and liabilities are a reasonable estimate of the fair value because of the short maturity of such instruments.

The carrying values 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 values of non-current financial assets, financial assets from cross-border lease agreements, fixed rate debt and finance lease obligations are calculated using the expected future payments discounted at market interest rates.

The fair value of publicly traded derivatives 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.

2.27 Derivative financial instruments

Derivative financial instruments are initially recorded in the balance sheet at fair value and subsequently re-measured at their fair value at each balance sheet date. The method of recording the resulting gain or loss is dependent on the nature of the item being hedged and the intention regarding its purchase or issue. On the date a derivative contract is entered into, Swisscom designates certain derivatives as either a hedge of the fair value of an asset or liability (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 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 results in the recognition of a financial asset or liability, the associated gains or losses that were previously 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 are recorded immediately in the income statement.

Swisscom documents at the inception of each transaction the relationship between the derivative financial instruments and the underlying transactions, 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, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

3 Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements depends on recognition and measurement principles, which require management's estimates and assumptions.

When applying the relevant standards to the consolidated financial statements, assumptions and estimates must be made about the future that may have a significant influence on the amount and presentation of assets and liabilities, income and expense as well as the information in the notes. The estimates used in the consolidated financial statements and valuations are based on past experience and other factors which are deemed appropriate under the given circumstances. The accounting principles, key estimates and assumptions which may have a significant influence on the amounts recognized in the consolidated financial statements are listed below:

Goodwill

On December 31, 2007 the carrying value of goodwill from acquisitions totaled CHF 6,920 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, discount rates (WACC) and long-term growth rates. The significant assumptions are disclosed in Note 23. Changes to the assumptions may result in an impairment loss in subsequent years.

Pension obligations

The pension obligation is calculated on the basis of various financial and actuarial assumptions. The key assumptions for assessing this obligation are the discount rate, future salary and pension increases and the probability of the employee reaching retirement. As of December 31, 2007, the under funding amounted to CHF 852 million, whereby only CHF 618 million was recorded as an obligation in the consolidated balance sheet. The obligation was calculated using a discount rate of 3.31%. A reduction in the discount rate of 0.5% to 2.81 % would result in an increase in the pension obligation of CHF 598 million. An increase in average future salary of 0.5% would result in an increase in the pension obligation of CHF 69 million. Pension costs were calculated on the basis of an expected return on investment on plan assets of 3.96%. A reduction in the expected return of 0.5% would result in an increase in pension costs of CHF 34 million. See Note 10.

Provisions and contingent liabilities

Provision for dismantling and restoration

A provision has been recorded for dismantling and restoration of transmitter stations. As of December 31, 2007 the carrying amount of this provision totaled CHF 343 million. This provision is primarily based on estimates of future costs for dismantling and restoration and the timing of the dismantling. An increase in the estimated costs by 10% would result in an increase in the provision of CHF 27 million. A prolongation of the period until dismantling by 10 years would result in a decrease in the provision of CHF 21 million. See Note 27.

Interconnection proceedings Fixnet

Since 2000 Swisscom has been involved in proceedings with regard to interconnection prices. See Note 27. Swisscom has recognized a provision and an allowance for doubtful debts on the basis of their own estimate of the expected outcome. On December 31, 2007 provisions recognized amounted to CHF 356 million. Further development of the proceedings or a decision by the Federal Court may result in a different assessment of the financial consequences in subsequent years and require an increase or decrease of the recorded provision.

Proceedings before the competition commission (WEKO)

WEKO is currently leading various proceedings against Swisscom. The individual proceedings are described in Note 28. In case Swisscom has violated Antitrust Law, WEKO is entitled to impose monetary sanctions. Based upon its legal assessment, Swisscom considers it unlikely that WEKO will impose sanctions. Consequently no provisions were recognized in 2007 in connection with these proceedings. Further development of the proceedings may result in a different assessment of the financial consequences in the subsequent years and require the recognition of a provision.

Allowances for doubtful debts

Bad debt allowances are recognized for doubtful receivables in order to record foreseeable losses arising from events such as a customer's insolvency. As of December 31, 2007 the carrying amount of allowances on trade accounts and other accounts receivables totaled CHF 327 million. In determining the amount of the bad debt allowance several factors are considered. These include the aging of accounts receivables balances, the current solvency of the customer and the historical write-off experience. The actual write-offs might be higher than expected if the actual financial situation of the customer is worse than originally expected. See Note 17.

Deferred income taxes

The valuation of deferred income tax assets and liabilities is based on the judgment of management. Deferred income tax assets are only capitalized if it is probable that they can be used. Whether or not they can be used depends on whether tax loss carry-forwards can be offset against future taxable gains. In order to assess the probability of their future use, estimates must be made of various factors such as future operating results. If the actual values differ from the estimates, this can lead to a change in the assessment of recoverability of the deferred tax assets. On December 31, 2007 deferred income tax assets recognized amounted to CHF 642 million. See Note 14.

Useful lives of tangible assets

As of December 31, 2007 the carrying value of tangible assets totaled CHF 8,315 million. Management's assessment of the useful life of a tangible asset is based on the expected use of the asset, the expected physical wear and tear on the asset, technological developments as well as past experience with comparable assets. A change in the useful life of an asset may have an effect on the future amount of amortization recognized in the income statement. See Notes 2.9 and 22.

Application of SIC 27 «Evaluating the Substance of Transactions in the Legal Form of a Lease»

In the years 1999, 2000 and 2002 Swisscom entered into cross-border lease agreements. 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. Pursuant to SIC 27, these financial assets and payment undertaking agreements were set off in the balance sheet against liabilities in the same amount as the criteria for offsetting assets and liabilities were fulfilled. The applicability of SIC 27 was assessed at inception of the transaction. In case of an early termination, additional obligations can arise from these cross-border agreements, which shall be accounted for under IAS 37, IAS 39 or IFRS 4, depending on the terms and conditions. Due to the long term nature of the contracts, the future development of the counterparties' credit rating cannot be foreseen. See Note 25.

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 changes are made.

4 Changes in the group of consolidated companies

In May 2007 Swisscom acquired 82.1% of the shares in Fastweb. The Swisscom subsidiaries, Comit and Swisscom Central and Eastern Europe AG (Airbites) acquired several smaller companies in Switzerland and Eastern Europe in 2007. The subsidiaries Antenna Hungária Zrt and Accarda AG were sold in July 2007. Also, the business activities of Infonet Schweiz AG were sold in 2007 to British Telecom.

During 2007 Swisscom acquired shares in the associates Transmedia, coComment and Bytek. The 30% share in Sportradio.ch AG was sold in 2007. See Note 24.

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. A list of the subsidiaries, associates and joint ventures is presented in Note 41.

The sales of subsidiaries in 2007 and corporate takeovers in 2006 and 2007 are presented below.

Sales of Antenna Hungária Zrt, Accarda AG and Infonet Schweiz AG

In 2007 Swisscom sold its card business (Accarda AG), the Hungarian subsidiary Antenna Hungária Zrt and the business activities of Infonet Schweiz AG. These sales generated a net cash inflow in 2007 of CHF 804 million. The companies and activities sold are no longer presented in the consolidated financial statements from the date the transaction was completed.

On May 8, 2007 Swisscom Ltdreed the sale of Antenna Hungária Zrt with the French company Télédiffusion de France (TDF) for a price of EUR 328 million (CHF 543 million). The transaction was completed on July 19, 2007 after approval by the Hungarian competition authorities. The pre-tax gain from the sale amounts to CHF 157 million. The gain includes gains from currency translation of CHF 40 million which was previously presented under consolidated equity. Income tax of CHF 1 million was payable on the sale of Antenna Hungária Zrt.

On July 2, 2007 Swisscom sold its card business (Accarda AG) to the Maus Group. A goodwill impairment of CHF 8 million resulted from the transaction.

The business activities of Infonet Schweiz AG were sold to British Telecom on December 1, 2007. The pre-tax gain from the sale amounts to CHF 5 million.

The aggregated carrying amount of the net assets sold and minority holdings as well as aggregated net cash received from the sales of Antenna Hungária Zrt, Accarda AG and the business activities of Infonet Schweiz AG are presented in the table below:

CHF in millions	31.12.2007
Cash and cash equivalents	40
Trade accounts receivable and other receivables	407
Property, plant and equipment	229
Goodwill and other intangible assets	202
Deferred income tax assets	4
Other current and non-current assets	12
Trade accounts payable and other payables	(127)
Current income tax liabilities	(1)
Provisions	(2)
Accrued pension cost	(2)
Deferred income tax liabilities	(17)
Other current and non-current liabilities	(9)
Equity attributable to minority interests	(4)
Total net assets and minority interests sold	732
Purchase price	846
Deferred payment of purchase price	(2)
Cash and cash equivalents sold	(40)
Cash inflow	804

Business combinations in 2007

In 2007 investments in the acquisition of subsidiaries less cash and cash equivalents totaled CHF 5,031 million. An amount of CHF 5,002 million was paid for the acquisition of an 82.1% share in Fastweb. A total of CHF 9 million was paid in 2007 for the business combinations of a number of smaller companies. Investments in the acquisition of subsidiaries also include payments of contingent consideration amounting to CHF 20 million for acquisitions in prior years.

Acquisition of an 82.1% share in Fastweb S.p.A (Italy)

On April 10, 2007 Swisscom made a friendly takeover bid for a 98.26% share in FASTWEB S.p.A. (Fastweb). Fastweb is the second-largest fixed network operator and leading provider of IP-based services in Italy. Swisscom offered Fastweb shareholders EUR 47.00 per share. In total Swisscom acquired 82.1% of the shares. On May 22, 2007 the acquisition was completed for a purchase price of EUR 3,082 million (CHF 5,105 million). The acquisition costs include transaction costs directly attributable to the business combination of EUR 24 million (CHF 40 million). Fastweb is included in the consolidated financial statements from the date of the acquisition and is presented as a separate segment.

The acquisition costs are allocated to Fastweb's net assets as presented below:

CHF in millions	Carrying amount prior to acquisition	Adjustment	Carrying amount upon acquisition
Cash and cash equivalents	103	–	103
Trade accounts receivable and other receivables	848	(7)	841
Property, plant and equipment	2,924	(248)	2,676
Intangible assets	690	1,346	2,036
Deferred income tax assets	632	(654)	(22)
Other current and non-current assets	415	–	415
Financial liabilities	(1,906)	(13)	(1,919)
Trade accounts payable and other payables	(1,029)	–	(1,029)
Provisions	(163)	–	(163)
Accrued pension cost	(35)	–	(35)
Dividend liability	(497)	408	(89)
Other current and non-current liabilities	(291)	–	(291)
Identified assets and liabilities	1,691	832	2,523
Equity attributable to minority interests			(379)
Goodwill			2,961
At cost			5,105
Cash and cash equivalents acquired			(103)
Cash outflow			5,002

Goodwill relates mainly to the future growth and the synergies expected in the areas of procurement and technology. The trademark, customer relationships and the distribution network were recognised separately from goodwill as intangible assets. On March 23, 2007 the General Meeting of Shareholders had agreed to pay Fastweb shareholders a dividend of EUR 3.77 per share in October 2007. The total dividend payment amounted to EUR 300 million (CHF 497 million). Of this EUR 54 million (CHF 89 million) was paid to minority shareholders. In connection with the acquisition, the dividend attributable to Swisscom was eliminated out of the liability in the purchase price allocation.

Other business combinations in 2007

In August and December 2007 Comit acquired a 100% share in two companies in Switzerland, IFBS AG and Talkfinance AG. IFBS AG was merged with Comit AG after the acquisition.

Swisscom Central and Eastern Europe AG acquired a 100% share in several small companies in Rumania and the Ukraine in December 2007.

The acquisition costs for these business combinations totaled CHF 9 million. The allocation of acquisition costs to the net assets taken over led to intangible assets of CHF 10 million, other assets of CHF 1 million and liabilities of CHF 2 million. Intangible assets include primarily contractual customer relationships. The amortization started from the date of acquisition over the estimated remaining term of the customer relationships. Net cash outflow from these business combinations in 2007 totaled CHF 8 million. The amount is comprised of acquisition costs of CHF 9 million less a payment of contingent consideration of CHF 1 million. No cash and cash equivalents were acquired in connection with these business combinations.

Effects on the 2007 income statement

The effects of all the business combinations on Swisscom's 2007 consolidated income statement are presented in the table below:

CHF in millions	Net revenue	Net loss
Fastweb	1,473	(98)
Other	2	—
Total net revenue and net loss from date of acquisition	1,475	(98)

The consolidated financial statements comprise amortization on recognised intangible assets of CHF 137 million based on the purchase price allocation of Fastweb. If the business combinations had been completed at the beginning of 2007, the effect on Swisscom's 2007 income statement would have been as follows:

CHF in millions	Pro-forma net revenue	Pro-forma net income (net loss)
Fastweb	2,359	(393)
Other	6	—
Total pro-forma net revenue and net loss from subsidiaries acquired	2,365	(393)
Net revenue and net income without subsidiaries acquired	9,614	2,169
Total pro-forma net revenue and net income	11,979	1,776

Business combinations in 2006

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

Acquisition of a 100% share in Comit AG (Switzerland)

On January 4, 2006 Swisscom IT Services acquired a 100% share in Comit AG, an IT service provider to banks, for CHF 69 million. The purchase price includes transaction costs of CHF 0.4 million.

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

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

Goodwill relates mainly to the synergies that are expected from the merger of Comit and Swisscom IT Services, non-contractual and non-separable customer relationships as well as the qualified personnel. The trademark and the order backlog were recognised separately from goodwill as intangible assets. The trademark will be amortized using the straight-line method over a period of five years. Following the takeover, the Financial Services division at Swisscom IT Services AG was transferred to and integrated into Comit. In 2005 Comit achieved net revenue of CHF 63 million. In 2006 net revenue of the newly formed corporate entity amounted to CHF 220 million. As a result of the reorganization the net revenue and result from the business combination cannot be calculated. Since the business combination was completed on January 4, 2006 the effects on net revenue and net income are included in the consolidated financial statements for twelve months.

Other business combinations in 2006

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

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

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

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

On September 27, 2006 Swisscom acquired a 100% share in voting rights and 65% of share capital in Betty Holding AG. Betty Holding AG (Zurich) holds 100% of the shares in Betty Technology AG (Zug), Betty TV AG (Munich) and Betty TV Entwicklungs- und Dienstleistungs GmbH (Munich). Betty produces a remote control for interactive television viewing. The sellers are entitled to sell their non-voting shares to Swisscom at a fixed price of CHF 8 million by the end of 2007. On December 31, 2006 the obligations arising from this agreement are recorded as financial liabilities. Swisscom paid CHF 5 million for the outstanding shares in 2007. The difference between the purchase price and financial liabilities of CHF 3 million was recognized as a goodwill adjustment.

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

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

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

The table below shows the allocation of the acquisitions costs to the net assets in total:

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

The acquisition costs include transaction costs of CHF 1 million. Goodwill from the other business combinations relates mainly to the synergies that are expected from the future range of services and the assembled work force. Intangible assets primarily include contractual customer relationships. These are amortized from the date of acquisition over the estimated remaining term of the customer relationship.

In the 2006 consolidated financial statements a provisional allocation of the aggregated purchase prices to the fair value was presented for Betty and Minick. Following the final allocation of purchase price to net assets, additional intangible assets for software of CHF 6 million were recognised in 2007.

Additional revenue of CHF 81 million and a net gain of CHF 2 million resulted from these business combinations in 2006. Had these acquisitions been consolidated in Swisscom's financial statements from January 1, 2006, Swisscom's pro forma net revenue would have been CHF 9,738 million and pro forma net income CHF 1,901 million.

5 Segment reporting

Segment reporting is primarily based on the business segments and secondly on geographical segments. Swisscom's income and risks mainly depend on the services offered and less on the geographical location of the company and the customer. This breakdown corresponds to the management and organizational structure as well as to internal reporting to group management and the board of directors.

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

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

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

Swisscom's consolidated financial statements report on the following segments:

- Fixnet
- Mobile
- Solutions
- Fastweb
- Other: This segment is mainly comprised of the Group of companies known as Swisscom IT Services, which includes Swisscom IT Services AG and Comit, Swisscom Broadcast, Antenna Hungária Zrt (included up to its sale on July 19, 2007), the Accarda Group, consisting of Billag AG, Accarda AG (included up to its sale on July 2, 2007) and Medipa AG, Swisscom Central & Eastern Europe AG, Hospitality Services and Betty AG.
- Corporate This segment includes the divisions at Group Headquarter, shared services for Group companies, the real estate company Swisscom Immobilien AG and the employment company Worklink AG.

Intersegment services are billed at market prices. If a regulated price for telecommunication services exists for competitors such as for interconnection services, this price will also be used to bill internal services.

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 primarily comprise receivables, inventories, property, plant and equipment and intangible assets. Segment liabilities include all operating liabilities and comprise primarily accounts payable, other liabilities, accrued pension obligations and provisions.

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

Swisscom's operations mainly are focused in Switzerland, where it provides a full range of telecommunication services. Business activities abroad mainly comprise Fastweb and Hospitality Services. Fastweb is a fixed network operator and provider of IP-based services in Italy. Hospitality Services is a provider of broadband and Internet-based solutions for the hotel industry in virtually the whole of Europe and the USA.

2007, CHF in millions	Fixnet	Mobile	Solutions	Fastweb	Other	Corporate	Elimination	Total
Net revenue from external customers	3,861	3,757	1,060	1,473	862	76	–	11,089
Intersegment net revenue	613	258	164	–	476	567	(2,078)	–
Net revenue	4,474	4,015	1,224	1,473	1,338	643	(2,078)	11,089
Goods and services purchased	(441)	(988)	(223)	(510)	(177)	–	(9)	(2,348)
Personnel expenses	(831)	(339)	(289)	(189)	(580)	(214)	–	(2,442)
Other operating expenses	(520)	(526)	(61)	(404)	(340)	(381)	3	(2,229)
Intersegment expenses	(956)	(376)	(545)	–	(144)	(64)	2,085	–
Capitalized costs and other income	172	31	6	128	16	118	(40)	431
Segment expenses	(2,576)	(2,198)	(1,112)	(975)	(1,225)	(541)	2,039	(6,588)
Operating income (EBITDA)	1,898	1,817	112	498	113	102	(39)	4,501
Margin as % of net revenue	42.4	45.3	9.2	33.8	8.4	15.9	–	40.6
Depreciation and amortization	(724)	(410)	(39)	(520)	(169)	(63)	12	(1,913)
Impairment	–	(29)	(7)	–	(37)	–	–	(73)
Operating income (EBIT)	1,174	1,378	66	(22)	(93)	39	(27)	2,515
Segment assets	4,272	2,450	405	5,997	689	1,339	(815)	14,337
Goodwill	30	3,714	15	2,957	204	–	–	6,920
Investments in associates	178	–	–	1	–	78	–	257
Non-current assets held for sale	–	–	–	–	–	15	–	15
Assets not allocated	–	–	–	–	–	–	–	2,147
Total assets	4,480	6,164	420	8,955	893	1,432	(815)	23,676
Segment liabilities	1,536	950	327	1,486	393	881	(775)	4,798
Liabilities not allocated	–	–	–	–	–	–	–	12,874
Total liabilities	1,536	950	327	1,486	393	881	(775)	17,672
Capital expenditure	835	368	39	568	187	48	(20)	2,025
Gain (loss) on disposal of assets, net	(19)	(7)	1	–	(10)	34	–	(1)
Share of profit of investments in associates	27	–	–	(1)	–	6	–	32
Number of full-time equivalent employees at end of period	7,069	2,812	2,019	3,128	3,846	970	–	19,844
Average number of full-time equivalent employees	6,894	2,788	2,029	1,809	4,262	973	–	18,755

2006, CHF in millions, restated	Fixnet	Mobile	Solutions	Other	Corporate	Elimi- nation	Total
Net revenue from external customers	4,006	3,660	1,076	840	70	–	9,652
Intersegment net revenue	681	314	148	494	567	(2,204)	–
Net revenue	4,687	3,974	1,224	1,334	637	(2,204)	9,652
Goods and services purchased	(484)	(960)	(240)	(164)	–	8	(1,840)
Personnel expenses	(827)	(364)	(279)	(559)	(249)	–	(2,278)
Other operating expenses	(724)	(508)	(43)	(393)	(377)	1	(2,044)
Intersegment expenses	(990)	(365)	(600)	(143)	(75)	2,173	–
Capitalized costs and other income	140	24	8	43	87	(6)	296
Segment expenses	(2,885)	(2,173)	(1,154)	(1,216)	(614)	2,176	(5,866)
Operating income (EBITDA)	1,802	1,801	70	118	23	(28)	3,786
Margin as % of net revenue	38.4	45.3	5.7	8.8	3.6	–	39.2
Depreciation and amortization	(753)	(389)	(34)	(208)	(58)	7	(1,435)
Operating income (EBIT)	1,049	1,412	36	(90)	(35)	(21)	2,351
Segment assets	4,291	2,526	377	1,374	1,109	(565)	9,112
Goodwill	30	3,749	14	376	–	–	4,169
Investments in associates	173	–	–	1	47	–	221
Non-current assets held for sale	–	–	–	–	19	–	19
Assets not allocated	–	–	–	–	–	–	2,082
Total assets	4,494	6,275	391	1,751	1,175	(565)	15,603
Segment liabilities	1,533	915	402	640	1,031	(548)	3,973
Liabilities not allocated	–	–	–	–	–	–	7,150
Total liabilities	1,533	915	402	640	1,031	(548)	11,123
Capital expenditure	602	334	42	219	140	(13)	1,324
Gain (loss) on disposal of assets, net	(4)	(6)	2	(5)	21	–	8
Share of profit of investments in associates	16	1	–	1	12	–	30
Number of full-time equivalent employees at end of period	6,671	2,991	1,929	4,574	903	–	17,068
Average number of full-time equivalent employees	7,101	2,413	1,919	4,404	897	–	16,734

Swisscom has voluntarily changed the method of accounting for one-off installations and connection fees and has adjusted the previous year. See Note 2.4.

Information based on geographical regions

CHF in millions	Switzerland	Italy	Other countries	Total
2007				
Net revenue	9,410	1,482	197	11,089
Operating income (EBITDA)	4,043	497	(39)	4,501
Operating income (EBIT)	2,665	(26)	(124)	2,515
Segment assets	8,238	6,001	98	14,337
Capital expenditure	1,409	570	46	2,025
Number of full-time equivalent employees at end of period	16,041	3,138	665	19,844
Average number of full-time equivalent employees	15,959	1,818	978	18,755
2006				
Net revenue	9,418	6	228	9,652
Operating income (EBITDA)	3,729	3	54	3,786
Operating income (EBIT)	2,386	(1)	(34)	2,351
Segment assets	8,717	3	392	9,112
Capital expenditure	1,279	2	43	1,324
Number of full-time equivalent employees at end of period	15,909	7	1,152	17,068
Average number of full-time equivalent employees	15,762	6	966	16,734

The geographical region of Italy includes information on the subsidiaries Fastweb and Hospitality Services Italy.

6 Net revenue

The table below presents a breakdown of net revenue:

	2007	2006 restated
Net revenue from services	10,563	9,002
Net revenue from sale of trade goods	512	616
Net revenue from lease of intangible assets	14	34
Total net revenue	11,089	9,652

Details of Swisscom's business activities are described in Notes 2.18 and 5. Swisscom has voluntarily changed the method of accounting for one-off installations and connection fees and has adjusted the previous year. See Note 2.4.

7 Goods and services purchased

CHF in millions	2007	2006
Raw material and supplies	23	24
Purchased services	317	214
Customer premises equipment and trade goods	676	630
National traffic fees	473	533
International traffic fees	408	410
Traffic fees of foreign operations	451	29
Total goods and services purchased	2,348	1,840

8 Personnel expenses

CHF in millions	2007	2006
Salaries and wages	1,921	1,741
Termination benefits	–	14
Salaries and wages of the employment company Worklink	44	82
Social security expenses	213	166
Pension cost. See Note 10.	163	175
Share-based payments. See Note 9.	9	17
Other personnel expenses	92	83
Total personnel expenses	2,442	2,278

Termination benefits programs

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

Outplacement program

In the outplacement program, employees are trained for new jobs and receive assistance in finding new employment within Swisscom or outside the Group. The length of the outplacement program depends on age, length of service and the applicable social plan. At the end of 2007, 50 full-time equivalent employees participated in the program (previous year 111 full-time equivalent employees). In connection with this program, Swisscom incurred expenses of CHF 11 million in 2007 (previous year CHF 20 million). The expense relates only to the costs for those employees who are not expected to continue working for Swisscom after the outplacement program.

Employment Company Worklink AG

Depending on the relevant social plan, age and length of service certain employees affected by downsizing are entitled to transfer to Worklink AG after participating in the outplacement program. Most of the participants are entitled to remain in Worklink AG until the age of 60 in accordance with the terms of the social plan, after which they are eligible for early retirement.

Worklink AG seeks to hire these employees out to third parties on a temporary basis. The employees receive an average of 70% of the last salary before they are transferred to Worklink AG. The total salaries and wages for Worklink participants were CHF 44 million in 2007 (previous year CHF 82 million). This includes expenses for the time spent in the outplacement program before their transfer to the employment company.

9 Share-based payments

CHF in millions	2007	2006
Share-based payments plan TopShare	7	13
Management Incentive Plan (MIP)	4	5
Adjustment from previous years	(2)	(1)
Total expense for share-based payments	9	17

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

Top-Share

Top-Share is a voluntary share purchase scheme available to all employees, except management, members of the Executive Board and the Board of Directors. Employees may purchase up to ten shares at preferential conditions below the market price. In 2007, 6,597 employees participated in this share purchase scheme (previous year 8,323). 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
2007	62,765	441	330	7
2006	78,521	418	250	13

Management Incentive Plan (MIP)

The Management Incentive Plan (MIP) is a share plan for management, members of the Executive Board and Board of Directors. For members of management the scheme is voluntary. They may invest 25% of their individual annual bonus which is based on their personal performance. Swisscom makes a contribution of 30% of the amount invested by management (previous year 50%). Participation in the program is compulsory for members of the Board of Directors and Executive Board. The members of the Executive Board must invest 25% of their individual bonus each year. 33% of the basic salary (not including meeting allowances) of the members of the Board of Directors is paid out in shares. The number of shares allocated is calculated based on their tax value. The tax value amounted to CHF 368 (previous year CHF 355). The shares are subject to a blocking period of three years from the grant date. The shares are vested upon grant date. The expense for share-based payments to the Executive Board is equal to the difference between the market value and the tax value of the allocated shares. For the Board of Directors the market value of the allocated shares is recognized as share-based payments.

Expenditure in connection with the Management Incentive Plan (MIP) in 2006 and 2007 is presented in the table below:

2007	Number of allocated shares	Market price in CHF	Invested amount in CHF	Cost in CHF millions
Members of the Board of Directors	1,528	441	–	0.7
Members of the Executive Board	1,920	441	368	0.1
Other executives	17,864	441	283	2.8
Total	21,312			3.6

2006	Number of allocated shares	Market price in CHF	Invested amount in CHF	Cost in CHF millions
Members of the Board of Directors	1,434	418	–	0.6
Members of the Executive Board	2,398	418	355	0.2
Other executives	23,013	418	222	4.5
Total	26,845	418	241	5.3

10 Post-employment benefits

Swisscom has two defined benefit pension plans: «comPlan» and «Altrentner PUBLICA». In addition there is a separate defined contribution pension plan for the Italian subsidiary Fastweb.

comPlan

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

Under this plan the retirement benefit is determined by the amount in the employee's retirement savings account at the time of retirement. The standard retirement age is 65. The annual pension is calculated by multiplying the retirement savings account by a conversion rate at the time of retirement. If an employee retires at the normal retirement age of 65, the savings account is converted into a retirement pension at a rate of 7.1%.

Due to longer life expectancies and lower expected yields the conversion rate will be gradually reduced to 6.8%, by the year 2010. Employees qualify for early retirement at the earliest on their 58th birthday. In this case their savings account is converted into a retirement pension at a lower rate. Employees may choose to take their entire pension or part thereof in the form of a capital payment.

The ordinary employer contributions include risk contributions of 3% and credits to the employee's retirement savings account of 5% to 13% of the insured salary depending on age. In addition, Swisscom has also committed to pay additional contributions of 3.0% of the total insured salary to comPlan for a period of five years from 2006 to 2010 in order to build up reserves for fluctuations in asset value. The contributions to build up these reserves will be approximately CHF 250 million. Should comPlan's return on asset be sufficient to build up these reserves, Swisscom's additional contributions can be used to fund the ordinary employer contributions or other pension benefits.

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 the new pension scheme 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 an obligation for pension indexation. In accordance with this contract, Swisscom must pay PUBLICA the difference between the actual return on plan assets and the Government prescribed discount rate and, in addition, an administration charge.

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. These contractual obligations will in future be calculated on the basis of an expected annual increase in pensions of 0.5% which will be financed by Swisscom. The defined benefit obligations for future pension payments, including pension increases and administrative costs is CHF 3,150 million gross (previous year CHF 3,535 million). Of this, obligations for pension increases and administrative costs amount to CHF 149 million (previous year CHF 177 million). Since Swisscom bears neither investment nor demographic risks (in particular no risks in connection with longevity), the pension obligation recognized by Swisscom includes only future pension indexation and administrative costs. However, the gross obligation of CHF 3,150 million is used as a basis to determine the corridor for amortizing the unrecognized actuarial gains or losses. At December 31, 2007, included in the present value of PUBLICA's pension obligations are unrecognized actuarial gains of CHF 157 million (previous year CHF 126 million). These are within the corridor of 10% and are therefore not amortized.

Fastweb

Employees at Fastweb have acquired future pension benefits up to December 31, 2006. These pension benefits are presented in the balance sheet as salary-based obligations.

Pension costs and status of pension plans

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

CHF in millions	2007	2006
Current service cost	213	198
Interest cost on projected defined benefit obligation	209	206
Expected return on plan assets	(270)	(250)
Gain from plan amendments	(3)	–
Amortization of retroactive plan amendments	(4)	(4)
Amortization of actuarial loss	18	25
Total pension cost, net	163	175

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

CHF in millions	2007	2006
Defined benefit obligation		
Balance at beginning of year	8,165	7,801
Current service cost	213	198
Interest cost on projected defined benefit obligation	204	201
Plan participants contribution	132	121
Benefits paid	(278)	(299)
Actuarial (gains) losses	(870)	58
Plan amendments	–	8
Disposal of subsidiaries	(29)	–
Acquisition of subsidiaries (without Fastweb)	–	77
Defined benefit obligation at end of year	7,537	8,165
Plan assets		
Balance at beginning of year	6,745	6,264
Expected return on plan assets	270	250
Employer contribution	289	283
Plan participants contribution	132	121
Benefits paid	(278)	(299)
Actuarial (losses) gains	(272)	72
Disposal of subsidiaries	(23)	–
Acquisition of subsidiaries	–	54
Plan assets at end of year	6,863	6,745
Defined benefit obligation in excess of plan assets	674	1,420
Unrecognized actuarial losses	(395)	(1,012)
Unrecognized prior service cost	4	8
Defined benefit obligation on the balance sheet	283	416

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

CHF in millions	2007	2006
Defined benefit obligation		
Balance at beginning of year	177	190
Interest cost on projected defined benefit obligation	4	5
Benefits paid	(1)	(1)
Actuarial gains	(31)	(17)
Defined benefit obligation at end of year	149	177
Defined benefit obligation in excess of plan assets	149	177
Unrecognized actuarial gains	157	126
Defined benefit obligation on the balance sheet	306	303

The development of Fastweb's defined contribution obligation is presented in the table below:

CHF in millions	2007
Defined contribution obligation	
Balance at May 22, 2007	35
Interest cost on projected defined benefit obligation	1
Benefits paid	(7)
Defined contribution obligation at end of year	29
Defined contribution obligation in excess of plan assets	29
Unrecognized actuarial gains	–
Defined contribution obligation on the balance sheet	29

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

CHF in millions	2007	2006
Movement in the obligation recognized on the balance sheet		
Balance at beginning of year	719	805
Pension cost, net	163	175
Employer contribution and benefits paid	(297)	(284)
Disposal of subsidiaries	(2)	–
Acquisition of subsidiaries	35	23
Balance at end of year	618	719

Unrecognized actuarial losses of net CHF 395 million exceeded the present value of the defined benefit obligation by less than 10%. In the previous year unrecognized actuarial losses exceeded the present value of the defined benefit obligation by more than 10%. Of the excess amount of CHF 198 million, CHF 18 million was recognized as a pension expense in 2007 based on the expected on the remaining service life of the employees.

In 2008 Swisscom expect to pay ordinary employer contributions of CHF 286 million into the pension plans. This includes the contributions of CHF 51 million in order to build up reserves for fluctuations in asset value.

The plan assets include Swisscom Ltd shares with a fair value of CHF 3.7 million (previous year CHF 3.4 million). The effective return on plan assets was a loss of CHF 2 million (previous year gain of CHF 322 million).

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

	Target	31.12.2007	31.12.2006
Debt instruments (bonds)	60.0%	60.2%	59.1%
Equity instruments (shares)	25.0%	27.0%	27.7%
Cash and cash equivalents and other assets	7.5%	7.0%	6.0%
Real estate	7.5%	5.8%	7.2%
Total plan assets	100.0%	100.0%	100.0%

Assumptions of actuarial calculations

The following significant assumptions were used in the actuarial valuations:

	2007	2006
Assumptions comPlan		
Discount rate at December 31	3.31%	2.54%
Rate of increase in compensation levels	2.3%	2.3%
Long-term rate of return on plan assets	3.96%	3.92%
Rate of increase in pension	0.5%	0.5%
Assumptions PUBLICA		
Discount rate at December 31	3.31%	2.54%
Rate of increase in pension	0.5%	0.5%
Assumptions Fastweb		
Discount rate at December 31	4.80%	–
Rate of increase in compensation levels	3.00%	–

Additional information about pension obligations and plan assets

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

CHF in millions	2007	2006	2005	2004	2003
Defined benefit obligation	(7,715)	(8,342)	(7,991)	(7,259)	(6,903)
Plan assets	6,863	6,745	6,264	5,209	4,893
Defined benefit obligation in excess of plan assets	(852)	(1,597)	(1,727)	(2,050)	(2,010)
Experience adjustments of defined benefit obligations	(9)	15	22	(6)	50
Experience adjustments of plan assets	(272)	72	469	64	114

11 Other operating expenses

CHF in millions	2007	2006
Rent	277	187
Maintenance	267	213
Loss on disposal of fixed assets	39	19
Energy	96	77
Information technology	174	178
Advertising and promotion	218	171
Commissions	364	254
Contractors and consultancy	293	285
Allowance for bad debts	42	39
(Release) recognition of provision for proceeding relating to interconnection of Fixnet	(91)	180
General and administration	204	168
Other operating expenses	346	273
Total other operating expenses	2,229	2,044

For further information about the recognition and reversal of provisions and allowances for interconnection proceedings of Fastweb see Note 27.

12 Capitalized costs and other income

CHF in millions	2007	2006
Capitalized costs	264	192
Gain on sale of property, plant and equipment	38	27
Income from employment company Worklink (personnel hire)	11	17
Reversal of provision and allowance for bad debts from interconnection proceedings Fastweb	66	–
Other income	52	60
Total capitalized cost and other income	431	296

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

Following legal proceedings of the subsidiary Fastweb with Telecom Italia, provisions and allowances of CHF 66 million could be reversed in the fourth quarter of 2007.

13 Financial income and financial expense

CHF in millions	2007	2006
Financial income		
Interest income	136	117
Net result from available-for-sale financial assets	–	69
Net result from financial assets at fair value through profit or loss	81	–
Change in discount rate of provisions	30	–
Foreign exchange gains	3	–
Other financial income	–	3
Total financial income	250	189
Financial expense		
Interest expense	(396)	(144)
Present value adjustment on provisions	(3)	(11)
Interest on provision for Interconnection proceedings	(1)	(75)
Net result from financial assets at fair value through profit or loss	–	(1)
Foreign exchange losses	–	(7)
Other financial expenses	(41)	(2)
Total financial expense	(441)	(240)
Financial income and financial expense, net	(191)	(51)

In 2007 net result from financial assets at fair value through profit or loss includes gains on foreign currency transactions of CHF 72 million in connection with the acquisition of Fastweb.

Swisscom records provisions for the dismantling of analog transmitter stations. The provision is based on estimated future costs of dismantling and is discounted using an average discount rate. An adjustment, to these provisions, of CHF 45 million has arisen as a result of the change in the interest rates in 2007. Of this, CHF 15 million was recognized in the capitalized dismantling costs and CHF 30 million as financial income. See Note 27.

Due to a decision by the Federal Court in relation to the creation of provisions for interconnection proceedings, a provision for interest of CHF 64 million was recorded in the second quarter of 2006. As a result of the ruling of ComCom in December 2007, CHF 18 million of the provision for interest could be reversed. See Note 27.

Interest income in 2007 includes an amount of CHF 13 million due to the ineffective portion of hedging instruments and the termination of hedging instruments from cash flow hedges.

In 2006 most of the financial assets available-for-sale were sold for a total of CHF 443 million. The gains and losses of CHF 63 million, recorded under equity since the acquisition of these financial assets, were released to the income statement and presented as financial income. In addition, the item includes dividends amounting to CHF 6 million.

Net interest expense was as follows:

CHF in millions	2007	2006
Interest income on cash and cash equivalents	15	17
Interest income on held-to-maturity financial assets	92	91
Interest income on loans and receivables	29	9
Interest income	136	117
Interest expense on bank loans, bonds and private placements	(268)	(9)
Interest expense on financial liabilities from cross-border lease agreements	(92)	(94)
Interest expense on finance lease obligation	(35)	(37)
Interest expense on other financial liabilities	(1)	(4)
Interest expense	(396)	(144)
Net interest	(260)	(27)

14 Income taxes

CHF in millions	2007	2006
Current income tax expense	469	484
Adjustment of current income tax expense of previous years	(7)	(1)
Deferred income tax expense	(15)	(21)
Total income tax expense	447	462

In the previous year deferred income tax of CHF 2 million was recognized directly in equity as adjustment to the fair value of hedging instruments. See Note 31.

The applicable income tax rate for the following analysis of income tax expense is the weighted-average statutory tax rate calculated on the basis of the operative companies in Switzerland. The applicable income tax rate remained unchanged from last year at 22.1%.

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

CHF in millions	2007	2006
Income before income tax expense	2,518	2,330
Expected income tax rate	22.1%	22.1%
Income tax expense at the expected income tax rate	556	515
Reconciliation to the effective income tax expense		
Effect of share of profit of investments in associates	(7)	(7)
Effect of deferred income taxes due to change in tax rate	(10)	9
Effect of use of different income tax rates in Switzerland	(118)	(52)
Effect of use of different income tax rates in foreign countries	26	–
Effect of income tax losses not recognized	48	28
Effect of recognition and offset of income tax losses not recognized in prior years	(6)	(9)
Effect of income tax assets written off	16	–
Effect of impairment of goodwill	2	–
Effect of non-taxable income	(53)	(21)
Effect of income tax of other periods	(7)	(1)
Total income tax expense	447	462
Effective income tax rate	17.8%	19.8%

Current and deferred income tax assets and liabilities are offset when they relate to the same tax authority and tax subject.

Current income tax assets and liabilities have developed as follows:

CHF in millions	2007	2006
Balance at beginning of year	213	224
Income tax expense	462	483
Income taxes paid	(469)	(496)
Change in scope of consolidation	(15)	2
Current income tax liabilities, net	191	213
Therof current income tax assets	57	4
Therof current income tax liabilities	(248)	(217)

Deferred income tax assets and liabilities presented in the balance sheet are as follows:

CHF in millions	31.12.2007	31.12.2006 restated
Deferred income tax assets by nature of temporary differences		
Trade accounts receivable and other receivables	56	–
Property, plant and equipment	73	–
Provisions	28	–
Accrued pension cost	71	84
Income tax losses	382	31
Other	32	31
Total deferred income tax assets by nature of temporary differences	642	146
Deferred income tax liabilities by nature of temporary differences		
Trade accounts receivable and other receivables	(3)	(2)
Property, plant and equipment	(182)	(253)
Intangible assets	(610)	(71)
Provisions	(18)	(10)
Other non-financial liabilities	(50)	(52)
Other	(26)	(9)
Total deferred income tax liabilities by nature of temporary differences	(889)	(397)
Total income tax liabilities, net	(247)	(251)
Income taxes assets and liabilities on the balance sheet		
Deferred income tax assets	65	99
Deferred income tax liabilities	(312)	(350)

Swisscom has voluntarily changed the method of accounting for one-off installations and connection fees and has adjusted the previous year. See Note 2.4.

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

CHF in millions	2007	2006 restated
Balance at beginning of year	251	271
Income tax expense recognized in income statement	(15)	(21)
Income tax expense recognized in equity	–	2
Change in scope of consolidation	10	(2)
Currency translation adjustments	1	1
Deferred income tax liabilities, net	247	251

Deferred income tax assets relating to income tax loss carry-forwards not yet used and deductible temporary differences are recognized if it is probable that they can be offset against future taxable profits or other temporary differences. In 2007 various subsidiaries capitalized deferred income tax assets on income tax loss carry-forwards and other temporary differences totaling CHF 642 million (previous year CHF 146 million) since it was foreseeable that income tax loss carry-forwards could be offset against future taxable profits. In addition income tax loss carry-forwards and other temporary differences of CHF 381 million (previous year CHF 42 million) were

capitalized by subsidiaries who presented a loss in 2006 or 2007. On the basis of the approved business plans of these subsidiaries Swisscom expects that the income tax loss carry-forwards and other temporary differences can be offset against future taxable profits.

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

CHF in millions	31.12.2007	31.12.2006
Expiration within 1 year	605	2
Expiration within 1 to 2 years	38	1
Expiration within 2 to 3 years	57	6
Expiration within 3 to 4 years	59	41
Expiration within 4 to 5 years	106	43
Expiration within 5 to 6 years	84	47
Expiration within 6 to 7 years	107	56
Expiration without limitation	128	148
Total income tax loss carry-forwards not recognized	1,184	344
Other temporary differences without expiration not recognized	–	7
Total income tax loss carry-forwards and other temporary differences not recognized	1,184	351

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

Deferred income tax liabilities of CHF 8 million were recorded on retained earnings from subsidiaries as of December 31, 2007.

15 Earnings per share

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

CHF in millions, except where indicated	2007	2006 restated
Net income attributable to equity holders of Swisscom Ltd	2,068	1,598
From continuing operations	2,068	1,562
From discontinued operations	–	36
Weighted-average number of shares outstanding (number)	51,801,943	55,299,323
Basic and diluted earnings per share (in CHF)	39.92	28.90
From continuing operations	39.92	28.25
From discontinued operations	–	0.65

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

In the 2006 consolidated financial statements a gain per share of CHF 28.92 was presented. Revenue in relation to installation and connection fees was restated in 2007. The effect on net income in 2006 was minus CHF 1 million. As a result earnings and diluted earnings per share for 2006 decreased by CHF 0.02 to CHF 28.90. See Note 2.4.

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

16 Cash and cash equivalents

CHF in millions	31.12.2007	31.12.2006
Cash deposits	578	618
Term deposits with maturity within 90 days	379	55
Total cash and cash equivalents	957	673

The weighted-average effective interest rate on short-term deposits was 2.46% (previous year 1.18%). The average maturity for these deposits was 44 days (previous year 40 days).

Cash and cash equivalents of CHF 6 million (previous year CHF 41 million) could not be freely disposed of as at December 31, 2007, as they have been pledged to secure obligations from cross border lease agreements.

17 Trade accounts receivable and other receivables

CHF in millions	31.12.2007	31.12.2006
Billed revenue	2,801	1,865
Accrued revenue	352	293
Allowance for bad debts	(311)	(149)
Total trade accounts receivable, net	2,842	2,009
Receivables from collecting activities	12	412
Receivables from construction contracts	15	14
Other receivables	37	21
Allowance for bad debts	(16)	(30)
Total other receivables	48	417
Total trade accounts receivable and other receivables	2,890	2,426

All trade accounts receivables are due within one year.

Trade accounts receivables are subject to a policy of active credit risk management which focuses on the assessment of country risk, ongoing credit risk evaluation and monitoring procedures over accounts receivables. There is no significant concentration of credit risk due to Swisscom's large number of customers and their geographical spread. Risks and exposures are continuously monitored by country and by class of counterparty.

The geographical distribution of trade accounts receivable is as follows:

CHF in millions	31.12.2007	31.12.2006
Billed and accrued revenue		
Switzerland	1,959	2,103
Italy	1,171	1
Other countries	23	54
Total billed and accrued revenue	3,153	2,158
Allowance for bad debts		
Switzerland	(75)	(144)
Italy	(232)	–
Other countries	(4)	(5)
Total allowance for bad debts	(311)	(149)
Total trade accounts receivable	2,842	2,009

Analysis of maturity and allowances for bad debts

The due dates of trade accounts receivable and allowances for bad debts on trade accounts receivable are set out below:

CHF in millions	Gross amount	Allowance for bad debts	Gross amount	Allowance for bad debts
	31.12.2007	31.12.2007	31.12.2006	31.12.2006
Not overdue	2,049	47	1,762	12
Overdue up to 3 months	532	5	177	2
Overdue 4 to 6 months	82	4	13	1
Overdue 7 to 12 months	86	12	49	4
Overdue over 1 year	404	243	157	130
Total	3,153	311	2,158	149

The table below presents the changes in allowances on trade accounts receivable and other receivables.

CHF in millions	Trade accounts receivable	Other receivables
Balance at December 31, 2005	158	19
Additions	56	26
Amounts written off	(42)	–
Reversal of unused allowances	(23)	(15)
Balance at December 31, 2006	149	30
Additions	59	5
Amounts written off	(147)	(2)
Reversal of unused allowances	(44)	(1)
Change in scope of consolidation	294	(16)
Balance at December 31, 2007	311	16

Allowances on other receivables at December 31, 2007 include CHF 5 million (previous year CHF 27 million) on allowances for receivables from collection activities.

Construction contracts

Information on open construction contracts at the end of the year is as follows:

CHF in millions	2007	2006
Contract cost of current projects	102	65
Recognized gains less losses	(2)	(29)
Contract cost including gains and losses, net	100	36
Less prepayments	(93)	(51)
Total net receivables (payables) from construction contracts	7	(15)
Thereof receivables from construction contracts	15	14
Thereof liabilities from construction contracts	(8)	(29)
Prepayments	7	10

Net revenue of CHF 84 million (previous year CHF 60 million) was recorded on construction contracts in 2007.

18 Other financial assets

CHF in millions	Loans and receivables	Held-to-maturity	Available-for-sale investments	Derivative financial instruments	Total
Balance at December 31, 2005	1,260	1,125	448	14	2,847
Additions	267	86	11	–	364
Disposals	(1,362)	(1)	(443)	(3)	(1,809)
Change in fair value	–	–	(8)	(3)	(11)
Currency translation adjustments	–	(85)	–	–	(85)
Balance at December 31, 2006	165	1,125	8	8	1,306
Additions	146	84	8	–	238
Disposals	(142)	(263)	–	–	(405)
Change in fair value	–	–	–	10	10
Change in scope of consolidation	3	–	–	–	3
Currency translation adjustments	–	(84)	–	–	(84)
Balance at December 31, 2007	172	862	16	18	1,068
Less current portion	(143)	–	(6)	(2)	(151)
Total other non-current assets	29	862	10	16	917

Loans and receivables

CHF in millions	31.12.2007	31.12.2006
Term deposits with maturity after 90 days	141	133
Other loans and receivables	31	32
Total loans and receivables	172	165

In order to secure liabilities in connection with cross-border lease agreements, term deposits totaling CHF 136 million (previous year CHF 133 million) could not be freely disposed of on December 31, 2007.

Financial assets held-to-maturity

On December 31, 2007 financial assets held-to-maturity consist solely of financial assets from cross-border lease agreements. See Note 25.

Financial assets available-for-sale

In 2006 securities traded on the stock exchange were sold for a total of CHF 443 million. The net gain of CHF 63 million, recorded under equity since the acquisition of these financial assets, were released to the income statement and presented as financial income.

Derivative financial instruments

CHF in millions	31.12.2007	31.12.2006
Derivatives related to cross-border lease agreements	2	6
Other derivative financial instruments	16	2
Total derivative financial instruments	18	8

Derivative financial instruments comprise cross-currency interest rate swaps, interest rate swaps and forward exchange contracts. See Note 33.

19 Inventories

CHF in millions	31.12.2007	31.12.2006
Raw material and supplies	47	54
Customer premises equipment and trade goods	134	123
Finished and unfinished goods	26	22
Prepayments	–	1
Total inventories, gross	207	200
Allowance for obsolete and slow-moving items	(51)	(53)
Total inventories, net	156	147

The cost of inventories recognised as an expense and included in goods and services purchased amounted to CHF 699 million (previous year CHF 654 million).

20 Other non-financial assets

CHF in millions	31.12.2007	31.12.2006
Accrual for prepaid expenses	83	80
VAT receivable	189	–
Prepayments	93	10
Other assets	56	55
Total current other non-financial liabilities	421	145
Accrual for prepaid expenses	15	15
Other assets	25	27
Total non-current other non-financial liabilities	40	42

A VAT receivable of Fastweb of CHF 97 million is pledged as security for bank loans.

21 Non-current assets held for sale

Non-current assets held for sale includes the carrying amount of real estate of CHF 15 million (previous year CHF 19 million) which is expected to be sold within the next twelve months. The sale is part of Swisscom Immobilien AG's plan to optimize the use of its buildings.

In 2007 non-current assets held for sale were sold for a total of CHF 42 million (previous year CHF 24 million). The gain of CHF 35 million from the sales (previous year CHF 17 million), is recorded under capitalized costs and other income.

22 Property, plant and equipment

CHF in millions	Land and buildings	Technical equipment	Vehicles and other equipment	Prepayments and assets under construction	Total
At cost					
Balance at December 31, 2005	2,918	19,605	2,354	390	25,267
Additions	18	429	165	479	1,091
Disposals	(24)	(1,102)	(131)	–	(1,257)
Reclassification as non-current assets held for sale	(51)	–	–	–	(51)
Other reclassifications	13	231	259	(474)	29
Acquisition of subsidiaries	–	1	3	–	4
Currency translation adjustments	5	11	4	–	20
Balance at December 31, 2006	2,879	19,175	2,654	395	25,103
Additions	10	1,073	202	355	1,640
Adjustment of dismantlement and restoration cost	–	(15)	–	–	(15)
Disposals	(27)	(388)	(141)	(15)	(571)
Reclassification as non-current assets held for sale	(46)	–	–	–	(46)
Other reclassifications	1	284	184	(474)	(5)
Acquisition of subsidiaries	96	2,438	28	114	2,676
Disposal of subsidiaries	(105)	(148)	(62)	(6)	(321)
Currency translation adjustments	6	5	4	–	15
Balance at December 31, 2007	2,814	22,424	2,869	369	28,476
Accumulated depreciation					
Balance at December 31, 2005	2,079	15,648	1,540	–	19,267
Depreciation	41	967	272	–	1,280
Disposals	(18)	(1,083)	(118)	–	(1,219)
Reclassification as non-current assets held for sale	(32)	–	–	–	(32)
Other reclassifications	–	1	(1)	–	–
Currency translation adjustments	1	8	3	–	12
Balance at December 31, 2006	2,071	15,541	1,696	–	19,308
Depreciation	35	1,188	279	–	1,502
Disposals	(18)	(375)	(130)	–	(523)
Reclassification as non-current assets held for sale	(42)	–	–	–	(42)
Other reclassifications	–	1	(1)	–	–
Disposal of subsidiaries	(11)	(62)	(19)	–	(92)
Currency translation adjustments	1	5	2	–	8
Balance at December 31, 2007	2,036	16,298	1,827	–	20,161
Net book value					
At December 31, 2007	778	6,126	1,042	369	8,315
At December 31, 2006	808	3,634	958	395	5,795
At December 31, 2005	839	3,957	814	390	6,000

Property, plant and equipment include:

CHF in millions	31.12.2007	31.12.2006
Technical equipment acquired under finance lease		
At cost	566	566
Accumulated depreciation	(566)	(545)
Net book value	–	21
Buildings acquired under finance lease		
At cost	997	957
Accumulated depreciation	(530)	(520)
Net book value	467	437

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

As of December 31, 2007 property with a net carrying value of CHF 14 million was pledged to secure mortgages.

23 Goodwill and other intangible assets

CHF in millions	Goodwill	Internally generated software	Customer relationships	Trade-mark	Other intangible assets	Total
At cost						
Balance at December 31, 2005	315	277	38	–	532	1,162
Additions	–	13	–	–	220	233
Disposals	–	(9)	–	–	(15)	(24)
Purchase price adjustments	(10)	–	–	–	–	(10)
Reclassifications	–	24	–	–	(25)	(1)
Acquisition of subsidiaries	165	1	24	6	40	236
Acquisition of minority interests	3,693	–	–	–	–	3,693
Currency translation adjustments	6	–	1	–	2	9
Balance at December 31, 2006	4,169	306	63	6	754	5,298
Additions	–	41	–	–	344	385
Disposals	–	(5)	–	–	(6)	(11)
Purchase price adjustments	(3)	–	–	–	–	(3)
Reclassifications	(6)	44	–	–	(33)	5
Acquisition of subsidiaries	2,961	20	1,408	364	254	5,007
Disposal of subsidiaries	(162)	–	(41)	–	(36)	(239)
Currency translation adjustments	2	–	–	–	–	2
Balance at December 31, 2007	6,961	406	1,430	370	1,277	10,444
Accumulated amortization and impairment						
Balance at December 31, 2005	–	230	1	–	209	440
Amortization	–	29	8	1	117	155
Disposals	–	(9)	–	–	(15)	(24)
Currency translation adjustments	–	–	–	–	1	1
Balance at December 31, 2006	–	250	9	1	312	572
Amortization	–	51	106	24	230	411
Impairment	49	–	3	–	21	73
Disposals	–	(5)	–	–	(5)	(10)
Disposal of subsidiaries	(8)	–	(10)	–	(19)	(37)
Currency translation adjustments	–	–	–	–	–	–
Balance at December 31, 2007	41	296	108	25	539	1,009
Net book value						
At December 31, 2007	6,920	110	1,322	345	738	9,435
At December 31, 2006	4,169	56	54	5	442	4,726
At December 31, 2005	315	47	37	–	323	722

As of December 31, 2007 accumulated impairments on goodwill of CHF 41 million were recorded. Goodwill from the acquisition of associates is disclosed under investments in associates.

The sale of the card business of Accarda led to an impairment of goodwill in 2007 of CHF 8 million. See Note 4.

Business activities for the interactive TV remote control Betty were discontinued at the end of 2007. The intangible assets were then tested for impairment. As a result of this test, impairments of CHF 12 million were recorded on goodwill and CHF 17 million were recorded on other intangible assets.

The goodwill from the acquisition of minority interests in the previous year is attributable to the repurchase of the 25% share in Swisscom Mobile. See Note 31.

As of December 31, 2007 other intangible assets include prepayments of CHF 171 million (previous year 145 CHF million).

Impairment test of goodwill

Goodwill is allocated to the cash generating units according to their business activities. Goodwill acquired in a business combination is allocated to the cash generating units that are expected to benefit from the synergies of the combination.

The allocation of goodwill to the cash generating units is as follows:

CHF in millions	31.12.2007	31.12.2006
Swisscom Mobile	3,693	3,693
Fastweb	2,957	—
Antenna Hungária	—	134
Swisscom IT Services	156	156
Minick	7	42
Other cash generating units	107	144
Total Goodwill	6,920	4,169

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

The value of goodwill was tested in the fourth quarter after business planning had been completed. The recoverable amount of a cash generating unit was determined based on its value in use, using the discounted cash flow (DCF) method. These discounted cash flow calculations use cash flow projections that are based on the business plan approved by management covering a three-year period. Cash flows beyond the detailed period are extrapolated using appropriate growth rates. The growth rates applied are the growth rates normally assumed for the country or market. The key assumptions used for value in use calculation are as follows:

Information in %	WACC pre-tax	WACC post-tax	Long-term growth rate
Mobile	9.20	7.30	0.5
Fastweb	10.97	8.52	1.5
Swisscom IT Services	8.01	6.27	1.0
Minick	12.76	10.43	1.5
Other cash generating units	9.40–12.07	7.48–10.27	1.0–1.5

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

The cash flow projections and management assumptions are supported by external sources of information.

As of December 31, 2007 the impairment test led to an impairment of goodwill in the cash generating unit Minick of CHF 29 million. The underlying principles and assumptions for Minick and the other significant cash generating units Swisscom Mobile and Fastweb are presented below.

Minick

The impairment test led to an impairment of goodwill of CHF 29 million. Business did not develop as well as expected and therefore the projection of free cash flows had to be adjusted compared to the expectation of the previous year. As a result, the calculated value in use of CHF 18 million was CHF 29 million lower than the net carrying amount. The value in use was calculated based on the business plan approved by management covering a three-year period. The post-tax discount rate is 10.43%, and the corresponding pre-tax discount rate is 12.76%. The terminal value of free cash flows was calculated using a long-term growth rate of 1.5%.

Mobile

In accordance with the approach set forth in IAS 36.99, the impairment test for the cash generating unit Mobile, to which goodwill was allocated as a result of the repurchase of the 25% share in Mobile, is based on the most recent recoverable amount calculation performed in the preceding period. The recoverable amount of the cash generating unit was determined based on its value in use, using the discounted cash flow (DCF) method. The discounted cash flow calculation used a cash flow projection that was based on the business plan approved by management covering a three-year period. The post-tax discount rate was 9.20 %. The corresponding pre-tax discount rate was 7.30 %. Cash flows beyond the detailed planning period were extrapolated using a growth rate of 0.5%. The growth rate applied was the growth rate normally assumed for the country or market.

The most recent recoverable amount calculation made in the preceding period resulted in an amount that substantially exceeded the net carrying amount of the cash generating unit Mobile. The assets and liabilities making up the unit have not changed significantly since the recent calculation. Management believes that no reasonably possible changes in key assumptions would cause the net carrying amount of the cash generating unit to exceed its recoverable amount.

Fastweb

The impairment test was based on the business plan covering a five-year period. The business plan takes into consideration past experiences and management's expectations regarding market developments. Key assumptions on which the projection of cash flows is based, include growth in revenues and the discount rate. The values in the business plan for 2012 are considered to be a reliable basis for calculating the terminal value.

The post-tax discount rate (WACC post-tax) is 8.52%, and the corresponding pre-tax discount rate (WACC pre-tax) is 10.97%. The terminal value of free cash flows after the detailed planning period was calculated using a long-term growth rate of 1.5%. The growth rate applied represents the growth rates normally assumed for the country or market, which are based on past experience and forecasts, supported by external sources of information. The growth rate applied does not exceed the long-term average growth rate for the country or the market in which the entity operates. As of December 31, 2007 the impairment test did not indicate the need for a goodwill impairment. The recoverable amount exceeds the net carrying amount by EUR 638 million (CHF 1,055 million). The discount rate and the forecasted growth in revenues have a significant influence on the sensitivity of the impairment test. For the detailed planning period covering five years, an average annual growth in revenues of 9.9% was forecasted. If the average annual growth in revenues declined by 0.7%, the recoverable amount associated with Fastweb would equal its net carrying amount. If the post-tax discount rate changed from 8.52% to 9.4%, the value in use would equal the net carrying amount.

24 Investments in associates

CHF in millions	2007	2006
Carrying amount		
Balance at beginning of year	221	191
Additions	9	12
Disposals	(3)	(5)
Dividends received	(4)	(9)
Share of profit	32	30
Change in scope of consolidation	1	–
Currency translation adjustments	1	2
Balance at end of year	257	221

Additions and disposals of associates in 2007

During 2007 Swisscom acquired shares in the associate companies Transmedia, coComment and Bytek. The 30% share in Sportradio.ch AG was sold in 2007.

Additions and disposals of associates in 2006

On February 9, 2006 Swisscom acquired a 40% share in Medgate Holding AG. Since its foundation in 1999 Medgate has become the leading Swiss center in the field of tele-medicine. On December 22, 2006 Swisscom acquired a 30% share in Sportradio.ch AG. Sportradio is a radio station for sports broadcasts operating in Switzerland.

Share of profits of investment in associates

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

Dividends received

Dividends received totaled CHF 4 million (previous year CHF 9 million) and are attributable mainly to the dividend paid by AUCS (previous year PubliDirect).

Selected aggregated key data

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

CHF in millions	2007	2006
Income statement		
Net revenue	1,994	1,899
Operating expenses	(1,889)	(1,827)
Operating income	105	72
Net income	79	76
Balance at year end		
Current assets	889	829
Non-current assets	214	295
Current liabilities	(631)	(703)
Non-current liabilities	(29)	(43)
Equity	443	378

25 Financial liabilities

CHF in millions	31.12.2007	31.12.2006
Bank loans	570	1,498
Financial liabilities from cross-border lease agreements	18	–
Finance lease obligation	122	43
Other interest bearing financial liabilities	124	–
Deferred payments of purchase price of acquisition	16	24
Derivative financial instruments. See Note 33.	19	–
Other non-interest bearing financial liabilities	–	3
Total current financial liabilities	869	1,568
Bank loans	6,601	2,745
Bonds	1,510	–
Private placement	1,427	–
Financial liabilities from cross-border lease agreements	1,159	1,459
Finance lease obligation	487	594
Other interest bearing financial liabilities	12	–
Deferred payments of purchase price of acquisition	14	26
Derivative financial instruments. See Note 33.	219	170
Other non-interest bearing financial liabilities	16	21
Total non-current financial liabilities	11,445	5,015
Total financial liabilities	12,314	6,583

Terms and conditions of bonds, bank loans and private placements

Terms and conditions of bonds, bank loans and private placements are as follows:

CHF in millions	Currency	Effective interest rate	Due within 1 year	31.12.2007		31.12.2006	
				Notional amount	Carrying amount	Notional amount	Carrying amount
Bank loans	CHF	3.11%	2008–2012	7,189	7,171	4,250	4,243
Bonds	CHF	3.44%	2010–2017	1,500	1,510	–	–
Private placement	CHF	1.96%	2017–2019	600	602	–	–
Private placement	EUR	3.41%	2010–2014	827	825	–	–
Financial liabilities from cross-border lease agreements	CHF	7.08%	2010–2028	1,173	1,177	1,369	1,459
Finance lease obligation	CHF	6.16%	2008–2063	606	609	633	637
Other interest bearing financial liabilities	EUR	5–14%	2012–2014	134	136	–	–
Total				12,029	12,030	6,252	6,339

On December 20, 2006 Swisscom bought back a share of 25% in Swisscom Mobile from Vodafone for a purchase price of CHF 4,250 million and on May 22, 2007 Swisscom bought a share of 82.1% in Fastweb for a purchase price including transaction costs of CHF 5.1 billion. In addition financial liabilities of CHF 1.9 billion were taken over from Fastweb. The bonds, bank loans and private placements described below were taken out in connection with these transactions at the end of 2007:

Bank loans

The short term tranche of the variable bank loan, amounting to CHF 568 million, is due for repayment on March 18, 2008. Swisscom has an extension option for another year. Of the long term variable tranches CHF 2,750 million is due for repayment in 2011 and CHF 3,860 million in 2012. The loan, of CHF 3,860 which is due for repayment in 2012, includes a CHF 460 million revolving loan with a credit limit of CHF 500 million. The interest rate risk has been hedged, for CHF 2,935 million of the long term variable loans, through an interest rate swap and designated as cash flow hedges for hedge accounting. The term of the hedge is the same as the term of the secured loan. In connection with the outstanding loan, transaction costs of CHF 17 million were capitalized at the end of 2007. The transaction costs will be released through the income statement over the term of the bank loan using the effective interest method. The bank loans are due for immediate repayment if the share capital of the Confederation in Swisscom falls below 35% or if another shareholder can exercise control over Swisscom.

Bonds

During 2007 Swisscom placed bonds on the Swiss domestic market for a value of CHF 1,500 million. The first tranche issued on July 19, 2007, included CHF 550 million with an interest rate of 3.5% and a term of ten years and CHF 350 million with a term of ten years and an interest rate of 3.5%. The second tranche was issued on October 22, 2007. This comprises CHF 350 million with an interest rate of 3.25% and a term of 3 years and a CHF 250 million top-up of the 10-year bond issued in July with a interest rate of 3.75%. The investors are entitled to sell the bonds back to Swisscom if a shareholder other than the Swiss Confederation holds a majority share in Swisscom and at the same time the company's rating falls below BBB.

Private placements

During 2007 Swisscom took out private placements to raise financing of CHF 600 million and EUR 500 million. The Swiss franc denominated placement is made up of three tranches with terms of 10, 11 and 12 years. The private placement denominated in Euros is divided up into 6 tranches with terms of 3, 6 and 7 years and for each term one tranche with a fixed rate of interest and one with a variable rate. The entire Euro placement was hedged into variable Swiss franc through interest currency swaps. The exchange of the fixed-rate Euro into variable Swiss franc qualifies as a fair value hedge. As of December 31, 2007 transaction costs of EUR 1 million were recognized in connection with the Euro denominated private placement. The transaction costs will be released through the income statement over the term of the private placement using the effective interest method. The investors are entitled to sell the Euro private placements back to Swisscom if the Swiss Confederation's share in Swisscom falls below 35% and at the same time the company's rating falls below BBB-. The private placements of CHF 600 million may become due for immediate repayment if the share capital of the Confederation in Swisscom falls below 35% or if another shareholder can exercise control over Swisscom.

Financial liabilities from cross-border lease agreements

Between 1996 and 2002, Swisscom entered into cross-border lease agreements, 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 99 years. Swisscom has an early buyout option on these assets after a contractually agreed period.

The financial liabilities are based on lease and leaseback transactions from the years 1999, 2000 and 2002. The sale and leaseback transactions from the year 1997 are presented as finance lease obligations.

Swisscom defeased a major part of the lease obligations through highly rated financial assets and several payment undertaking agreements. The financial assets were irrevocably placed with trusts. The payment undertaking agreements were signed with financial institutions with a high credit standing. 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 and not presented in the balance sheet. One of the transactions entered into in 2000 does not meet the offsetting conditions of SIC 27 and is consequently reported in the balance sheet as a long term financial asset and the corresponding lease obligation presented as a long term financial liability.

As of December 31, 2007 the financial assets and liabilities resulting from these transactions including interest totaled USD 4,124 million (CHF 4,679 million) and USD 3,751 million (CHF 4,250 million) respectively. Of this amount USD 2,990 million (CHF 3,387 million) are not reported in the balance sheet in accordance with SIC 27. Of the liabilities reported in the amount of CHF 1,177 million (previous year CHF 1,459 million), CHF 862 million (previous year: CHF 1,125 million) are covered by financial assets.

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

Swisscom is exposed to market-related risks in connection with cross-border lease agreements. One particular risk lies in the credit standing of the counterparties in which investments were made. Swisscom must fulfill the agreed rating requirements for financial assets with a nominal value of USD 559 million (CHF 634 million) including interest incurred up to December 31, 2007. All the rating requirements are fulfilled. It is possible that the contractual rating requirements will no longer be fulfilled until the agreements expire. In such case the financial assets are to be replaced by assets with the required minimum rating. Swisscom would then incur costs amounting to the difference between the market value of the existing and the new financial assets.

Other market risks in connection with cross-border lease agreements are interest rate and foreign exchange risks, although most of these risks have been hedged through interest rate and currency swaps.

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

CHF in millions	31.12.2007	31.12.2006
Within 1 year	106	303
Within 1 to 2 years	16	116
Within 2 to 3 years	118	18
Within 3 to 4 years	107	129
Within 4 to 5 years	59	117
After 5 years	2,608	2,920
Total minimum lease payments	3,014	3,603
Less future finance costs	(1,841)	(2,234)
Total present value of financial liabilities from cross-border lease agreements	1,173	1,369
Fair value adjustments	4	2
Accrued interest	–	88
Total financial liabilities from cross-border lease agreements	1,177	1,459
Less current portion	(18)	–
Total non-current financial liabilities from cross-border lease agreements	1,159	1,459

Liabilities from Finance leases

In addition to the cross-border lease agreements described above, Swisscom concluded two agreements in 2001 for the sale of property. At the same time Swisscom entered into long-term agreements to lease back part of the sold property. 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 as other income over the individual lease terms. In 2007 CHF 2 million (previous year CHF 2 million) of the deferred gain was reversed. The minimum lease payments relating to these leaseback agreements are included in the table below. The remaining buildings have been leased back under operating leases over periods ranging from 5 to 20 years. See Note 35. In 2007 contingent rental payments of CHF 2 million (previous year CHF 2 million) were recorded as rental expense. Future minimum lease payments relating to these transactions fall due as follows:

CHF in millions	Real estate 31.12.2007	Others 31.12.2007	Real estate 31.12.2006	Others 31.12.2006
Within 1 year	41	115	37	46
Within 1 to 2 years	41	–	37	123
Within 2 to 3 years	41	–	37	–
Within 3 to 4 years	41	–	37	–
Within 4 to 5 years	41	–	37	–
After 5 years	1,295	–	1,323	–
Total minimum lease payments	1,500	115	1,508	169
Less future finance costs	(1,004)	(4)	(1,033)	(12)
Total present value of finance lease obligation	496	111	475	157
Accrued interest	–	2	–	5
Total finance lease obligation	496	113	475	162
Less current portion	(9)	(113)	(5)	(38)
Total non-current finance lease obligation	487	–	470	124

Future payments of the cash value of these finance lease obligations on December 31, 2006 and 2007 were as follows:

CHF in millions	Real estate 31.12.2007	Others 31.12.2007	Real estate 31.12.2006	Others 31.12.2006
Within 1 year	9	111	5	38
Within 1 to 2 years	9	–	6	119
Within 2 to 3 years	10	–	6	–
Within 3 to 4 years	10	–	7	–
Within 4 to 5 years	11	–	7	–
After 5 years	447	–	444	–
Total present value of finance lease obligation	496	111	475	157

Other financial liabilities

Other financial liabilities as of December 31, 2007 include a mortgage of CHF 8 million which is secured by property with a carrying value of CHF 14 million.

26 Trade accounts payable and other payables

CHF in millions	31.12.2007	31.12.2006
Invoices received	1,460	656
Goods and services received not invoiced	471	519
Total trade accounts payable	1,931	1,175
CHF in millions	31.12.2007	31.12.2006
Liabilities from collecting activities	21	128
Liabilities from construction contracts	8	29
Other liabilities	415	297
Total other liabilities	444	454
Total trade accounts payable and other payables	2,375	1,629

27 Provisions

CHF in millions	Termination benefits	Dismant- lement and restora- tion costs	Procee- dings relating to inter- connec- tion	Contractual risks	Other	Total
Balance at December 31, 2005	73	360	263	105	162	963
Additions	42	1	247	59	29	378
Present value adjustment	1	10	75	–	–	86
Reversal of unused provisions	(33)	(1)	–	(41)	(30)	(105)
Utilization	(25)	–	(101)	(71)	(24)	(221)
Reclassifications	–	8	–	–	(8)	–
Change in scope of consolidation	–	–	–	–	4	4
Balance at December 31, 2006	58	378	484	52	133	1,105
Additions	18	–	42	10	89	159
Present value adjustment	–	10	1	–	(8)	3
Reversal of unused provisions	(19)	(45)	(133)	(8)	(9)	(214)
Utilization	(23)	–	(80)	(33)	(34)	(170)
Change in scope of consolidation	–	–	99	–	62	161
Balance at December 31, 2007	34	343	413	21	233	1,044
Less current portion	(30)	–	(171)	(14)	(169)	(384)
Total non-current provisions	4	343	242	7	64	660

Provisions for termination benefits

Provisions for termination benefits include costs for the programs defined in the social plans of 2001 and 2006. For further information see Note 8. Non-current provisions are expected to be due in the years 2009 to 2011.

Provisions for dismantling and restoration

Provisions for dismantling and restoration relate to the dismantling of mobile stations and analog transmitter stations and the restoration of property owned by third parties on which the transmitters are located. The provision is based on future estimated costs and is discounted using a discount rate of 3.2% (previous year 2.4%). The present value adjustment arising from the change in the discount rate is CHF 45 million (previous year CHF 1 million). Of this CHF 15 million has been recorded in the capitalized dismantling costs and CHF 30 million as financial income. Non-current provisions are expected to be due after 2020.

Provisions for interconnections

Provisions have been recorded for current legal proceedings in connection with interconnection proceedings. The current legal proceedings concern the subsidiaries Swisscom Fixnet and Fastweb.

Provisions for interconnections Fixnet

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

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

On November 6, 2003, ComCom issued a decision, requiring Swisscom to lower interconnection prices for these two telecommunications service providers with retroactive effect for the years 2000 to 2003 by 25% to 35%, depending on the product. Swisscom lodged an appeal against the ComCom decision with the Federal Court.

On October 1, 2004, the Federal Court issued a decision overturning the previous decision by ComCom on procedural grounds and remanding the petitions for a re-hearing before ComCom to reconsider the pricing issues. On June 10, 2005 ComCom issued a new decision, largely identical to that of November 6, 2003. ComCom reduced Swisscom's interconnection prices for the years 2000 to 2003 by around 30% (depending on the product) and ordered that a clause be included in the interconnection agreement with one petition regulating the retrospective effect of decisions by the authorities on parties not involved in the proceedings (third party clause). Swisscom lodged administrative appeals against this new decision with the Federal Court.

In 2004 the two petitioners together with two other telecommunications service providers filed petitions with ComCom, demanding that cost-orientated prices be fixed on the basis of costs in 2004. The two new petitioners also applied for a retroactive reduction from the year 2000. These four proceedings have currently been suspended pending an enforceable ruling on prices for the years 2000 to 2003.

On April 21, 2006 the court decided that no fault could be found with ComCom's price fixing for the years 2000 to 2003. However, the court criticized the method used by the authorities to fix prices for interconnection services as unviable and referred the matter back to ComCom for new calculations. The court also rejected Swisscom's appeal against the third party clause imposed by ComCom. On August 30, 2006 ComCom recalculated the prices for interconnection services for the years 2000 to 2003 in line with the Federal Court's decision and issued a new decision. This did not lead to any significant price changes in comparison with the decision of June 10, 2005.

Swisscom has recognized provisions for the lower interconnection price ruling by ComCom. As a result of the Federal Court decision on April 21, 2006 regarding the third party clause, there is a risk that other providers who have previously accepted the prices, will now demand that Swisscom reduces their prices retroactively. Provisions were therefore created for this risk in 2006.

On December 17, 2007, in two of the four proceedings opened in 2004, ComCom recalculated the prices for interconnection services for the years 2004 to 2006 in line with the Federal Court's decision and issued a new decision. ComCom reduced the interconnections prices for Swisscom for the years 2004 to 2006 by an average of 15 to 20%. Swisscom has accepted the price reductions and is not lodging an appeal with the Federal Court. Moreover these two proceedings, as well as the two other pending proceedings have been extended to include the years 2007 and 2008. As a result of ComCom's decision on December 17, 2007, provisions of CHF 109 million were reversed in the fourth quarter of 2007. Of this CHF 91 million were recorded under the operating result and CHF 18 million in the financial result. At December 31, 2007 the provisions amounted to CHF 356 million. As at December 31, 2007 Swisscom had made payments amounting to CHF 181 million. Payments of CHF 80 million were made in 2007. The remaining liabilities are expected to be paid between 2008 and 2011.

Provisions for interconnections Fastweb

Fastweb provides interconnection services for other telecommunications companies, in particular Telekom Italia. Telekom Italia has complained about the prices for interconnection services invoiced by Fastweb for the period up to August 4, 2006. Fastweb has recorded a provision of around 50% of the difference between the invoiced amount and the prices demanded by Telekom Italia in the amount of EUR 60 million. The decision is pending. In December 2007 the Italian regulatory authorities (AGCOM) passed a ruling on prices for interconnection services by Fastweb for the period from August 4, 2006 to June 30, 2007. On the basis of this decision the provision for interconnection services was reassessed before August 4, 2006 and EUR 26 million (CHF 42 million) of it reversed. On December 31, 2007 provisions for contractual risks amounted to EUR 34 million (CHF 57 million) exist.

Provisions for contractual risks

Provisions for contractual risks relate to possible liabilities in connection with contractual agreements. This includes provisions for guarantees arising from the sale of debitel (see Note 38) and provisions for risks in connection with projects. Non-current provisions are expected to fall due after 2009.

Other provisions

Other provisions include provisions for environmental risk, employee related items as well as provisions for compensation. Non-current provisions are expected to fall due between 2009 and 2012.

28 Contingent liabilities

Competition commission proceedings

The Competition Commission (WEKO) is currently bringing proceedings against a number of companies in the Swisscom Group which is 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 concerned in Switzerland.

Competition commission proceedings – mobile termination fees

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

The proposed fines relate to the period from April 1, 2004 (when a new amendment to the Swiss Antitrust Law entered into effect) to May 31, 2005 (when Swisscom Mobile lowered its mobile termination fee from CHF 0.335 to CHF 0.20).

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

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

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

Swisscom Mobile AG refutes the accusation that it has abused its dominant market position and opposes the sanction and appealed to the Federal Court on March 19, 2007.

In view of its legal assessment Swisscom is of the opinion that it is unlikely that sanctions will be imposed and has therefore not recognized any provisions in the consolidated financial statements as at December 31, 2006 and 2007.

Investigation into the relationship between ADSL wholesale and retail prices

On October 20, 2005 WEKO launched an investigation into Swisscom Ltd and Swisscom Fixnet AG in connection with alleged abuse of their dominant market position. Swisscom is said to have set such high prices for ADSL pre-services in favor of internet service providers that no scope is left for an adequate profit margin in relation to the end-customer prices charged by Swisscom (price squeezing). Swisscom refutes the fact that it has a market dominant position and rejects the accusation of price squeezing since they are of the opinion that the prices for their ADSL pre-services leave their ADSL competitors enough scope for an adequate profit margin. Swisscom currently considers that sanctions are unlikely and has therefore not recognized any provisions. The outcome of the investigation and the extent of the financial consequences of a negative decision by WEKO are still uncertain.

Investigation into telephony services for large customers

On February 16, 2004 WEKO opened an investigation to determine whether Swisscom has engaged in any anti-competitive behavior when fixing prices for telephony services for its large customers. Swisscom is of the opinion that there is intensive competition on the market for large customers and that they have not, therefore, engaged in any anti-competitive behavior. Swisscom does not currently consider sanctions likely and has therefore not recognized any provisions. The outcome of the investigation and the extent of the financial consequences of a negative decision by WEKO are still uncertain.

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. The WEKO investigations opened against Swisscom Ltd and Swisscom Fixnet AG on February 16, 2004 were closed on October 1, 2007 without any further consequences.

Cross-border lease agreements

Contingent liabilities resulting from cross-border lease agreements see Note 25.

29 Other non-financial liabilities

CHF in millions	31.12.2007	31.12.2006 restated
Deferred revenue	351	187
VAT payable	99	92
Prepayments	66	64
Other current non-financial liabilities	52	33
Total current other non-financial liabilities	568	376
Deferred gain on sale and leaseback of real estate	113	115
Other non-current non-financial liabilities	80	29
Total non-current other non-financial liabilities	193	144

Deferred revenue mainly comprises deferred payments for prepaid cards and pre-paid subscriptions fees.

The reversal of the deferred gain on sale and leaseback transactions (buildings) over the lease term is recorded under capitalized costs and other income. See Note 12.

Swisscom has voluntarily changed the method of accounting for one-off installations and connection fees and has adjusted the previous year. See Note 2.4.

30 Repurchase of a 25% share in Swisscom Mobile AG

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

In 2001, Swisscom sold 25% of the shares of Swisscom Mobile AG to Vodafone for CHF 4,450 million. At the time of the disposal, Swisscom entered into a shareholder's agreement with Vodafone for an unlimited period of time. In accordance with the shareholders' agreement, Vodafone had a right to sell its shares in Swisscom Mobile AG to Swisscom if the Government sold its controlling shareholding in Swisscom and another party or a group of parties were to obtain control of Swisscom.

31 Equity

Equity attributable to equity holders of Swisscom Ltd:

CHF in millions	Share capital	Additional paid-in capital	Retained earnings	Treasury shares	Other reserves	Attributable to equity holders of Swisscom
Balance at December 31, 2005	61	392	7,483	(2,002)	67	6,001
Changes in accounting policies. See Not 2.4.	–	–	(22)	–	–	(22)
Balance at January 1, 2006	61	392	7,461	(2,002)	67	5,979
Income and expense directly recognized in equity, net	–	–	–	–	(45)	(45)
Net income attributable to equity holders of Swisscom Ltd	–	–	1,598	–	–	1,598
Total recognized income and expenses	–	–	1,598	–	(45)	1,553
Dividend payments	–	–	(907)	–	–	(907)
Share capital reduction	(4)	(22)	(1,975)	2,001	–	–
Share buy-back	–	–	–	(2,213)	–	(2,213)
Sale of treasury shares	–	–	–	1	–	1
Purchase of treasury shares for share-based payments	–	–	–	(44)	–	(44)
Sale of treasury shares for share-based payments	–	–	–	44	–	44
Balance at December 31, 2006	57	370	6,177	(2,213)	22	4,413
Income and expense directly recognized in equity, net	–	–	–	–	(26)	(26)
Net income attributable to equity holders of Swisscom Ltd	–	–	2,068	–	–	2,068
Total recognized income and expenses	–	–	2,068	–	(26)	2,042
Dividend payments	–	–	(881)	–	–	(881)
Purchase of treasury shares for share-based payments	–	–	–	(37)	–	(37)
Sale of treasury shares for share-based payments	–	–	–	37	–	37
Balance at December 31, 2007	57	370	7,364	(2,213)	(4)	5,574

Share capital

As of December 31, 2007 shares issued totaled 56,718,561, as in the previous year. Each share has a par value of CHF 1. All issued shares are fully paid. Each share entitles the holder to one vote. After the deduction of own shares of 4,916,711 (previous year 4,916,618), shares outstanding at December 31, 2007 totaled 51,801,850 (previous year 51,801,943 shares).

Share buy-back

In September 2006 Swisscom acquired 4,916,618 of its own shares or 8% as part of a share buy-back scheme for an amount of CHF 2.2 billion. Put options were assigned to shareholders free of charge for each share held. 23 put options entitled the bearer to sell two registered shares for CHF 450 gross or CHF 292.85 net of 35% withholding tax, per registered share. The majority shareholder, the Swiss Confederation, participated in the share buy-back scheme in an amount of CHF 2.18 billion.

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

At the General Meeting of Shareholders on April 25, 2006 a capital reduction in the amount of the buy-back was approved. The capital reduction to 56,718,561 shares was effected in the third quarter of 2006.

Share-based payments

In 2007 shares with a fair value totaling CHF 37 million (previous year CHF 44 million) were bought and then sold to Swisscom employees, management, members of the Executive Board and the Board of Directors for a total of CHF 28 million (previous year CHF 27 million). The difference of CHF 9 million (previous year CHF 17 million) was included in the income statement under share-based payments. See Note 9.

Treasury shares

Changes in treasury shares are presented in the table below:

	Number	Average price in CHF	CHF in millions
Balance at December 31, 2005	4,766,286	420	2,002
Purchase at market value	105,360	418	44
Sale	(2,069)	416	(1)
Sale of treasury shares for share-based payments. See note 9.	(105,377)	418	(44)
Share capital reduction	(4,764,200)	420	(2,001)
Share buy-back	4,916,618	450	2,213
Balance at December 31, 2006	4,916,618	450	2,213
Purchase at market value	84,150	441	37
Sale	(290)	441	–
Sale of treasury shares for share-based payments. See note 9.	(83,767)	441	(37)
Balance at December 31, 2007	4,916,711	450	2,213

Other reserves

CHF in millions	Hedge reserve	Fair value reserves	Cumulative translation adjustments	Other reserves total
Balance at December 31, 2005	(10)	71	6	67
Currency translation adjustments	–	–	21	21
Change in fair value of available-for-sale financial assets	–	(8)	–	(8)
Gains and losses from available-for-sale financial assets transferred to income statement	–	(63)	–	(63)
Change in fair value of derivative financial instruments	7	–	–	7
Income tax effects	(2)	–	–	(2)
Balance at December 31, 2006	(5)	–	27	22
Currency translation adjustments	–	–	17	17
Cumulative translation adjustments on foreign operations transferred to income statement	–	–	(40)	(40)
Change in fair value of derivative financial instruments	(3)	–	–	(3)
Balance at December 31, 2007	(8)	–	4	(4)

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

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

Reserves for cumulative translation adjustments comprise the differences from the currency translation of the financial statements of subsidiaries, associates and joint ventures from the functional currency into Swiss Francs.

Equity attributable to minority interests

CHF in millions	2007	2006
Balance at beginning of year	67	623
Net income attributable to minority interests	3	306
Dividend payments	(12)	(297)
Change in scope of consolidation	373	–
Reduction from sale of minority interests	–	(565)
Currency translation adjustments	(1)	–
Balance at end of year	430	67

The increase in minority interests from the acquisition of subsidiaries is a result of the acquisition of Fastweb on May 22, 2007. On the date of acquisition dividends due to minority shareholders amounted to CHF 89 million (EUR 54 million) which was presented in the acquisition balance sheet as a liability. The dividend was paid in the fourth quarter of 2007. The payment is presented in the cash flow under dividend payments to minority shareholders. See Note 4.

On December 20, 2006 Swisscom acquired the share of 25% in Swisscom Mobile held by Vodafone for acquisition costs of CHF 4,258 million. On the date of acquisition the carrying amount of this minority interest amounted to CHF 565 million. The difference between the purchase price and the proportionate carrying value of CHF 3,693 million is presented as goodwill. See Note 30. In 2006 a dividend of CHF 285 million was paid to Vodafone.

32 Dividends

Distributable reserves are determined based on equity as reported in the statutory financial statements of Swisscom Ltd (holding company) in accordance with Swiss law and not on the equity as reported in the consolidated balance sheet. At December 31, 2007, Swisscom Ltd's distributable reserves amounted to CHF 2,574 million. The dividend must be proposed by the Board of Directors and approved by the Shareholder Meeting. The dividend proposed for the 2007 financial year is not recognized as a liability in these consolidated financial statements. Own shares are not eligible for dividend payments.

Swisscom paid the following dividends in 2006 and 2007:

	2007	2006
Number of registered shares eligible for dividends (in thousands)	51.802	56.716
Dividend on registered share (in CHF)	17.00	16.00
Paid dividend (CHF in million)	881	907

The Board of Directors will propose an ordinary dividend of CHF 18 per share and an extraordinary dividend of CHF 2 per share for the 2007 financial year at the Shareholders' Meeting on April 22, 2008, amounting to a total distribution of CHF 1,036 million. The dividend is expected to be paid on April 25, 2008.

33 Financial risk management and supplementary information about financial instruments

Swisscom's operative and financial activities expose it to a variety of financial risks. The most significant financial risks for Swisscom include the effects of foreign currency risks and interest risks as well as credit risks and liquidity risks.

Swisscom's financial risk management follows fixed guidelines with the aim of minimizing potential adverse effects on the financial performance of Swisscom. More specifically these guidelines describe risk limits for approved financial instruments and also lay down procedures for risk monitoring. These guidelines forbid the use of derivative financial instruments for speculation. Financial risk management, with the exception of credit risk management from business operations, is carried out by the Group Treasury department. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units. The risk management process requires regular reports on the development of financial risk to the management.

Market value risks

Foreign exchange risk

Swisscom is exposed to foreign exchange risk from its international operations and these can have an effect on the Group's financial result and equity. One type of foreign exchange risk is transaction risk which arises as a result of currency fluctuations between the date of agreement and the actual cash flow. The main currencies affected are USD and EUR. The aim of Swisscom's foreign exchange risk management policy is to limit the volatility of scheduled cash flows. Swisscom primarily uses various hedge transactions in order to minimize the risk arising from cash flows and funds held in foreign currency. As of December 31, 2007 Swisscom has not hedged any translation risks through financial instruments. Swisscom uses various forward exchange contracts and options to hedge its transaction risks.

Swisscom hedges its long-term payment obligations from debt financing in EUR and its long-term leasing commitments in USD.

The following currency risks and hedge transactions for foreign currencies existed on December 31, 2007:

Foreign exchange risks

2007, CHF in millions	CHF	EUR	USD	Other
Cash and cash equivalents	–	14	12	–
Trade accounts receivable and other receivables	–	15	15	1
Other financial assets	3	1	863	–
Financial liabilities	–	(833)	(1,480)	–
Trade accounts payable and other payables	–	(51)	(11)	(1)
Gross exposure	3	(854)	(601)	–

Contract values of foreign currency hedges

2007, CHF in millions	EUR	USD
Forward exchange contracts	471	199
Currency swaps	8	–
Forward exchange swaps	827	364
Total derivatives	1,306	563

The following currency risks and hedge transactions for foreign currencies existed on December 31, 2006:

Foreign exchange risks

2006, CHF in millions	EUR	USD	Other
Cash and cash equivalents	10	4	–
Trade accounts receivable and other receivables	8	15	1
Other financial assets	1	1,111	–
Financial liabilities	(7)	(1,771)	–
Trade accounts payable and other payables	(28)	(34)	1
Gross exposure	(16)	(675)	2

Contract values of foreign currency hedges

2006, CHF in millions	EUR	USD
Forward exchange contracts	64	170
Currency swaps	–	416
Total derivatives	64	586

Sensitivity analysis

The following sensitivity analysis shows the effects on income statement if the EUR/CHF and USD/CHF exchange rates change in line with their implicit volatility, by 8.5% (USD/CHF; previous year 7.6%) and 3.6% (EUR/CHF; previous year 2.4%), respectively. This analysis assumes that all other variables, in particular the interest rate level, remain constant.

CHF in millions	31.12.2007	31.12.2006
Impact on income statement from balance sheet items		
EUR	31	–
USD	51	51
Impact on income statement from hedges		
EUR	47	2
USD	48	44

Interest rate risk

Interest rate risks arise from fluctuation in interest rates, which could have a negative impact on the financial position of Swisscom. Changes in interest rates cause variation in interest income and expense and the fair value of financial assets, liabilities and hedging instruments. Swisscom actively manages the interest rate risks. The aim of Swisscom's interest rate risk management policy is to limit the volatility of scheduled cash flows. Swisscom utilizes interest rate-swaps to hedge its interest rate risk.

Structure of interest-bearing financial instruments:

CHF in millions	31.12.2007	31.12.2006
Interest bearing financial liabilities		
Financial liabilities with fixed interest	3,766	1,750
Financial liabilities with variable interest	8,264	4,589
Total interest bearing financial liabilities	12,030	6,339
Interest bearing financial assets		
Financial assets with variable interest	(1,984)	(2,304)
Total interest bearing financial assets	(1,984)	(2,304)
Interest bearing financial assets and liabilities, net	10,046	4,035
Therof with variable interest	6,280	2,285
Therof fixed by interest rate swaps	2,808	1,300

Sensitivity analysis

The following sensitivity analysis shows the effects on income statement and equity if interest rates in CHF change by 100 base points in line with their implicit volatility.

CHF in millions	Income statement		Equity	
	Increase 100 base points	Decrease of 100 basic points	Increase 100 base points	Decrease of 100 basic points
31. Dezember 2007				
Variable financing	(63)	63	–	–
Interest rate swaps	28	(28)	106	(112)
Cashflow sensitivity, net	(35)	35	106	(112)
31. Dezember 2006				
Variable financing	(22)	22	–	–
Interest rate swaps	13	(13)	44	(47)
Cashflow sensitivity, net	(9)	9	44	(47)

Sensitivity of fair values

The interest rate sensitivity has no significant impact on the fair values recorded on the balance sheet and the changes in fair value recognized in the income statement and equity.

Credit risk

Credit risks from business activities

Swisscom is exposed to credit risk arising from its business activities and financing. Swisscom has no significant concentrations of credit risk. The Group has policies in place to ensure that products and services are only sold to creditworthy customers. Outstanding accounts are also continually monitored. Credit risks are accounted for through individual and general impairments. The danger of cluster risks is minimized by the large number of customers.

With reference to financial assets that are neither impaired nor in default, there are no indications on the balance sheet date that debtors will default on their payment obligations.

For further information on financial assets see notes 16, 17 and 18.

Credit risks from financial transactions

Swisscom is exposed to the risk of default on derivative financial instruments and financial assets. A guideline has been drawn up laying down the requirements to be fulfilled by counterparties for derivative financial instruments and financial assets. Specific limits for individual counterparties have also been fixed. These limits and credit assessments are reviewed regularly. Swisscom signs netting agreements in line with the ISDA (International Swaps and Derivatives Association) with the counterparty in order to control the risk inherent in derivatives. See Note 25 for more information on credit risks in connection with cross-border lease transactions.

The carrying value of financial assets corresponds to the credit risk and is presented in the table below:

CHF in millions	Note	Carrying amount	
		31.12.2007	31.12.2006
Cash and cash equivalents	16	957	673
Trade accounts receivable and other receivables	17	2,890	2,426
Loans and receivables	18	172	165
Held-to-maturity financial assets	18	862	1,125
Available-for-sale financial assets	18	16	8
Derivative financial instruments	18	18	8
Total financial assets		4,915	4,405

Liquidity risk

Careful cash flow management requires a sufficient reserve of cash and cash equivalents and tradable securities, as well as sufficient amounts of cash and cash equivalents to finance business transactions and projects. Swisscom has policies in place that guarantee sufficient liquidity in order to settle current and future obligations.

The contractual due dates of financial liabilities including estimated interest payments are presented in the table below:

2007, CHF in millions	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
Bank loans	7,171	8,001	771	197	7,033	–
Bonds	1,510	1,876	53	53	488	1,282
Private placement	1,427	1,782	65	65	531	1,121
Financial liabilities from cross-border lease agreements	1,177	3,014	106	16	284	2,608
Finance lease obligation	609	1,612	154	41	122	1,295
Other interest bearing financial liabilities	136	136	124	11	–	1
Other non-interest bearing financial liabilities	46	48	19	26	3	–
Derivative financial instruments	238	353	46	36	76	195
Trade accounts payable and other payables	2,375	2,375	2,375	–	–	–
Total	14,689	19,197	3,713	445	8,537	6,502

2006, CHF in millions	Carrying amount	Contractual payments	Due within 1 year	Due within 1 to 2 years	Due within 3 to 5 years	Due after 5 years
Bank loans	4,243	4,675	1,601	81	2,993	–
Financial liabilities from cross-border lease agreements	1,459	3,603	303	116	264	2,920
Finance lease obligation	637	1,677	83	160	111	1,323
Other non-interest bearing financial liabilities	74	71	40	14	17	–
Derivative financial instruments	170	230	7	32	8	183
Trade accounts payable and other payables	1,629	1,629	1,629	–	–	–
Total	8,212	11,885	3,663	403	3,393	4,426

Categories and fair value of financial instruments

The carrying values of financial assets and liabilities are allocated to the assessment categories as below:

31. Dezember 2007, CHF in millions	Loans and receivables	Held-to-maturity	Available-for-sale	At fair value through profit or loss	Financial liabilities
Financial assets					
Cash and cash equivalents	957	–	–	–	–
Trade accounts receivable and other receivables	2,890	–	–	–	–
Term deposits with maturity after 90 days	141	–	–	–	–
Other loans and receivables	31	–	–	–	–
Held-to-maturity investments	–	862	–	–	–
Available-for-sale financial assets	–	–	16	–	–
Derivative financial instruments	–	–	–	18	–
Total financial assets	4,019	862	16	18	–
Financial liabilities					
Bank loans	–	–	–	–	7,171
Bonds	–	–	–	–	1,510
Private placement	–	–	–	–	1,427
Financial liabilities from cross-border lease agreements	–	–	–	–	1,177
Finance lease obligation	–	–	–	–	609
Other interest bearing financial liabilities	–	–	–	–	136
Deferred payments of purchase price of acquisition	–	–	–	–	30
Derivative financial instruments	–	–	–	238	–
Other non-interest bearing financial liabilities	–	–	–	–	16
Trade accounts payable and other payables	–	–	–	–	2,375
Total financial liabilities	–	–	–	238	14,451

31. Dezember 2006, CHF in millions	Loans and receivables	Held-to- maturity	Available- for-sale	At fair value through profit or loss	Financial liabilities
Financial assets					
Cash and cash equivalents	673	–	–	–	–
Trade accounts receivable and other receivables	2,426	–	–	–	–
Term deposits with maturity after 90 days	133	–	–	–	–
Other loans and receivables	32	–	–	–	–
Held-to-maturity investments	–	1,125	–	–	–
Available-for-sale financial assets	–	–	8	–	–
Derivative financial instruments	–	–	–	8	–
Total financial assets	3,264	1,125	8	8	–
Financial liabilities					
Bank loans	–	–	–	–	4,243
Bonds	–	–	–	–	–
Private placement	–	–	–	–	–
Financial liabilities from cross-border lease agreements	–	–	–	–	1,459
Finance lease obligation	–	–	–	–	637
Other interest bearing financial liabilities	–	–	–	–	–
Deferred payments of purchase price of acquisition	–	–	–	–	50
Derivative financial instruments	–	–	–	170	–
Other non-interest bearing financial liabilities	–	–	–	–	24
Trade accounts payable and other payables	–	–	–	–	1,629
Total financial liabilities	–	–	–	170	8,042

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

CHF in millions	Carrying amount 31.12.2007	Fair value 31.12.2007	Carrying amount 31.12.2006	Fair value 31.12.2006
Financial assets				
Cash and cash equivalents	957	957	673	673
Trade accounts receivable and other receivables	2,890	2,890	2,426	2,426
Other financial assets	1,068	1,421	1,306	1,655
Total	4,915	5,268	4,405	4,754
Financial liabilities				
Current financial liabilities	869	869	1,568	1,568
Trade accounts payable and other payables	2,375	2,375	1,629	1,629
Non-current financial liabilities	11,445	12,157	5,015	5,810
Total	14,689	15,401	8,212	9,007

Derivative financial instruments						
CHF in millions	Contract value		Positive fair value		Negative fair value	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Forward exchange derivatives						
Forward exchange contracts in USD	199	170	1	3	(2)	–
Forward exchange contracts in EUR	471	64	–	–	(1)	–
Currency swaps in EUR	8	–	–	–	–	–
Cross Currency Interest Rate Swaps in USD ¹	364	416	–	–	(188)	(166)
Cross Currency Interest Rate Swaps in EUR ¹	827	–	–	–	(5)	–
Total forward exchange derivatives	1,869	650	1	3	(196)	(166)
Interest rate derivatives						
Interest rate swaps in USD	81	106	2	4	–	–
Interest rate swaps in CHF	2,935	1,300	15	1	(40)	–
Cross Currency Interest Rate Swaps in USD ¹	124	163	–	–	(1)	(4)
Cross Currency Interest Rate Swaps in EUR ¹	827	–	–	–	(1)	–
Total interest rate derivatives	3,967	1,569	17	5	(42)	(4)
Total derivative financial instruments	5,836	2,219	18	8	(238)	(170)
Less current portion	–	–	(2)	(2)	19	–
Total non-current derivative financial instruments	5,836	2,219	16	6	(219)	(170)

1 Separate in foreign exchange and interest rate components.

At December 31, 2007, derivative financial instruments consisted primarily of cross-currency interest rate swaps, interest rate swaps and foreign exchange forwards to hedge interest rate risks and foreign exchange risks with respect to USD relating to the cross-border lease agreements entered into in 1997, 2000 and 2002. The future interest payments relating to the agreements from 1997 and 2002 were recorded as hedges. The hedging instruments had a negative fair value of CHF 1 million on the balance sheet date (previous year CHF 5 million). No positive fair values were recognized in the current year as well as in the previous year. For the designated cash flow hedges for cross-border lease agreements, CHF 4 million pre-tax (previous year CHF 6 million) was recorded in the hedging reserve within consolidated equity. The maximum length of time hedged is one year for cross-border lease agreements entered into in 1997, 21 years for agreements entered into in 2000 and six years for agreements entered into in 2002.

In 2006 and 2007 the interest rate risk for a share of CHF 2,935 million of the variable loans was hedged through an interest rate swap and designated as a cash flow hedge for hedge accounting. The hedging instruments had a negative fair value of CHF 40 million on the balance sheet date and a positive fair value of CHF 15 million. For the designated cash flow hedges for bank loans, CHF 5 million pre-tax was recorded in the hedging reserve within consolidated equity. The remaining hedge periods are identical to the terms of the loans which are 4 and 5 years.

For the purpose to hedge the foreign currency and interest rate risks of a loan in EUR Swisscom entered in 2007 in a cross-currency swap for CHF 832 million and of which it designated CHF 127 million as fair value hedge. The instruments designated for hedge accounting had a negative fair value of CHF 1 million on the balance sheet date. See Note 25.

Also included are foreign exchange forwards for EUR and USD contained in derivative instruments designated to hedge future transactions in connection with Swisscom's business activities.

Capital management

Managed capital is defined as equity including minority holdings. Swisscom seeks to maintain a strong equity basis that enables them to guarantee the continued existence of the company, to offer investors reasonable income relative to the risks entered into and to ensure that funds are available for investments that will both benefit customers in the future and generate further income for investors. The managed capital is monitored through the equity ratio which is the ratio of group equity to total assets. The calculation of the equity ratio is presented in the table below:

CHF in millions	31.12.2007	31.12.2006
Equity attributable to equity holders of Swisscom Ltd	5,574	4,413
Equity attributable to minority interests	430	67
Total capital	6,004	4,480
Total assets	23,676	15,603
Equity ratio in %	25.4%	28.7%

In the strategic targets effective retrospectively as of January 1, 2008, the federal government ruled that Swisscom's net debt shall not exceed 2.1 times the operating result (EBITDA). Swisscom's internal target for the ratio of net debt to EBITDA is around 2.0. The target value may be temporarily exceeded. Financial leeway exists if the target is not reached. The net debt to equity ratio is as follows:

CHF in millions	31.12.2007	31.12.2006
Bonds	1,510	–
Bank loans	7,171	4,243
Private placement	1,427	–
Financial liabilities from cross-border lease agreements	1,177	1,459
Finance lease obligation	609	637
Other financial liabilities	420	244
Liabilities from collecting activities	21	128
Total	12,335	6,711
Cash and cash equivalents	(957)	(673)
Current financial assets	(151)	(142)
Receivables from collecting activities	(12)	(385)
Financial assets from crossborder-lease agreements	(862)	(1,125)
Non-current derivative financial instruments	(16)	(7)
Total	(1,998)	(2,332)
Net debt	10,337	4,379
Operating income (EBITDA)	4,501	3,786
Net debt/operating income (EBITDA)	2.3	1.2

At December 31, 2007 the ratio net debt/EBITDA was 2.3. In this ratio, Fastweb is only included from date of acquisition. Taking into account EBITDA of Fastweb for the full year, the ratio net debt/EBITDA would amount to 2.16.

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

34 Supplementary information about the cash flow statement

CHF in millions	Note	2007	2006
Net income adjustments			
Income from discontinued operations	38	–	(36)
Share of profit of investments in associates	24	(32)	(30)
Income tax expense	14	447	462
Depreciation and amortization	22,23	1,986	1,435
Share-based payments	9	9	17
Gain on sale fixed assets	12	(38)	(27)
Loss on disposal of fixed assets	11	39	19
Gain on sale of subsidiaries	4	(162)	–
Financial income	13	(250)	(189)
Financial expense	13	441	240
Total net income adjustments		2,440	1,891
Change in operating assets and liabilities			
Trade accounts receivable and other receivables		(78)	(118)
Inventories		(2)	(50)
Other non-financial assets		161	(39)
Trade accounts payable and other payables		(156)	210
Provisions		(217)	92
Other non-financial liabilities		(27)	(2)
Accrued pension cost		(134)	(109)
Total change in operating assets and liabilities		(453)	(16)

Non-cash investing and financing transactions

Share buy-back

In 2005 Swisscom carried out a scheme to buy-back CHF 2 billion worth of shares. 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 billion. Of this 35% or CHF 700 million was due in withholding tax. Until December 31, 2005, CHF 564 million had been paid to the tax authorities. The outstanding withholding tax of CHF 136 million included under other current liabilities as at December 31, 2005, was paid in the first quarter of 2006. 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 cash flows from financing activities.

35 Future Commitments

Contractual commitments for future capital expenditure

Contractual commitments for future capital expenditure and other intangible assets at December 31, 2007 amounted to CHF 429 million (previous year CHF 364 million).

Operating leases

Operating leases relate primarily to the rental of business property space. See Note 25. In 2007 payments for operating leasing amounted to CHF 246 million (previous year CHF 162 million). Future minimum lease payments in respect of operating lease contracts as of December 31, 2007 and 2006 are as follows:

CHF in millions	31.12.2007	31.12.2006
Within 1 year	128	119
Within 1 to 2 years	125	111
Within 2 to 3 years	115	106
Within 3 to 4 years	102	102
Within 4 to 5 years	102	90
After 5 years	762	820
Total minimum lease payments	1,334	1,348

36 Research and development

The research and development costs in 2007 amounted to CHF 34 million (previous year CHF 34 million) and are recorded as an expense.

37 Related companies and persons

Majority shareholder

Pursuant to the Swiss Telecommunications Enterprise Act («Telekommunikationsunternehmungsgesetz, TUG»), the Swiss Confederation («the Confederation») must hold a majority of the share capital and voting rights of Swisscom. On December 31, 2007, the Confederation as majority shareholder held 52% of the shares of Swisscom Ltd. 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 the Swiss radio and television corporation SRG. All business transactions with the Confederation are conducted in line with standard terms and conditions of business as with other third party customers.

Associates and joint ventures

The rendering and receiving of services with associates are based on market prices. The associates are listed in Note 41.

Minority interests

On December 20, 2006 a share of 25% in Swisscom Mobile AG was bought back from Vodafone. Until this date Vodafone was classified as a related party. The rendering and receiving of services to Vodafone was based on market prices. In accordance with the shareholders' agreement, Vodafone had a conditional right to sell its shares in Swisscom Mobile AG. In the event of a change of control of Swisscom, Vodafone was entitled to sell its 25% share in Swisscom Mobile AG to Swisscom at the fair market value. See Note 30.

Other minority interests primarily comprise Publigroup's share of Swisscom Directories. The rendering and receiving of services with related parties are based on market prices.

Pension funds

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

Related party transactions and balances

Transactions and balances at the end of the year with related parties in 2006 and 2007 are presented in the following table:

CHF in millions	Net revenue	Operating expenses	Receivables	Liabilities
Confederation	509	173	65	11
Associates	202	234	50	41
Other minority shareholders	1	1	–	–
Total 2007 / Balance at December 31, 2007	712	408	115	52

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

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

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

CHF in millions	2007	2006
Board of Directors		
Current compensations	1.5	1.6
Share-based payments	0.7	0.6
Social security contributions	0.2	0.2
Total compensation to members of the Board of Directors	2.4	2.4
Executive Board		
Current compensations	7.9	7.1
Share-based payments	0.1	0.2
Severance payments	2.3	2.7
Pension contributions	1.0	0.8
Social security contributions	0.9	0.8
Total compensation to members of the Executive Board	12.2	11.6
Total compensation to members of the Board of Directors and of the Executive Board	14.6	14.0

Current compensation includes fixed and variable remuneration and allowances for positions paid in cash and in kind, as well as meeting allowances for the members of the Board of Directors. A third of the entire compensation paid to the Board of Directors (not including meeting allowances) is paid in shares. For the Executive Board, the share-based compensation is the difference between the invested amount and the market value of the shares allocated. See Note 9.

Remuneration and shareholdings are disclosed in the notes to Swisscom's annual financial statements pursuant to Swiss share law (Art. 663b and 663c CO).

Transactions with treasury shares

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

38 Discontinued operations

In June, 2004, Swisscom sold its share in debitel. Debitel is disclosed in the consolidated financial statements as a discontinued operation.

Swisscom also agreed to grant guarantees to the buyer, in particular for possible tax payments. At the time of the sale Swisscom not expect to be liable for any guarantee payments and therefore, no provisions were recognized. Following a tax audit in 2005 the tax risks were reassessed and provisions of CHF 50 million recorded. The tax audit, which was completed in 2006, led to tax obligations of CHF 14 million. After the completion of the tax audit provisions of CHF 36 million were reversed in 2006. The recognition and reversal of provisions was recorded under gains and losses from discontinued operations.

39 Disclosure of service concession agreements (SIC 29)

In accordance with the Telecommunication Enterprises Act, ComCom awarded Swisscom Fixnet AG the universal service license on June 6, 2002. Swisscom Fixnet AG is required to provide universal service for all sections of the Swiss population throughout the five year license period starting from January 1, 2003 to December 31, 2007. The concession covers the whole of Switzerland. The universal service guarantees access to a minimum offering of telecommunications services. Within the universal service framework, everyone has the right to a real-time connection which allows national and international telephone calls, transmission and reception of faxes and access to the Internet. The universal service also provides for the upkeep of a prescribed number of public telephones for each municipality. The universal service guarantees everyone's right to an analogue connection or a digital connection (ISDN or a comparable technology). The Federal Council periodically sets price ceilings on universal services.

ComCom opened the tender for the new universal service license in the second half of 2006. Swisscom submitted a tender to ComCom for the universal service license for 2008 to 2017. Swisscom was granted this license by ComCom on June 21, 2007. From 2008, apart from guaranteeing access to a minimum offering of telecommunications services for all sections of the Swiss population, the concession includes the universal provision of broadband Internet access. 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. Since these new requirements do not demand any new technology and exceptions are permitted for technical or economic reasons, the total investment requirements for the new access commitments are on a manageable scale. Consequently Swisscom has waived claims for compensation in the first five years of the concession. However, as price pressure increase, be it through competition or regulation, the more difficult it will become to provide the same universal services under the same conditions. Swisscom has therefore reserved the right to claim compensation in the second half of the license period in order to limit the entrepreneurial risks associated with the long license period.

40 Events after the balance sheet date

The Swisscom Board of Directors approved these consolidated financial statements on March 4, 2008. No significant events have occurred after the balance sheet date.

41 List of subsidiaries, associates and joint ventures

Company	Location	Interest in percent	Consoli- dation method		Share capital in millions	Segment
Switzerland						
Alphapay AG	Bruttisellen	100	Full	CHF	4.0	Other
Betty Holding TV AG	Zurich	100	Full	CHF	0.5	Other
Betty Technology AG	Zug	100	Full	CHF	0.3	Other
Betty TV (Schweiz) AG	Zurich	100	Full	CHF	5.0	Other
Billag AG	Freiburg	100	Full	CHF	0.1	Other
cablex AG	Berne	100	Full	CHF	5.0	Fixnet
Comit AG	Zurich	100	Full	CHF	0.1	Other
Comit Strategic Sourcing AG	Olten	100	Full	CHF	0.1	Other
CT Cinetrade AG	Zurich	49	Equity	CHF	0.5	Corporate
Hospitality Services Plus SA	Geneva	100	Full	CHF	10.0	Other
Medgate Holding AG	Zug	40	Equity	CHF	6.2	Other
Medipa Abrechnungskasse AG	Freienbach	100	Full	CHF	1.9	Other
Minick Holding AG	Zollikon	100	Full	CHF	0.4	Mobile
Minick Schweiz AG	Zollikon	100	Full	CHF	0.1	Mobile
Mona Lisa Capital AG	Berne	98	Full	CHF	5.0	Corporate
PersPec AG	Berne	100	Full	CHF	0.5	Corporate
PubliDirect Holding AG	Zurich	49	Equity	CHF	10.0	Fixnet
Sicap AG	Köniz	100	Full	CHF	2.0	Mobile
Swisscom Auto-ID Services AG	Berne	100	Full	CHF	1.2	Other
Swisscom Broadcast AG	Berne	100	Full	CHF	25.0	Other
Swisscom Central & Eastern Europe AG	Berne	100	Full	CHF	27.0	Other
Swisscom Directories AG	Berne	51	Full	CHF	1.5	Fixnet
Swisscom Fixnet AG	Berne	100	Full	CHF	1,000.0	Fixnet
Swisscom Immobilien AG	Berne	100	Full	CHF	100.0	Corporate
Swisscom IT Services AG	Berne	100	Full	CHF	150.0	Other
Swisscom Mobile AG	Berne	100	Full	CHF	100.0	Mobile
Swisscom Solutions AG	Berne	100	Full	CHF	70.0	Solutions
Talkfinance AG	Zurich	100	Full	CHF	0.1	Other
Transmedia Communications SA	Geneva	35	Equity	CHF	0.3	Fixnet
Worklink AG	Berne	100	Full	CHF	0.1	Corporate
Belgium						
Belgacom International Carrier Services	Brussels	28	Equity	EUR	76.2	Fixnet
Hospitality Services Belgique SA	Brussels	100	Full	EUR	0.6	Other
Swisscom Belgium N.V.	Brussels	100	Full	EUR	4,309.8	Corporate
Bulgaria						
Air Bites Bulgaria EOOD	Sofia	100	Full	BGN	7.5	Other
Germany						
Betty Entwicklungs GmbH	Munich	100	Full	EUR	–	Other
Betty TV (Deutschland) AG	Munich	100	Full	EUR	0.1	Other
Comit Germany GmbH	Frankfurt	100	Full	EUR	0.2	Other
Hospitality Services Deutschland Plus GmbH	Munich	100	Full	EUR	0.1	Other
Minick Deutschland AG	Hamburg	100	Full	EUR	2.3	Mobile
Swisscom Telco GmbH	Stuttgart	100	Full	EUR	–	Corporate

Company	Location	Interest in percent	Consoli- dation method		Share capital in millions	Segment
France						
Sicap France SA	Lyon	100	Full	EUR	0.4	Mobile
Hospitality Services France SA	Paris	96	Full	EUR	2.1	Other
Great Britain						
Hospitality Networks and Services UK Ltd.	London	100	Full	GBP	1.6	Other
Minick UK Ltd.	London	100	Full	GBP	0.1	Mobile
Italy						
e.BisMedia	Milan	82	Full	EUR	15.3	Fastweb
Fastweb S.p.A.	Milan	82	Full	EUR	41.3	Fastweb
Fastweb Finance S.p.A.	Milan	82	Full	EUR	0.1	Fastweb
Hospitality Services Italia s.r.l.	Milan	100	Full	EUR	3.1	Other
Qualified eXchange Network (QXN)	Milan	49	Equity	EUR	0.5	Fastweb
Rai Click S.p.A.	Milan	33	Equity	EUR	0.2	Fastweb
Swisscom Italia S.r.l.	Milan	100	Full	EUR	3,002.6	Fastweb
Jersey						
Swisscom Finance Ltd.	Jersey	100	Full	EUR	–	Corporate
Liechtenstein						
Swisscom Re AG	Vaduz	100	Full	CHF	1.0	Corporate
Luxembourg						
Hospitality Services Luxembourg SA	Luxembourg	100	Full	EUR	–	Other
Malaysia						
Sicap Malaysia SdnBhd	Kuala Lumpur	100	Full	MYR	0.1	Mobile
Netherlands						
AUCS Communications Services v.o.f.	Hoofddorp	33	Equity	EUR	–	Corporate
coComment Holding B.V.	Rotterdam	60	Equity	EUR	0.3	Other
HSIA Hospitality Services Netherlands B.V.	The Hague	100	Full	EUR	–	Other
Swisscom Investments B.V.	Amsterdam	100	Full	EUR	–	Corporate
Austria						
Comit Unternehmensberatungs- and EDV-Dienstleistungs GmbH	Vienna	100	Full	EUR	–	Other
Hospitality Services GmbH	Vienna	100	Full	EUR	–	Other
Poland						
Air Bites Polska sp. z.o.o.	Krakow	100	Full	PLN	28.9	Other

Company	Location	Interest in percent	Consoli- dation method		Share capital in millions	Segment
Portugal						
HSIA Hospitality Services Portugal	Lissabon	100	Full	EUR	1.1	Other
Romania						
Air Bites s.r.l.	Bucharest	100	Full	RON	38.0	Other
City Net Link s.r.l.	Bucharest	100	Full	RON	–	Other
City Net Link Nord s.r.l.	Bucharest	100	Full	RON	–	Other
Hospitality Services s.r.l.	Bucharest	100	Full	RON	–	Other
Undernet s.r.l.	Bucharest	100	Full	RON	–	Other
Sweden						
Bytek System AB	Stockholm	28	Equity	SEK	1.7	Other
Slovakia						
Air Bites Slovakia s.r.o.	Bratislava	100	Full	SKK	150.0	Other
Spain						
Hospitality Networks and Services Espana SA	Madrid	100	Full	EUR	0.1	Other
Minick Spanien SLU	Madrid	100	Full	EUR	–	Mobile
Whisher S.L.	Barcelona	40	Equity	EUR	1.0	Other
Ukraine						
Air Bites Ukraine LLC	Lviv	100	Full	UAH	50.3	Other
Valor JSV	Kharkiv	100	Full	UAH	–	Other
Our Net LLC	Kharkiv	100	Full	UAH	0.8	Other
TK Stream LLC	Kharkiv	100	Full	UAH	0.1	Other
S-Net SPE LLC	Kremenchuk	100	Full	UAH	–	Other
Singapur						
Comit Solutions Pte Ltd.	Singapur	100	Full	SGD	0.1	Other
Sicap Asia Pacific Pte Ltd.	Singapur	100	Full	SGD	0.1	Mobile
South Africa						
Sicap Africa Pty Ltd.	Johannesburg	100	Full	ZAR	–	Mobile
USA						
Hospitality Services North America Corp.	Dulles	98	Full	USD	1.6	Other

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

As Group auditors, we have audited the consolidated financial statements (income statement, balance sheet, cash flow statement, statement of recognized income and expense and notes) on pages 65 to 147 of Swisscom Ltd for the year ended December 31, 2007.

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
Auditor in charge

Christoph Schwarz

Gümligen-Berne, March 4, 2008

Financial Statements of Swisscom Ltd

Swisscom Ltd Income statement

CHF in millions	2007	2006
Net revenue	137	136
Other income	109	62
Total	246	198
Personnel expenses	126	153
Other operating expenses	149	164
Depreciation	3	1
Total operating expenses	278	318
Operating income	(32)	(120)
Financial expense	(360)	(89)
Financial income	395	172
Income from investments	1,277	1,703
Income tax expense	(4)	(1)
Net income	1,276	1,665

Swisscom Ltd Balance sheet

CHF in millions	Note	31.12.2007	31.12.2006
Assets			
Current assets			
Cash and cash equivalents	9	625	494
Other financial assets		140	137
Treasury shares	5	2,173	2,212
Trade accounts receivable and other receivables from third party		1	1
Other receivables from third party		4	7
Receivables from group companies		378	102
Dividends receivable from subsidiaries	8	1,265	1,681
Other assets		5	2
Total current assets		4,591	4,636
Non-current assets			
Property, plant and equipment	3	2	2
Investments	8	6,905	2,671
Loans from third parties		3	4
Loans from group companies		6,856	4,959
Other financial assets		–	1
Total non-current liabilities		13,766	7,637
Total assets		18,357	12,273
Liabilities and equity			
Current liabilities			
Financial liabilities to third parties		570	1,500
Financial liabilities to group companies		2,228	2,598
Trade accounts payable and other payables		11	12
Other liabilities to third party		97	87
Other liabilities to group companies		32	36
Total current liabilities		2,938	4,233
Non-current liabilities			
Financial liabilities to third parties	4	9,583	2,750
Financial liabilities to group companies		606	348
Provisions		360	463
Other liabilities		16	20
Total non-current liabilities		10,565	3,581
Total liabilities and shareholders' equity		13,503	7,814
Shareholders' equity			
Share capital		57	57
General reserves		255	255
Reserve for treasury shares		2,212	2,212
Retained earnings		2,330	1,935
Total shareholders' equity	6	4,854	4,459
Total liabilities and shareholders' equity		18,357	12,273

1 General information

The financial statements of Swisscom Ltd, 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, 2007, amounted to CHF 229 million (previous year CHF 296 million). Swisscom Ltd is severally liable with two other shareholders to cover future losses of an associate 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 Debenture bonds

The amounts, interest rates and due dates of debenture bonds issued by Swisscom Ltd are listed in Note 25 to the consolidated financial statements.

5 Treasury shares

Swisscom Ltd recorded treasury shares separately under assets and recognized a separate reserve for treasury shares in the same amount under shareholders' equity. Treasury shares are valued at the lower of cost or market value.

In 2007 no share buy-back schemes were offered. In 2006 Swisscom Ltd launched a share buy-back scheme in the amount of CHF 2.2 billion. A total of 4,916,618 shares for an average purchase price of CHF 450 were bought back. For details of treasury stock outstanding and transactions see Note 31 to the consolidated financial statements.

6 Shareholders' equity

Changes in Swisscom Ltd shares issued and shareholders' equity are as follows:

CHF in millions	Number of shares	Share capital	General reserves	Reserve for treasury shares	Retained earnings	Total equity
Balance at December 31, 2005	61,482,761	61	277	2,002	3,321	5,661
Net income	–	–	–	–	1,665	1,665
Dividend payments	–	–	–	–	(907)	(907)
Share capital reduction	(4,764,200)	(4)	(22)	(2,002)	68	(1,960)
Purchase of treasury shares	–	–	–	2,212	(2,212)	–
Balance at December 31, 2006	56,718,561	57	255	2,212	1,935	4,459
Net income	–	–	–	–	1,276	1,276
Dividend payments	–	–	–	–	(881)	(881)
Balance at December 31, 2007	56,718,561	57	255	2,212	2,330	4,854

Swisscom Ltd is a holding company under Swiss law. According to the law governing the utilization of retained earnings for holding companies, share capital and allocations to the general provisions may not be distributed in an amount of 20% of share capital and reserve for treasury shares. On December 31, 2007 distributable reserves amounted to CHF 2,574 million. The dividend must be proposed by the Board of Directors and approved by the General Meeting of Shareholders.

7 Significant shareholders

On December 31, 2007 the Swiss Confederation as majority shareholder held 52% of the shares issued of Swisscom Ltd. The Telecommunication Enterprises Act (TUG) stipulates that the Government of Switzerland is required to control Swisscom by holding the majority of its capital and voting rights.

8 Holdings and recognition of dividends of subsidiaries

Holdings are presented at cost less any impairment.

Dividends from the fully consolidated subsidiaries of Swisscom Ltd are recorded in the year the dividend is proposed. The respective dividends have been approved at the subsidiaries' General Meeting of Shareholders.

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

9 Assets not freely disposable

On December 31, 2007 cash and cash equivalents totaling CHF 6 million (previous year CHF 41 million) and term deposits totaling CHF 136 million (previous year CHF 133 million) could not be freely disposed of. These assets serve to secure liabilities in connection with cross-border lease arrangements. See Note 25 to the consolidated financial statements.

10 Net reversal of hidden reserves

In 2007 hidden reserves of net CHF 20 million (previous year CHF 33 million) were reversed.

11 Management compensation

Compensation paid to members of the Board of Directors for the financial year 2007

CHF in thousands	Compensation in cash	Share-based payments	Total
Anton Scherrer	413	186	599
Fides P. Baldesberger	122	54	176
Hugo Gerber	119	54	173
Michel Gobet	120	54	174
Torsten G. Kreindl	139	63	202
Catherine Mühlemann	112	54	166
Felix Rosenberg	173	81	254
Richard Roy	135	63	198
Othmar Vock	140	63	203
Total compensation to members of the Board of Directors in charge	1,473	672	2,145

The compensation plan provides for a basic salary component for the President of CHF 385,000 net and for the other members of the Board of Directors of CHF 110,000 net. Allowances are also paid for specific duties. The Vice-President of the Board of Directors is entitled to an additional compensation of CHF 20,000, the chairmen of the committees receive an additional CHF 20,000 net and the members of the committees receive an additional CHF 10,000 net. The state representative receives an additional payment of CHF 40,000 net for his special duties. Meeting attendance fees are also paid (half a day: CHF 500/ whole day: CHF 750). Expenses are paid on the basis of actual costs incurred. The overall compensation (without meeting attendance fees) for the members of the Board of Directors is made up of a 66 percent cash portion and a 33 percent share portion. The shares are allocated on the basis of the tax value and are subject to a three-year blocking period. The share-based compensation includes the shares allocated, assessed at their market value. In April 2007, 1,528 Swisscom shares were allocated to the members of the Board of Directors for a tax value of CHF 338 per share. The market value was CHF 441 per share.

No compensation was paid to former members of the Board of Directors in connection with earlier activities as an executive body of the company or which are not at arm's length.

Compensation paid to members of the Executive Board for the financial year 2007

2007, CHF in thousands	Total Executive Board	Therof Carsten Schloter
Fixed compensation in cash	4,585	770
Variable compensation in cash (bonus)	3,311	770
Compensation in non-cash	74	7
Share-based payments	139	35
Severance payments	2,346	–
Pension contributions	1,013	122
Total compensation for members of the Executive Board in charge	11,468	1,704

The highest total compensation in the reporting year was paid to the CEO, of Swisscom Ltd, Carsten Schloter. The total compensation paid to the Executive Board consists of a variable performance-related bonus as well as fringe benefits and additional benefits. The variable bonus, of which two thirds is paid out in cash and one third in Swisscom shares, is fixed in March for the previous financial year. The shares are allocated on the basis of the tax value and are subject to a three-year blocking period. The disclosure of fringe benefits and lump-sum expenses complies with fiscal law.

The share-based compensation includes the difference between the tax value and the market value of the shares allocated. In April 2007 1,920 Swisscom shares were allocated to the members of the Executive Board for the 2006 financial year for a tax value of CHF 368 per share. The market value was CHF 441 per share.

Amounts which give rise to or increase pension benefits comprise all savings and risk contributions paid by the employer to the pension fund, including proportionate contributions in order to build up reserves for fluctuation in asset value.

Swisscom has not granted any such as suretyships, guaranty obligations, and pledges in favor of third parties or other securities to persons with a duty to disclose.

No compensation was paid to former members of the Board of Directors in connection with earlier activities as an executive body of the company or which are not at arm's length.

Compensation paid to related parties

Related parties are spouses and civil partners, close relatives who are financially dependent on the executive person or live in the same household, other persons who are financially dependent on the executive person and partnerships or corporate enterprises that are controlled by the executive person or over which he or she exercises a significant influence. Parents, sibling and children are also related persons. No compensation was paid to persons who are related to members of the Board of Directors or the Executive Board which is not at arm's length.

Loans

Swisscom has not granted any loans to present or former members of the Board of Directors, the Executive Board or any persons related to them and had not waived any rights to accounts due from such persons.

12 Holdings of the members of the Board of Directors or the Executive Board

The schedule below presents the shares and share options held by the members of the Board of Directors or the Executive Board as of December 31, 2007.

Number	Shares	Options
Members of the Board of Directors		
Anton Scherrer	596	—
Fides P. Baldesberger	260	—
Hugo Gerber	133	—
Michel Gobet	500	—
Torsten G. Kreindl	143	—
Catherine Mühlemann	123	—
Felix Rosenberg	1,540	—
Richard Roy	520	—
Othmar Vock	321	—
Member of the Board of Directors in charge	4,136	—
Members of the Executive Board		
Carsten Schlöter (CEO)	2,051	—
Ueli Dietiker	1,409	—
Eros Fregonas	—	—
Patrice Haldemann	77	—
Heinz Herren	143	—
Stefan Nünlist	245	—
Christian Petit	287	—
Günter Pfeiffer	225	—
Daniel Ritz	53	—
Jürg Rötheli	599	33,000 ¹
Urs Schaeppi	461	—
Member of the Executive Board in charge	5,550	33,000

¹ Call options exercisable from April 30, 2006 to April 25, 2008 at a ratio of 1:100. The exercise price is CHF 417.90

The voting rights do not exceed 0.005% of the share capital by any member of the Board of Directors or Executive Board.

Proposed appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors proposes to the General Meeting of Shareholders on April 22, 2008 the following appropriation of retained earnings of CHF 2,330 million for the year ended December 31, 2007:

CHF in millions	31.12.2007
Retained earnings	
Balance to be carried forward from previous year	1,054
Net income	1,276
Total retained earnings	2,330
Appropriation of net income	
Ordinary dividend of CHF 18 per share of 51,801,850 shares *	932
Extraordinary dividend of CHF 2 per share of 51,801,850 shares *	104
Balance to be carried forward	1,294

- * Excluding treasury shares

Subject to the approval of this proposal, the dividend will be paid out to shareholders on April 25, 2008 as follows:

Per registered share	CHF
Gross ordinary dividend	18.00
Gross extraordinary dividend	2.00
Less 35% withholding tax	7.00
Net dividend	13.00

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

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes) on pages 150 to 155 of Swisscom Ltd for the year ended December 31, 2007.

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 annual financial statements are free of material misstatement. We have examined on test basis evidence supporting the amounts and disclosures in the annual financial statements. We have also assessed the accounting principles used, significant estimates made and the annual financial statements 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
Auditor in charge

Christoph Schwarz

Gümligen-Berne, March 4, 2008

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) included Appendix 1 (effective as of 2007);
- The Directive on Information relating to Corporate Governance issued by the SWX Swiss Exchange (effective as of July 1, 2002).

Since it is listed on the SWX «EU-Compatible Segment» and its shares traded in the «EU-regulated Market Segment» of the SWX Europe Limited (formerly 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 Ltd, 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.

¹ The Swisscom Code of Ethics can be found under

www.swisscom.ch/NR/rdonlyres/B73DB86F-500A-4993-85A5-FC312D633935/0/CodeofEthics_de.pdf.

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

2 Group structure and shareholders

Group structure

In 2001 Swisscom was transformed into a corporate group with independently operating subsidiaries. The aim of this group structure was to increase transparency for management and shareholders, while allocating clear responsibilities to the subsidiaries for their respective submarkets. The rapid advances in technology and the merging of previously independent communication technologies and applications as well as changes in customer requirements led Swisscom to realign their group structure on January 1, 2008 to fully focus on customer requirements. Everything from one source! Business activities of Fixnet, Mobile and Solutions were combined to form Swisscom (Switzerland) AG.

The group companies are divided into three categories «strategic», «important», and «other». Since January 1, 2008 Swisscom (Switzerland) AG (merger of Swisscom Fixnet AG, Swisscom Mobile AG and Swisscom Solutions AG), Swisscom IT Services AG, and Fastweb S.p.A. are classified as strategic group companies. Swisscom Ltd holds 82.1 percent of the shares in Fastweb S.p.A. headquartered in Milan, Italy. These shares are quoted on the Borsa Italiana (ISIN-Code: IT0001423562; Ticker-symbol FWB). As of December 31, 2007 the stock market capitalization of this holding was CHF 3,284 million.

Since then the group of important companies includes Billag AG, cablex AG, Comit AG, Infonet Switzerland AG, PubliDirect Holding AG, Swisscom Broadcast AG, Swisscom Directories AG, Hospitality Services Plus SA and Swisscom Real Estate AG. All other companies are classified as «other».

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

Furthermore, the CEO of Swisscom Ltd chairs the strategic group companies' Boards of Directors, of which the CFO (Chief Financial Officer) and CSO (Chief Strategy Officer) are also members. The CFO of Swisscom Ltd also holds the position of Chairman of the Board of Directors at Swisscom IT Services AG.

For the «important» subsidiaries, the responsibilities of the Chairman of the Board of Directors are fulfilled by the CEO of Swisscom Ltd, by the CEO of a strategic subsidiary, by the head of a division of the Group Headquarters or by another person appointed by the CEO. The four divisions of the Group Headquarters of Swisscom Ltd are: Group Finance & Controlling, Strategy & Business Development, Group Communications and Group Human Resources.

As of January 1, 2008 the new management division «Swisscom Participations» was created. It includes Swisscom Broadcast AG, Swisscom Real Estate AG, Cablex AG, Alphapay AG with Curabill AG, Billag AG, Minick Holding AG and Sicap AG. Swisscom Participations is not a legal entity, but is organized and managed in the same way as the strategic group companies of Swisscom Ltd.

Swisscom Ltd is listed in the «EU-Compatible Segment» of the SWX Swiss Exchange (Securities No. 874251, ISIN CH0008742519, Symbol SCMN).

In compliance with the new SEC regulations introduced in spring 2007 which facilitate deregistration in accordance with the provisions of the US Exchange Act, the Board of Directors of Swisscom Ltd decided to delist its shares from the NYSE and to deregister the company so that it is no longer obliged to report under the Exchange Act. However, Swisscom Ltd will continue to pay particular attention to effective corporate governance mechanisms and high reporting standards. The company was delisted from the NYSE in August 2007, and the deregistration procedure started at the beginning of September 2007 became legally effective at the beginning of December 2007. The former ADR program was accordingly converted to a Level-1-program with over-the-counter trade (OTC) (Symbol: SCMWY; Pink Sheets ID: 69769; ISIN number: CH00874251.9; CUSIP for ADR: 871013108).

At December 31, 2007, Swisscom Ltd's stock market capitalization was CHF 22,896 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 Market and Environment on page 4 of the Management Report. Note 41 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 the press release issued by the Federal Department of Finance (EFD) on November 7, 2007, the Swiss Confederation held 52 percent of the shares of Swisscom Ltd as of September 30, 2007, or 29,494,000 Swisscom shares.

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

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

On March 3, 2005 it was disclosed by «The Capital Group Companies, Inc. (CGC)», that they had gone below the notifiable limit value of 5 percent, by holding 3,297,865 registered shares of Swisscom Ltd, or 4.98 percent of the voting rights. Please refer to the publication of the disclosure in the Swiss Official Gazette of Commerce of March 23, 2005. Since then, there was no new notification on the part of «The Capital Group Companies Inc. (CGC)».

Cross-shareholdings

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

3 Capital structure

Capital

At December 31, 2007, Swisscom Ltd's share capital amounted to CHF 57 million. The shares are registered shares and each have a par value of CHF 1. 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 Ltd in the individual financial statements under commercial law in the years 2005 to 2007:

CHF in millions	Share capital	General reserves	Retained earnings	Equity total
Balance at January 1, 2005	66	298	6,220	6,584
Net income	–	–	1,940	1,940
Dividend payments	–	–	(861)	(861)
Share capital reduction	(5)	(21)	(1,976)	(2,002)
Balance at December 31, 2005	61	277	5,323	5,661
Net income	–	–	1,665	1,665
Dividend payments	–	–	(907)	(907)
Share capital reduction	(4)	(22)	(1,934)	(1,960)
Balance at December 31, 2006	57	255	4,147	4,459
Net income	–	–	1,276	1,276
Dividend payments	–	–	(881)	(881)
Balance at December 31, 2007	57	255	4,542	4,854

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 share buy-back between May 24 and 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.

In 2005 a dividend was paid out and a further share buy-back program 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.

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

On April 24, 2007, the General Meeting of Shareholders agreed to the payment of a dividend of CHF 17,000 for fiscal 2006. There was no additional payout to the shareholders in 2007.

Shares, participation certificates and profit-sharing certificates

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

The registered shares of Swisscom Ltd are not issued in certificate form but are held as uncertificated securities in the holdings of SIS SegalInterSettle AG (registered shares with no right to printed certificates). Shareholders may at any time request Swisscom Ltd to issue a confirmation free of charge of the registered shares held by this shareholder. However, shareholders have no right to request the printing and delivery of certificates for registered shares. Swisscom Ltd may print uncertificated shares at any time. If registered shares are printed, Swisscom Ltd 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 Ltd has issued neither participation certificates nor profit-sharing certificates.

Limitations on transferability and nominee registrations

There are no limitations on the transferability of Swisscom shares.

Swisscom has issued special regulations for the registration of trustees and nominees in the share register. To facilitate the tradability of the shares on the stock market, the Board of Directors may also, by means of regulations or agreements, permit the fiduciary entry of registered shares with voting rights which exceed the above-mentioned percentage restriction of 5 percent by fiduciaries, provided that the latter disclose their fiduciary capacity (nominees, ADR banks: for voting restrictions see No. 7 below). Fiduciaries must be subject to supervision by a banking or financial market supervisory authority or otherwise offer the necessary assurances of proper business conduct, and must act for the account of one or more unrelated parties. They must also be able to provide evidence of the names, addresses and holdings of the beneficial owners of the shares. In accordance with this provision, the Board of Directors has issued regulations governing the entry of fiduciaries and nominees in the Swisscom share register. The entry of fiduciaries and nominees as shareholders with voting rights is subject to application and the conclusion of an agreement specifying the entry restrictions and the disclosure obligations of the fiduciary or nominee. In particular, each fiduciary or nominee undertakes, within the percentage limit of 5 percent, not to request entry as a shareholder with voting rights for the account of an individual beneficial owner for any more than 0.5 percent of the registered share capital of Swisscom Ltd 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 2007.

Debenture bonds, convertible bonds and options

During 2007 Swisscom successfully placed debenture bonds on the Swiss domestic market for the first time for a value of CHF 1,500 million. The first tranche issued on July 19, 2007, included CHF 550 million with a coupon of 3.5 percent and a term of six years and CHF 350 million with a term of 10 years and a coupon of 3.5 percent. The second tranche was issued on October 22, 2007. This comprised CHF 350 million with a coupon of 3.25 percent and a term of 3 years and a CHF 250 million top-up of the 10-year bond issued in July with a coupon of 3.75 percent. The investors are entitled to sell the debenture bonds back to Swisscom if a shareholder other than the Swiss Confederation holds a majority stake in Swisscom and at the same time Swisscom's rating falls below BBB-.

The management and employee participation schemes of Swisscom Ltd are described in Note 9 to the consolidated financial statements.

4 Board of Directors

Members of the Board of Directors

The Board of Directors of Swisscom Ltd 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 Ltd or the Swisscom Group.

The list below gives an overview of the composition of the Board of Directors at December 31, 2007, the functions of each member within the Board of Directors, their nationality, year first elected and remaining tenure. In addition details of their career and education as well as other activities and interest such as mandates in important companies, organizations and foundations, permanent functions in important interest groups are included.

Name	Year of birth	Position	Appointed	Appointed until
Anton Scherrer ^{1 2 3 4}	1942	Chairman	2005	2008
Fides P. Baldesberger ¹	1953	Member	2005	2009
Hugo Gerber ²	1955	Member, employee representative	2006	2008
Michel Gobet ²	1954	Member, employee representative	2003	2009
Torsten G. Kreindl ^{1 3}	1963	Member	2003	2009
Catherine Mühlemann ¹	1966	Member	2006	2008
Felix Rosenberg ^{2 3}	1941	Member, government representative	1998	2009
Richard Roy ⁴	1955	Deputy Chairman	2003	2009
Othmar Vock ^{3 4}	1943	Member	2005	2009

1 Member of the Finance Committee.

2 Member of the Personnel and Organization Committee.

3 Member of the Compensation Committee.

4 Member of the Audit Committee.

Anton Scherrer



Swiss citizen

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

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

Other mandates: member of the executive committee of economiesuisse; member of the advisory committee of the corporate group Theo Müller GmbH & Co., KG, Aretsried (D); member of Capvis Industry Advisory Board of Capvis Equity Partners AG, Zurich; member of the Board of Directors of Orior AG, Zurich; member of the Advisory Board of Agrovision, Muri; member of the Advisory Board of ETH Zurich Foundation, Zurich; member of the Advisory Board of Digma Management Consulting AG, Zurich; member of executive committee of the Institute for Marketing and Trade at the University of St. Gallen; President of the «Marketing-Promoter-Program», Association of Friends of Research at the Institute for Marketing and Trade at the University of St. Gallen; Advisory Board of the foundation to promote the Master in Law and Economics courses at the University of St. Gallen.

Fides P. Baldesberger



Swiss citizen

Education: lic. phil.

Career: Since 1985 managing director and since 1987 also Chairman of the Board of Directors of Outils Rubis SA

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

Hugo Gerber



Swiss citizen

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

Career: 1986–1990 General secretary ChPTT; 1991–1999 General secretary VGV; 2000–2003 General secretary of the Transfair union, since 2003 President of the Transfair union;

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

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); 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; 1999 – 2005 Partner at Copan Inc.; since 2005 Partner of the European private equity company Grazia Group Equity GmbH

Other mandate: Consultant to Pictet Funds

Catherine Mühlemann

Swiss citizen

Education: Lic. Phil; eidg. dipl. PR-consultant

Career: 1994 – 1997 Head of Media Research Swiss Television DRS; 1997 – 1999 program manager SF1 and SF2, 1999–2001 program director TV3; 2001–2003 managing director of MTV Central; 2003–2005 managing director of MTV Central & Emerging Markets; Since 2005 managing director of MTV Central & Emerging

Markets and Viva Media GmbH (Viacom)

Other mandates: President of the Board of Directors of S Media Vision AG, Zurich. Member of the Friedrich-Ebert Foundation; Member of the Berlin Boards (Cultural section); Member of the Foundation Future Berlin

Felix Rosenberg

Swiss citizen

Education: Degree in law (lic. iur.)

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

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

Richard Roy

German citizen

Education: Degree in engineering (university of applied sciences)

Career: Hewlett Packard (HP); 1995–1997 Member of the 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: Chairman of the Supervisory Board of Balda AG, Bad Oeyenhausen (Germany); Vice President of the Board of Directors of Premiere AG, Unterföhring (Germany); Member of the Supervisory Board of Update Software AG, Vienna; Member of the Supervisory Board of Freenet AG, Hamburg



Othmar Vock

Swiss citizen

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

Career: 1975–1983 Commercial Financial Director of Ciba-Geigy Group; 1984–1990 Financial Director of Company Treasury/Controlling of the Roche Group; 1990–1993 Director of Internal auditing for the Roche Group; 1993–2004 Chief Financial Officer of Givaudan SA (formerly fragrance/flavors business unit) of the Roche Group

Other mandates: Member of the Admission Office of SWX Swiss Exchange until end of 2007; Member of the Board of Directors of Ivoclar-Vivadent, Schaan; Member of the Board of Directors of Cytos AG, Schlieren; Member of the Board of Directors of Balda AG, Bad Oeynhausen (D)

Composition, election and term of office

With the exception of the government representative, the Board of Directors of Swisscom Ltd 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 12 years. Members who reach the age of seventy retire from the Board on the date of the next General Meeting.

Under the Articles of Incorporation of Swisscom Ltd, the Federal Government is entitled to appoint two representatives to the Board of Directors of Swisscom Ltd. 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 Ltd. The Articles of Incorporation state that the Board of Directors must include two employee representatives. These are currently Hugo Gerber and Michel Gobet.

Internal organization, powers and responsibilities

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

The Board of Directors convenes as often as business requires. In fiscal 2007 it convened for eleven meetings. Three telephone conferences were also held. Three resolutions were made by way of circulation. At the beginning of 2007 a further training workshop was held for the members of the Board of Directors. Some of the members of the Board of Directors also attended lectures and seminars in Switzerland and abroad during the year. The Board of Directors also attends the annual management meeting of the Swisscom group which lasts a whole day. In June 2007 the Board of Directors visited the headquarters of the new acquisition Fastweb S.p.A in Milan.

The Board of Directors is convened by the Chairman. Should the Chairman be unavailable, the Deputy Chairman convenes the meeting. The CEO, CFO and CSO of Swisscom Ltd are always invited to the meetings of the Board of Directors. The Chairman sets the agenda for the meetings of the Board of Directors. Any board member may request the inclusion of further items on the agenda. Board members receive documents prior to the meeting to allow them to prepare their responses to items on the agenda. The Board of Directors may invite members of the Executive Board, senior employees of Swisscom Ltd, auditors or other specialists to participate in its meetings, thereby ensuring appropriate reporting to the members of the board. Furthermore, the Chairman of the Board of Directors and the CEO report to each meeting of the Board of Directors on the general course of business and major business transactions, as well as on any measures implemented. On average 99 percent of members were present at the meetings of the Board of Directors.

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

Finance committee:

This committee is chaired by Torsten G. Kreindl. The other members are Fides P. Baldesberger, Catherine Mühlemann und Anton Scherrer. The CEO, CFO and the CSO regularly attend the meetings of the Finance committee. Other members of the Executive Board or project managers are also regularly invited to the meetings depending on the agenda. The committee met on ten occasions in fiscal 2007. One telephone conference was also held. On average 97 percent of members were present at the meetings. The committee prepares all financial transactions for the attention of Board of Directors, such as the establishment or winding up of major group companies, the formation or sale of important holdings, the formation or termination of strategic alliances, medium-term budgeting, and major investments or disposals, as well as giving consent to all important purchases, contracts, guarantees and letters of comfort. The Finance committee has the last say in approving important loans and financing.

Personnel and organization committee:

This committee is chaired by Felix Rosenberg. The other members are Hugo Gerber, Michel Gobet and Anton Scherrer. The CEO and CPO (Chief Personnel Officer) also regularly attend the meetings of the Personnel and organization committee as well as other members of the Executive Board or project managers depending on the topic. The committee met on six occasions in fiscal 2007. One decision was made via a circular. All members were present at the meetings. The committee prepares for the attention of the Board of Directors all organizational issues concerning the Group structure and matters relating to corporate policy, personnel and salary policy, the collective employment agreement and major restructuring projects. The personnel and organization committee has the last say in approving statutes and organizational regulations passed by the strategic and important group companies, general conditions of employment for Swisscom Ltd top management, management and employee participation schemes and profit sharing schemes, basic principles of pension funds and social benefits, as well as the election of the employer representative on the pension fund.

Audit committee:

This committee is chaired by Othmar Vock. The other members are Richard Roy and Anton Scherrer. The CEO, CFO, Head of Group Accounting & Reporting, Head of Internal Audit and the external auditors also regularly attend the meetings. The committee met on six occasions in fiscal 2007. Three telephone conferences were also held. All members were present at the meetings. The members are classified as independent and have relevant specialist skills. Othmar Vock is considered a «Financial Expert» due to his specialist knowledge in the field of finance. The committee covers all internal and external audit work as well as all subjects dealt with by the Board of Directors that require specialist financial know-how and thus constitutes the central controlling instrument of the Board of Directors. It prepares for the attention of Board of Directors the following areas of business: the organization of accountancy, financial controls and financial planning, appointing the auditors, reviewing the course of business, including quarterly statements and forecasts, the management report and applications for registering shares. It is responsible for assessing the qualifications, independence and performance of the external auditors, managing the share register, monitoring organization and processes of the internal control system

and ensuring that an adequate risk management system is in place. It decides whether the independence of the auditors would be impaired if they did not manage the audit, as allowed by law. In addition the committee has approved a procedure for handling complaints in connection with external accounting, internal control systems of the financial reports and auditing of the annual accounts and for whistle blowing.

Compensation committee:

For details of the Compensation committee, please refer to the Compensation Report.

Nomination committee

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

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

Board of Directors' management, information and controlling instruments

The President of the Board of Directors and the CEO meet on average twice a month in order to discuss fundamental issues concerning Swisscom Ltd. 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 Ltd at any time.

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

Swisscom Ltd has also decided to set up a comprehensive risk management system within the scope of corporate governance. This is intended to identify risk situations within the company at an early stage. More specifically risk management should recognize possible risks for the assets, financial and earning position of the company.

The goal of risk management is on the one hand to avoid undesirable risks and on the other hand to knowingly enter into risks that are considered acceptable and in the interests of the company, with full knowledge of the nature and scope of the risks. Basically those risks should be entered into where Swisscom has core competence and avoided or overcome in areas where they have no core competence. This controlled handling of risks should ensure that opportunities can be consistently utilized and results improved.

The risk management process is divided into five stages:

- Identification of risks: Identification of the individual risks in the group companies and risks of the Swisscom Group. Each risk is allocated a risk owner.
- Assessment of risks: The risks identified are divided into qualitative and quantitative risks.
- Defining the risk strategy: The risk strategy is defined for the individual group companies and for the Swisscom Group, taking into account the Swisscom Security Directive.
- Implementation of the risk strategy: Measures developed on the basis of the risk strategy are implemented.
- Risk control: The risk owner ensures that the appropriate measures are implemented. The development of the risk is closely monitored at the level of the group companies and the Swisscom Group. The Executive Board and the Board of Directors receive quarterly reports.

The risk and security management unit (incl. crisis management) is allocated to the finance department. Explanations about key risk areas or individual risks which may have an impact on the net assets and results of operations are presented in the Chapter “Risk Factors” in the Management Report on page 27.

In addition to its risk management responsibilities, the internal audit department also has a supervisory and controlling function. It is an essential part of the Swisscom Group’s Corporate Governance. The internal audit department supports the Swisscom Ltd Board of Directors and the Audit Committee in observing statutory and regulatory supervision and controlling instruments. Management is shown potential areas where business processes can be improved.

The internal audit department is responsible for planning and carrying out audits throughout the entire group in compliance with the guidelines for the profession. The internal audit department is in particular carries out independent and objective audits and assessments to ensure that all internal control systems as well as risk management and control processes are efficient, compliant and effective. The results of the audit are documented and the measures implemented are monitored.

With a view to achieving maximum independence, the internal audit department is under the control of the President of the Board of Directors and not to the management and reports to the Audit committee of Swisscom Ltd. The Audit committee is informed of audit results and the status of measures periodically. In addition to ordinary reports, the internal audit department informs the Audit committee of any irregularities which come to its attention.

The internal audit department cooperates closely with the external auditors and exchanges information. Audit planning, in particular, is closely coordinated. The audit plan is drawn up annually on the basis of a risk analysis submitted to the Audit committee for approval. Special audits may also be applied for.

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 Ltd 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 Ltd, the heads of the group companies, the CEO of Swisscom IT Services AG and the heads of the Swisscom (Switzerland) AG divisions.

On May 15, 2007 the Board of Directors appointed Eros Fregonas as new CEO of Swisscom IT Services AG and member of the Executive Board. The former CEO of Swisscom IT Services AG, Michael Shipton, left the Executive Board on this date and thereupon the company.

As part of the reorganization of the Swisscom Group, the Board of Directors decided to make several changes within management. On August 1, 2007 Christian Petit was appointed to the Executive Board as Head of Residential Customers, Heinz Herren as Head of Small and Medium-Sized Enterprises and Patrice Haldemann as Head of Network and IT. Ueli Dietiker who was CFO of the Swisscom Group from 2002 to 2006 returned to the company as CFO on August 1, 2007. Mario Rossi, who was CFO until this date, was appointed CFO of Fastweb S.p.A.

After ten years in various positions, Adrian Bult, the previous CEO of Swisscom Mobile AG, left the Executive Board at the end of July 2007 and thereupon the company at his own request.

Members of the Executive Board at December 31, 2007:

Name	Born	Position	Appointed ¹⁾
Carsten Schlöter	1963	CEO of Swisscom Ltd	January 2006
Ueli Dietiker	1953	CFO of Swisscom Ltd	March 2006
Eros Fregonas	1964	CEO of Swisscom IT Services AG	August 2007
Patrice Haldemann	1953	Head of Network & IT	August 2007
Heinz Herren	1962	Head of Small and Medium-Sized Enterprises	August 2007
Stefan Nünlist	1961	CCO of Swisscom Ltd	July 2001
Christian Petit	1963	Head of Residential Customer	August 2007
Günter Pfeiffer	1958	CPO of Swisscom Ltd	June 2004
Daniel Ritz	1966	CSO of Swisscom Ltd	September 2006
Jürg Rötheli	1963	CEO of Swisscom Participations	April 2005
Urs Schaeppi	1960	Head of Corporate Business	March 2006

¹ Member of the Executive Board of Swisscom: Carsten Schlöter since 2000; Ueli Dietiker, Stefan Nünlist and Jürg Rötheli since 2001; Günter Pfeiffer since 2004; Daniel Ritz and Urs Schaeppi since 2006; Eros Fregonas, Patrice Haldemann and Christian Petit since 2007.

Carsten Schlöter

German citizen

Education: Diplom-Betriebswirt (Approx. M.A. in business administration)

Career: 1985–1992 various positions at Mercedes Benz France SA; 1992–1994 Member of the Management Board at debitel France SA; 1995–1999 various positions at debitel Germany; 1999 Member of the Management Board at debitel AG; 2000–2001 Head of Public Com and Head of Mobil Com of Swisscom; 2001–January 2006 Chief Executive Officer at Swisscom Mobile AG, since January 2006 Chief Executive Officer at Swisscom Ltd and since January 2008 Chief Executive Officer of Swisscom (Switzerland) AG

Since March 2000 member of the Executive Board of Swisscom

Other mandates: President of the Board of Directors of Fastweb S.p.A

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; 1995–December 1998 Chief Financial Officer of Cablecom Holding AG; January 1999–June 2001 Chief Executive Officer of Cablecom Holding AG; September 2001–March 2002 Head of Strategic Growth and Related Businesses of Swisscom Ltd; July 2003–June 2004 Head of Group Human Resources Swisscom Ltd; April 2002–March 2006 Chief Financial Officer; March 2006–December 2007 Chief Executive Officer of Swisscom Fixnet AG; since August 2007 Chief Financial Officer and since April 2002 Vice Chief Executive Officer of Swisscom Ltd

Since September 2001 member of the Executive Board of Swisscom

Other mandates: Member of the Board of Directors of Zuckermühle Rupperswil AG and member of the Board of Directors of Fastweb S.p.A.

Eros Fregonas

Swiss and Italian citizen

Education: Electronic engineering at the Swiss Federal Institute of Technology (ETH) in Zurich

Career: 1987–1996 Andersen Consulting, 1996–2005

Chief Executive Officer Boss Lab AG (now: B-Source), 2005–2007

Independent consultant in the finance and IT sector; since May 2007 Chief Executive Officer of Swisscom IT Services

Since August 2007 member of the Executive Board of Swisscom

Patrice Haldemann

Swiss citizen

Education: Dipl. Ing ETH Lausanne, MSc Montreal

Career: 1978–1983 Hasler AG; 1983–1988 Reasearch PTT; 1988–1992 Swiss Mission Brussels; 1992–1996 Telekom PTT; 1997–2000 Head of Department Transmission Swisscom; since August 2007 Head of Network and

Infrastructure

Since August 2007 member of the Executive Board of Swisscom

Heinz Herren

Swiss citizen

Education: Electrical engineering HTL

Career: 1986–1988 Hasler AG; 1998–1991 XMIT

AG; 1991–1993 ASCOM Telematik AG; 1993–1994 Bedag Informatik;

1994–2000 3Com Corporation; 2000–2000 Inalp Networks Inc.; 2001–2005

Head of Marketing Swisscom Fixnet Wholesale; 2005–2007 Head of Small and Medium-Sized Enterprises of Swisscom Fixnet; since August 2007 Head of Small and Medium-Sized Enterprises

Since August 2007 member of the Executive Board of Swisscom

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 Ltd

Since July 2001 member of the Executive Board of Swisscom

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

Christian Petit

French citizen

Education: MBA ESSEC Cergy-Pontoise

Career: 1993–1999 Detecon France; 2000–2003 Head of Operations Swisscom Mobile AG; 2003–2006 Head of Product Marketing Swisscom Mobile; 2006–

June 2007 Chief Executive Officer Hospitality Services Plus SA; since August 2007 Head of Residential Customers

Since August 2007 member of the Executive Board of Swisscom

Günter Pfeiffer

German citizen

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

Career: 1988–1995 Detecon, Director of Holding Projects; 1995–1996 T-Mobile, Senior Director International; 1997–1999 VEBA-Telekom, Vice-President

Marketing; 2000–2004 Head of Participation Management at Swisscom Ltd; since June 2004 Head of Group Human Resources at Swisscom Ltd

Since June 2004 member of the Executive Board of Swisscom

Daniel Ritz

Swiss citizen

Education: Dr. oec. HSG (business administration)

Career: 1988 Internship, Ciba-Geigy (now Novartis);

1992–1993 Project manager, University of St. Gallen, 1994–2001 consultant, Boston Consulting Group AG; 2001–2006 Partner, Boston Consulting Group AG;

since September 2006 Chief Strategy Officer at Swisscom Ltd

Since September 2006 member of the Executive Board of Swisscom

Other mandates: President of the Swiss Association of Economic Research (SGK) and the Board of Directors of Fastweb S.p.A.

Jürg Rötheli

Swiss citizen

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

Career: 1993–1999 (partner since 1996) Stampfli, Keller & Partner, Solothurn; 1995–1999 General Counsel Interdiscount Holding AG, Simeco Holding AG;

January 1999–June 2001 Head of Legal Department (General Counsel) of Swisscom Ltd; July 2001–March 2005 Head of Group Operations & Related Businesses of

Swisscom Ltd; since April 2005 Chief Executive Officer Related Businesses and since August 2007 CEO Swisscom Participations

Since July 2001 member of the Executive Board of Swisscom

Other mandates: Board of Directors Regio Energie Solothurn



Urs Schaeppi

Swiss citizen

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

Career: 1987–1991 Iveco Motorenforschungs AG; 1991–1994 Head of Marketing Electronics Ascom AG; 1994–1998 plant manager Biberist paper factory; 1998–March 2006 Head of Commercial Business and member of the Executive

Board of Swisscom Mobile AG; since March 2006–December 2007 Chief Executive Officer of Swisscom Solutions AG; since August 2007 Head of Corporate Business Since March 2006 member of the Executive Board of Swisscom

Other mandate: Member of the Board of directors of the BV Group, Bern

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 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 percent 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 percent 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 percent of all registered shares as a shareholder or beneficial owner with voting rights, in particular in the following exceptional cases:

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

In addition to the percentage restriction on voting rights, the Board of Directors may refuse to recognize and enter as a shareholder or beneficial owner with voting rights any acquirer of shares who fails to expressly declare upon request that 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 Ltd adopts its resolutions and holds its elections by absolute majority of valid votes cast. In addition to the specific quorum requirements under the Swiss Code of Obligations, the Articles of Incorporation require a two-thirds majority in the following cases:

- Introduction of restrictions on voting rights;
- Conversion of registered shares to bearer shares and vice versa;
- Changes to the above-mentioned statutory quorum requirements.

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

Convocation of shareholders and agenda

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

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

Representation at the General Meeting

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

Registrations

The voting shares entered in the register have voting rights in the General Meeting of Shareholders. Previously the register has always closed three days prior to the General Meeting of Shareholders. No mutations were executed thereafter. The share register will not be closed before the General Meeting of Shareholders for 2007. The shareholders who have registered their voting rights in the share register by 4 p.m. on April 18, 2008 are entitled to vote.

7 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 Ltd. 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).

8 Auditors

Duration of the mandate and term-of-office of the auditor in charge

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 Ltd since January 1, 2004. The auditor in charge of KPMG Klynveld Peat Marwick Goerdeler SA who is responsible for the audit mandate, Hanspeter Stocker, has been in charge since 2004.

Auditing remuneration and additional remuneration

The remuneration for the auditing services provided by KPMG Klynveld Peat Marwick Goerdeler SA in 2007 amounted to CHF 6.0 million. The remuneration for additional services relating to auditing as well as for tax advice and other consultation services in 2007 amounted to CHF 1.0 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. In particular they report on the findings of their half-year review and year-end audit.

9 Information policy

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

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

Results will be published on the dates below:

- First quarter: May 7, 2008
- Half year: August 13, 2008 (half-year report)
- Third quarter: November 5, 2008
- Full year: in March, 2009 (Annual report)

The General Meeting of Shareholders will be held on:

- April 22, 2008
- April 21, 2009

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

Information about push and pull links for the distribution of ad-hoc communications:

http://www.swisscom.ch/GHQ/content/Investor_Relations/News_und_Events/AdHoc_Meldungen/

Introduction

The structure and the underlying principles of compensation system for the Board of Directors and the Executive Board are outlined below. The Remuneration report will be explained to the Shareholders' Meeting under the agenda item annual financial statement.

For further information on personnel policy please refer to the personnel section in the Sustainability Report on page 181.

General principles governing remuneration and compensation at Swisscom

Pay at Swisscom is based on four factors: Position, individual performance, the success of the company and the market. This approach takes into consideration the interests of the employees, the investors and the company and is systematic, transparent and of long-term relevance.

Competitive pay helps to attract highly qualified and motivated specialized personnel and managers and to encourage them to enter into a long-term commitment to the company. It is very important, on the one hand, that the payment and conditions of employment within the entire Swisscom Group follow the same fundamental principles. On the other hand the dynamics of the labor market also demand flexibility in order to maintain competitiveness. The variable performance-related component (bonus) is primarily based on the degree to which overriding targets for instance such as customer-orientation are met. The Management Incentive Plan (management share participation scheme) is an additional incentive and was taken up by 49 percent of entitled management in 2007. Participation in the Management Incentive Program is compulsory for members of the Board of Directors and Executive Board so that they participate financially in the medium term performance of Swisscom shares.

The management and employee participation schemes of Swisscom Ltd are described in Note 9 to the consolidated financial statements.

Compensation committee:

As of January 1, 2008 the Compensation Committee was chaired by the Vice-President of the Board of Directors, Richard Roy. The other members are the chairmen of the Finance committee (Torsten G. Kreindl), Audit committee (Othmar Vock) and Personnel and organization committee (Felix Rosenberg). Anton Scherrer as President of the Board of Directors attends committee meetings but has no voting rights. All members are independent.

The committee supports the Board of Directors and deals with compensation schemes for the Board of Directors and the total sum of all remuneration of the Executive Board, as well as the remuneration paid to the CEO (basic salary and performance-related bonus as well as participation schemes and fringe benefits) for the attention of the Board of Directors. The Compensation Committee fixes the individual emoluments for the remaining Members of the Executive Board (basic salary and performance-related bonus as well as participation schemes and fringe benefits) in its own competence.

The committee met on three occasions in fiscal 2007. One telephone conference was also held. All members were present at the meetings. The CEO and the CPO (Chief Personnel Officer) regularly attended the meetings. The independent management consultants Hostettler & Partner AG, Zurich, assisted the Compensation committee throughout 2007 to review the incentive system for members of the Executive Board. The committee also had recourse to materials provided by the Group Human Resources division.

Decision-making powers

Decision-making powers in connection with compensation for members of the Board of Directors and the performance-related compensation of the Executive Board are defined in the Rules of Procedure and Competencies (GZO) which is attached as an appendix to the Organizational Rules and in the Rules of the Compensation committee.

Recipient	Approval for remuneration decided by	Approved by
Board of Directors	Compensation committee	Board of Directors in whole
CEO	Compensation committee	Board of Directors in whole
Total compensation for the Executive Board	Compensation committee	Board of Directors in whole
Single compensation of members of the Executive Board	Compensation committee	Compensation committee

Compensation for the Board of Directors

The current compensation plan for the Board of Directors was approved by the entire Board of Directors on December 19, 2001 and has been in force since January 1, 2002. The compensation reflects the level of responsibility and the scope of activities performed by each member of the Board of Directors, as well as the economic situation and the success of the company. It is reviewed annually in December for the following year.

The compensation plan provides for a basic salary component for the President of CHF 385,000 net and for the other members of the Board of Directors of CHF 110,000 net. Allowances are also paid for specific duties. The Vice-President of the Board of Directors is entitled to an additional compensation of CHF 20,000, the chairmen of the committees receive an additional CHF 20,000 net and the members of the committees receive an additional CHF 10,000 net. The state representative receives an additional payment of CHF 40,000 net for his special duties. Meeting attendance fees are also paid (half a day: CHF 500/ whole day: CHF 750). Expenses are paid on the basis of actual expenditure.

The members of the Board of Directors are obliged to draw 25 percent of their compensation (fees or individual allowances) in shares within the framework of a Management Incentive Plan (MIP). The amount invested in Swisscom shares is increased by 50 percent as part of the Management Incentive Plan for the Board of Directors. This means that the overall compensation for the members of the Board of Directors is made up of a 66 percent cash portion and a 33 percent share portion. The shares allocated are calculated on the basis of the tax value. The shares are subject to a blocking period of three years from the grant date. The share-based compensation includes the shares allocated, assessed at their market value. Die Aktien werden zum Steuerwert zugeteilt und unterliegen einer Sperrfrist von drei Jahren. Die aktienbasierte Vergütung entspricht den zugeteilten Aktien bewertet zum Marktwert.

The disclosure of fringe benefits and lump-sum expenses complies with fiscal law.

The individual compensation made to the nine members of the Board of Directors for the financial year 2007 is presented in the table below.

CHF in thousands	Compensation in cash	Share-based payments	Total
Anton Scherrer	413	186	599
Fides P. Baldesberger	122	54	176
Hugo Gerber	119	54	173
Michel Gobet	120	54	174
Torsten G. Kreindl	139	63	202
Catherine Mühlemann	112	54	166
Felix Rosenberg	173	81	254
Richard Roy	135	63	198
Othmar Vock	140	63	203
Total compensation to members of the Board of Directors in charge	1,473	672	2,145

Compensation for members of the Executive Board

In line with the general compensation policy, compensation for the Executive Board also consists of a basic salary component and a performance-related component (bonus) as well as fringe benefits.

The compensation plan for members of the Executive Board was reviewed by the Compensation committee in 2007. In 2007 the comparative studies carried out by Towers Perrin (50 biggest Swiss companies in all sectors), Hewitt (European telecommunications companies) and Watson Wyatt (120 Swiss companies) were taken as benchmarks to assess the basic salaries. The analysis of these benchmarks revealed that salaries for comparable management positions had risen by an average of 8 percent over the last three years. Small adjustments were made in individual cases on January 1, 2008 in order to bring salaries up to the average for the sector.

The basic salary paid to members of the Executive Board is reviewed every three years on the basis of a benchmark and adjusted if necessary. The amount of the basic salary depends on the market value of the position, the function and also takes into account individual performance and experience.

The incentive targets are reviewed annually by the Compensation committee and approved by the Board of Directors. In 2007 the Board of Directors conducted a fundamental review of the incentive system. A number of theoretical options were looked into and compared with compensation and incentive models used by benchmark companies. Value-oriented models were also assessed. On the basis of these calculations and analyses the Board of Directors decided to maintain the current model.

The Board of Directors adopted the 2007 incentive targets of the Swisscom Group in December 2006 on the basis of the budget values for 2007–2009. These main financial criteria are net revenue, EBITDA margin and operative free cash flow as well as the perception of Swisscom as a customer-friendly company.

Customers' confidence in Swisscom and customer loyalty is of central importance for the development of the company, at least in the Swiss core business. «Customer loyalty to the Swisscom Group» is given a 30 percent weighting and is binding for all employees in view of its central significance. Market performance is primarily reflected in financial terms in net revenue and is allocated a 20 percent weighting in the target system. Net revenue and customer loyalty therefore make up 50 percent of the incentive. Shareholders' dividend expectations are reflected in the target components EBITDA margin (20 percent) and operative free cash flow (30 percent). These factors make up the other 50 percent of the incentive.

The weighting of the operative free cash flow and the calculation of the customer loyalty index changed in 2007 compared with the incentive targets for 2006. The higher weighting of operative free cash flow (30 percent in place of 20 percent) is intended to result in a more balanced relationship between market performance and financial performance. It should also be remembered that net revenue is reflected in the two other financial targets EBITDA margin and operative free cash flow, and that market performance is therefore indirectly the dominating component in the incentive plan. The residential customer sector is decisive for calculating customer loyalty in 2007.

The members of the Executive Board also receive a target-related bonus of 25–100 percent of their basic salary depending on their function. The size of the bonus paid depends on the degree to which targets have been met and the total amount paid annually by the Board of Directors for bonuses. 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 bonus is paid in March of the following year on the basis of the incentive targets fixed in the previous year. 75 percent of the effective bonus is paid out in cash and 25 percent in blocked Swisscom shares. The shares are allocated on the basis of the tax value and are subject to a three-year blocking period. The share-based compensation includes the difference between the tax value and the market value of the shares allocated.

The disclosure of fringe benefits and lump-sum expenses complies with fiscal law.

The following table shows the total amounts paid to the members of the Executive Board for the financial year 2007, including the highest amount paid to one member.

CHF in thousands	Total Executive Board	Therof Carsten Schloter
Fixed compensation in cash	4,585	770
Variable compensation in cash (bonus)	3,311	770
Fringe benefits	74	7
Share-based payments	139	35
Severance payments	2,346	–
Pension contributions	1,013	122
Total compensation for members of the Executive Board in charge	11,468	1,704

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 target-related 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.

Additional fees and remuneration

The members of the Executive Board are not entitled to separate compensation if they fulfill any mandates of the Board of Directors within the Swisscom Group. During 2007 no additional compensation or remuneration was paid to members of the Board of Directors or the Executive Board.

Compensation for former members of the Board of Directors or Executive Board

In the year under review no additional compensation or remuneration was paid to former members of the Board of Directors or the Executive Board. Neither was any compensation paid to persons closely associated with members of the Board of Directors or the Executive Board.

Loans

During 2007 Swisscom did not provide guarantees or grant loans, advances or credit facilities of any kind either to former or current members of the Board of Directors and persons close to them, nor to members of the Executive Board and persons close to them. Nor are there any receivables of any nature whatsoever outstanding.

Disclosure of holdings and convertible rights/options of members of the Board of Directors and Executive Board

Since July 1, 2005 Swisscom Ltd has reported any transactions in Swisscom shares and options undertaken by members of the Board of Directors and the Executive Board, stating the name and position of the transacting person. Transactions exceeding a threshold value of CHF 100,000 within one calendar month for each person liable to disclose are published anonymously by the SWX on their website. SWX does not publish any collective announcements of transactions below the threshold value of CHF 100,000 in one calendar month.

The blocked and non-blocked shares held by the members of the Board of Directors and the management and related persons as of December 31, 2007 are listed in the table below:

Number	Shares	Options
Members of the Board of Directors		
Anton Scherrer	596	—
Fides P. Baldesberger	260	—
Hugo Gerber	133	—
Michel Gobet	500	—
Torsten G. Kreindl	143	—
Catherine Mühlemann	123	—
Felix Rosenberg	1,540	—
Richard Roy	520	—
Othmar Vock	321	—
Member of the Board of Directors in charge	4,136	—
Members of the Executive Board		
Carsten Schlöter (CEO)	2,051	—
Ueli Dietiker	1,409	—
Eros Fregonas	—	—
Patrice Haldemann	77	—
Heinz Herren	143	—
Stefan Nünlist	245	—
Christian Petit	287	—
Günter Pfeiffer	225	—
Daniel Ritz	53	—
Jürg Rötheli	599	33,000 ¹
Urs Schaeppi	461	—
Member of the Executive Board in charge	5,550	33,000

¹ Call options exercisable from April 30, 2006 to April 25, 2008 at a ratio of 1:100. The exercise price is CHF 417.90

The voting rights do not exceed 0.005% of the share capital by any member of the Board of Directors or Executive Board.

What drives us

Our customers and the community closely monitor the performance of companies and their products and are not afraid to ask leading questions. They expect high-quality, ecologically sound, socially acceptable products, and respect companies that take their responsibility seriously. Day after day, Swisscom acts in accordance with the principle of sustainability. We have drawn up a new mission statement that reflects the way Swisscom sees itself and defines our promise, our conduct and the way we interact with our target groups – the public, employees, customers, partners and shareholders.

Swisscom is guided by two factors that are of particular relevance for sustainable corporate management:

An awareness of business-critical customer and stakeholder needs

This means listening to and anticipating our customers' wishes. Comprehensive customer focus is an important criterion for a company's value in the eyes of the community. Consistent with our mission statement, our values, strategies, quality, environmental and social standards find expression in our relations with customers and interest groups, and in so doing dictate Swisscom's overall image.

Integrity and a holistic approach

Integrity and a holistic approach reinforce Swisscom's image as a responsible company that acts sustainably and with which employees are proud to identify. A holistic approach is also a prerequisite for high-quality, socially acceptable and environmentally compatible products and services.

Swisscom values feedback from the general public and experts with regard to its corporate responsibility and sustainable management. Positive feedback from the public shows we are on the right track with our goals and commitments. Surveys confirm that Swisscom is appreciated as a responsible company with strong ties to Switzerland. For many years now, Swisscom has also scored consistently high marks in the ratings for corporate responsibility. In the international survey regularly conducted by oekom research AG, Swisscom continues to be ranked second in a field of 26 telecommunications companies. Swisscom also scores high in the ETHOS/SiRi, INrate, SAM Group and Vigeo ratings. As a result the Swisscom share is listed in a number of sustainability indexes, including the Dow Jones Sustainability Index, the Ethibel Sustainability Index, and the FTSE4Good-Index, as well as in several sustainability funds.

Instruments that promote sustainability

Swisscom lives out and supports and reinforces its commitment to sustainability by means of:

- A new, more comprehensive set of guiding principles for employees that outlines how Swisscom sees itself;
- A code of conduct that supports employees in their day-to-day tasks;
- Internal social services that provide assistance to employees in exceptional situations;
- Customer surveys and focus groups which allow us to identify customers' needs and wishes;
- Personal contact with various target groups, allowing us to keep our finger on the public pulse;
- Quality and environmental management systems which ensure that products and services are factored into sustainability management;
- A system for evaluating suppliers according to eco-social criteria, ensuring sustainability in the supply chain;
- A dynamic environmental team which sees to it that our environmental efforts are continually improved;
- A strategic team that coordinates all aspects of corporate responsibility.

External engagements

Swisscom believes there are huge benefits to be derived from developing ideas in tandem with external partners on corporate responsibility and environmental issues and approaches. With this in mind, we work with external associations and organisations that pursue the same goals. For corporate responsibility issues:

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

For environmental issues:

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

Swisscom is also involved in various external projects in the interests of the information society, the environment, Switzerland as a centre of research and business, etc. These commitments also contribute to Switzerland's sustainable development.

Our employees – I am Swisscom

We are actively aligning Swisscom to the needs of our customers, a goal that can only be achieved if our employees are fully committed to implementing our strategy and embody and convey it with conviction. The key focus of our personnel policy is therefore on promoting a consistent customer-centric corporate culture.

Staff and management development in the wake of cultural change and reorganisation

At the start of the reporting year Swisscom conducted its first ever Group-wide corporate culture survey involving all management staff. The results of the survey flowed into the creation of a new mission statement, formulated by the Group Executive Board and top management at the beginning of 2007 and setting out the guiding principles governing our service philosophy and customer focus. The first six months were spent implementing the principles down through the organisation, with all management staff and employees attending a workshop to familiarise themselves with the new principles and committing themselves to making their own personal contribution.

At the same time, the Swisscom Switzerland management team formulated the strategies for the individual divisions as the basis for defining the new organisational structure of Swisscom (Switzerland) Ltd. In a first phase, the existing business units were transferred in their entirety to the new Swisscom structure. This was followed in a second phase by the recruitment process, which was largely completed by the end of 2007. Staff participation in the Swisscom employee association was also brought into line with the new organisation. The decision was taken not to hold new elections, in view of the fact that the term of office of existing members expires in two years' time.

Nearly all of the senior positions were filled from within, reflecting our management and development philosophy as well as the effectiveness of our management development programmes. Commitment to the pursuit of a sustainable management development culture has borne fruit. In particular, our consistent and long-term succession planning policy is making an important contribution to the company's continuity.

Swisscom intends to continue its policy of filling senior and middle management positions from within its own ranks wherever possible as well as facilitating career paths across the Group. Swisscom attaches high importance to staff training and talent development and regards this as a long-term investment in the future.

November saw the successful completion of our fourth internal 'high potential programme' «Swisscom Advanced Leadership Training» (SALT). At an impressive closing event under the motto «Swisscom in the Year 2020» the nine SALTees put on an excellent show of their newly acquired skills, which they will now use to master Swisscom's future challenges.

Swisscom – an attractive high-profile employer

With a forward-looking vocational training programme, attractive entry opportunities, progressive working conditions and modern employee participation programmes, Swisscom is well perceived as an employer, both internally and externally. Swisscom offers a challenging working environment in which superior performance is rewarded and a healthy work-life balance is fostered.

Our working environment is dictated by the guiding principles in our mission statement:

- We create a stimulating working environment with attractive tasks and freedom to develop;
- We reward customer focus, initiative and performance;
- We are a fair and responsible partner;
- We promote diversity and individual responsibility.

These principles constitute both a promise and an obligation towards our employees.

The recruitment of around 2,400 new employees underscores Swisscom's continued attractiveness on the external job market.

In January 2008 around three quarters of the workforce participated in Swisscom's annual employee survey, conducted for the first time uniformly throughout the Group. The results of the survey are a major incentive for the future. Of all the topics surveyed, Swisscom's attraction as an employer scored the highest rating. Eighty-six per cent said they would recommend Swisscom as an employer. As well as identifying strongly with the company, employees are proud to work for Swisscom, with 81 per cent responding positively to very positively to this question. The answers also reflected our employees' high level of commitment, with over 90 per cent of respondents saying that they are fully committed to Swisscom.

Our employees' engagement over and above the job is reflected in the level of interest shown in the second Swisscom Games in 2007, when more than 4,200 employees took part in the qualification rounds and finals, many of them competing in several disciplines. Last year 4,115 employees took advantage of the diverse sporting opportunities offered by the Move! Programme.

Forward planning by human resources management

In a bid to improve efficiency and in anticipation of likely major changes, Swisscom's human resources management was reorganised back in 2006. The most visible element in the new HR model is the newly created HR Shared Service organisation which is responsible for providing operational and administrative HR services for all Swisscom employees in Switzerland. The consolidation allows HR processes to be handled in a standardised manner. In the new organisation, which combines the previously autonomous Group companies with their own HR departments, uniform HR processes are a key implementation and cultural element.

The new model was put to the test in 2007. One of the main changes for HR customers is that many personnel matters are now handled via the Shared Service Center. The new structure has proved successful, with the new services winning ever-increasing acceptance. At the same time, we have seen a steady improvement in the range of services offered and in internal handling procedures. Most importantly, since the day Swisscom Switzerland came into being, all employees enjoy uniform access to the same internal HR services.

The new model has also enhanced the transparency of our personnel services and allowed them to be optimised in a systematic manner. In 2007 around 5,500 employee references were drawn up, over 62,000 calls dealt with, and approximately 113,000 orders processed. At the same time, total expenditure for HR services was reduced by 7 per cent year-on-year.

Mid- to long-term demographic scenarios have been drawn up for the future development of the Group's HR organisation. These simulations allow us to prepare for and actively shape the company's future. Programmes aimed at maintaining employee marketability are already in place, and mid-term forecasts of qualitative personnel requirements are in preparation.

Work/life balance

Swisscom helps to create the right conditions for a successful work/life balance. Key elements are the opportunity to work flexible hours, five weeks' annual leave, maternity and paternity leave, and payment of pension fund contributions for unpaid leave of up to three months, the latter subject to the approval of the employee's line manager. As a family-friendly employer, Swisscom pays a child and education allowance of CHF 240 (also to part-time employees) and grants generous leave on family-related grounds including adoption leave. It supports external child-care facilities not only through financial contributions, but also by providing access to free advisory services provided by an outside counselling agency (family service). Since 2007 Swisscom has practiced a standardised policy of giving management the opportunity to take several weeks' sabbatical commensurate with their length of service.

Swisscom rewards customer focus and performance

As regards the variable performance-related bonus, greater emphasis has been placed since last year on achieving overriding Group goals rather than on individual and/or Group-company goals. Customer loyalty is now the overriding goal when agreeing performance objectives with employees.

New prospects despite redundancy

Swisscom once more responded to sustained cost pressure in 2007 by introducing efficiency enhancement measures and shedding 394 full-time equivalent positions. In effect, only 185 full-time positions were lost due to factors including the launch of Bluewin TV. Of those affected, around 35 per cent found another job within a short space of time.

Employees whose jobs are phased out and are unable to find a new position are entitled to benefits under Swisscom's well-developed social plan. The offerings, agreed with the unions, include «Group Replacement» on full pay, Worklink (a job placement company) and Swisscom's startup programme, have proved to be very successful. Since 1999, the social plan programmes downstream of Swisscom's internal mobility management scheme have consistently recorded a success rate of over 90 per cent.

As of 1 April 2007, two companies were founded with the help of the Swisscom Venture Fund. Thirteen former employees transferred to the new startup companies: IPR Partner AG, which offers services related to patent management, and PersPec, formerly a fully-owned subsidiary which was taken over by the company's management. The latter is primarily involved in the provision of HR services related to replacement and rehabilitation case management. The management buyout opens up greater business opportunities for PersPec Partners AG on the open market.

High success rate among trainees

In 2007, 268 trainees took up basic training (formerly referred to as an apprenticeship) at Swisscom. At the same time, 227 trainees, or 94.2 per cent of the last intake, successfully completed their training. The total number of trainees (around 850) was largely unchanged compared with the previous year. In addition, Cablex and Comit have 60 trainees who are trained directly by their respective companies rather than through Swisscom's vocational training programme. Most of the 116 trainees who finished in 2007 found a position at Swisscom, while the remainder either went onto further education or sought alternative options. «Flex Job», the bridging programme which has found positive acceptance, contributed to these good hiring figures.

In addition to vocational training courses in IT, mediamatics, telematics, retailing and commerce, Swisscom will continue to offer a certificate course for retail assistants. Originally launched as a pilot project, the course is aimed at helping young people with weaker skills sets to make a career start. Certificate courses will also be offered next year for office assistants and IT practitioners.

With around 25 different nationalities represented, Swisscom's trainees underline the company's diversity. With males outnumbering females by almost two to one, Swisscom is keen to attract a greater proportion of female trainees for technical professions over the next few years.

The SBB rail pass issued to trainees met with a very positive response. As well as enhancing their mobility and flexibility, the pass enables them to participate in cross-regional projects within the company.

The most impressive example of this in 2007 was an exemplary environmental project in which trainees commissioned a new solar installation. In addition to managing the project, they took the task one step further and came up with a new energy-saving lighting concept for the Swisscom logo, which may well be considered when the new logo is put in place throughout Switzerland.

As culturally diverse as Switzerland

The diversity of our customers reflects the diversity of our workforce. This gives us a better understanding of the multifaceted needs of our customers, and enables us to deliver tailored products and services.

Diversity at senior management and Group Executive Board level has improved significantly, with a greater number of languages and nationalities represented as well as a wider age span compared to the previous year. Diversity in terms of function profile has also enriched the corporate bodies. The proportion of women in senior management positions increased to five per cent and the Management Board of Swisscom Switzerland has been enhanced with the addition of a female member. Female employees now account for 32 per cent of the total workforce. The cultural mix amongst employees and members of senior management helps to promote reciprocal organisational learning.

The successful «Top Management Win Win Mentoring Programme for Women», under which members of the Group Executive Board and top management act personally as mentors, was extended with the addition of a new programme called SWIP (Swisscom Women International Programme). SWIP participants benefit from the opportunity to exchange information and ideas about topical business issues with managers at successful global partner companies such as Cisco and IBM.

Swisscom employees hail from 80 different nations, the majority from Switzerland. The over-fifties make up more than 17 per cent.

In line with its commitment to gender equality, Swisscom also helps male employees to achieve a better balance between work and family. The website Väterforum@swisscom provides a forum for fathers and offers targeted workshops and information. In 2007, 382 male employees took advantage of the paternity leave entitlement introduced two years ago.

comPlan

At the end of 2007 comPlan, the pension fund of Swisscom Ltd, covered 18,487 Swisscom employees and 4,722 members drawing retirement, invalidity, spouse, and partner or child pensions. No changes were made to the Pension Fund Regulations in 2007. All employees have been insured under the dual pension plan since 1 January 2006.

For the reporting year the interest rate on retirement savings capital was fixed at 2.50 per cent, in accordance with the minimum interest rate under the Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans. Existing pensions were not inflation-adjusted due to a shortfall in the requisite funding ratio for the fluctuation reserve. According to the provisional 2007 year-end figures, comPlan's coverage ratio was 108.3 per cent (2006: 111.9 per cent).

Personnel statistics

	Unit	2005	2006	2007
Personnel structure/diversity in Switzerland				
Total number of employees in full time employments	Full-time equivalent employees	16,088	17,068	19,844
Employees in Switzerland	Full-time equivalent employees	15,199	15,909	16,041
Part-time employees	Percent	20.6	19.5	18.3
Female employees	Percent	33.6	32.9	32.0
Female executives	Percent	10.2	8.8	8.7
Total number of apprenticeship positions¹	Full-time positions	837	833	838
– Electronics	Number of apprentices	41	20	9
– IT	Number of apprentices	279	210	160
– Commercial	Number of apprentices	142	153	167
– Mediamatics	Number of apprentices	148	187	208
– Retail	Number of apprentices	164	204	245
– Telematics	Number of apprentices	63	59	49
Languages				
– German	Percent	79.2	79.7	79.5
– French	Percent	16.9	16.5	16.7
– Italian	Percent	3.7	3.6	3.6
– English	Percent	0.2	0.2	0.2
Nationalities				
– Switzerland	Percent	89.2	88.2	87.5
– Italy	Percent	3.4	3.5	3.5
– Germany	Percent	2.8	3.3	3.7
– Spain	Percent	1.0	1.0	1.0
– Other	Percent	3.6	4.0	4.3
Salary spread in Switzerland				
Minimum full time salary ²	CHF	45,500	45,500	45,500
Absences due to accident and sickness in Switzerland				
Work-related accidents	Number of cases	193	229	237
Total days lost due to work-related accidents	Number of days	1,607	2,173	2,017
Days lost due to work-related accidents per FTE	Number of days	0.105	0.139	0.127
Non-work-related accidents	Number of cases	1,824	1,826	1,905
Total days lost due to non-work-related accidents	Number of days	13,499	12,132	13,950
Days lost due to non-work-related accidents per FTE	Number of days	0.882	0.778	0.880
Total days lost due to sickness	Number of days	86,379	90,164	99,621
Days lost due to sickness per FTE	Number of days	5.642	5.781	6.287

¹ Trainees in vocational training (other trainees at Cablex, Infonet and Comet (60 in 2007, 71 in 2006 and 43 in 2005)).

² The 2005 and 2006 Annual Reports erroneously list a minimum salary of CHF 45,000.

Suppliers – responsibility in the supply chain

Swisscom is a wholesale purchaser of goods and services worth more than CHF 1 billion a year. As a non-manufacturer, Swisscom must buy in all the hardware it needs for customer equipment and its own infrastructure. The challenge in purchasing is to ensure that the purchased goods have been manufactured in a socially and environmentally acceptable manner.

Swisscom fosters a partner relationship with suppliers that also extend to social responsibility and environmental awareness. We expect the environmental management system, social benefits and product ecology adopted by our suppliers to comply with or go beyond industry standards. To ensure that this is the case, Swisscom evaluates its suppliers according to eco-social criteria. Three-quarters of the goods and services bought in are provided by 20 main suppliers who guarantee a high standard of quality, and experience has shown that this has a positive impact on environmental and social attributes. In addition to these main suppliers, Swisscom assesses companies where there is justifiable suspicion of ecological or social deficiencies or which deliver products with inherent ecological risks.

Swisscom's social responsibility audit is based on the International Social Accountability Standard (SA8000) and International Labour Organisation (ILO) Conventions 138/182, while its ecological audit is based on the ISO 14001 environmental standard and, for product ecology, the ECMA-341 standard. Swisscom reserves the right to conduct additional audits on the supplier's premises.

For Swisscom, working in partnership means that suppliers are informed about their strengths and weaknesses so that they can draw on this assessment in the interests of continual improvement: a procedure that is much appreciated by suppliers. The idea behind supplier assessments is to exert a positive influence on the entire supply chain: suppliers who have been assessed in turn evaluate their own suppliers, thereby committing them, too, to honour their ecological and social responsibilities.

Working in partnership also commits Swisscom to notify suppliers in good time about new requirements and legal provisions. For example, our equipment suppliers were informed well in advance about the implications of the new EU Guideline on the Restriction of Certain Hazardous Substances (RoHS) and the relevant Swiss legislation, thereby ensuring a seamless transition.

More information about the procurement management system is available at http://www.swisscom.ch/GHQ/content/Ueber_uns/Beschaffungsmanagement/Beschaffungsmanagement06.htm?lang=en.

Swisscom and the community

What matters to us

As a Swiss company, Swisscom identifies strongly with the Swiss community and makes an active contribution to it. Action areas:

- Telecommunications for everyone: all members of the community should have access to telecommunications services and be able to use these to meet their needs. Swisscom is therefore committed to basic service provision with special consideration for more marginal regions. Swisscom also provides all schools throughout Switzerland with a free Internet connection, runs the Swisscom Help Point with its Internet and mobile phone courses for first-time users, and offers technical assistance for the disabled;
- Safe, socially acceptable products and services: Swisscom operates the largest telecommunications network in Switzerland and sells telecoms equipment and services. We guarantee their safety as well as social and environmental compatibility;
- Economic ties: Swisscom has close technological, financial and intellectual ties with the Swiss economy. By providing training for some 850 apprentices each year, Swisscom helps to secure a future pool of expertise and promotes the transfer of knowledge in the telecoms sector;
- Partnership ties: Swisscom supports selected charity organisations by providing them with telecoms infrastructure and acting as telecommunications partner. Swisscom also offers support to employees who devote their leisure time to voluntary work in the community.
- Cultural and sporting ties: through its wide range of involvements in culture and sport, Swisscom contributes to the Swiss population's enjoyment of life and leisure, for instance by acting as principal sponsor of Swiss-Ski and the Locarno Film Festival.

Telecommunications for everyone

The telecommunications sector is developing at an extremely rapid pace, with new products and services constantly being rolled out. To cope with this situation, Swisscom must continually expand the network infrastructure so as to ensure a minimum standard of service for the entire population, in line with our basic service mandate. In addition, this is giving rise to «divergence of use» among customers: technophiles are eager to try out and use any new innovation, while technophobes take a more cautious approach. Swisscom welcomes all newcomers to the world of new media by providing courses through the Swisscom Help Point, where participants learn how to use mobile phones and the Internet simply and securely. Responsible use of the Internet should be a matter of course for children and young people – an objective Swisscom supports through its «Internet for Schools» initiative.

Then there is another challenge: modern telecoms applications are hugely beneficial to the visually or hearing impaired as well as those with mobility problems. But products and services must be suitably modified so that they can be used effectively.

Basic service provision and marginal regions

Since 1998 Swisscom has been mandated by the federal government to provide basic telecommunication services for Switzerland, and will continue to do so under the new mandate which expires in 2017. The aim of the mandate is the provision of analogue or digital network access throughout Switzerland. It covers voice telephony including fax, Internet access and supplementary services, the provision of public payphones, calls to the emergency services, services for the hearing impaired as well as directory services and operator services for the visually impaired and persons with limited mobility. Since 1 January 2008 the basic service provision mandate has included broadband Internet access at a minimum transmission speed of 600/100 kbps.

Basic service provision prevents marginal regions of Switzerland from lagging behind city centers in terms of the availability of the telecoms infrastructure. Swisscom supports this concept and is also involved in a project run by the Swiss Consortium for Alpine Regions, which leverages synergies and sets up innovative cooperative ventures to improve service provision in marginal regions.

Swisscom Help Point

Since 2005 Swisscom has been holding first-time users' courses at its Help Points. These two-hour courses provide instruction on how to use mobile phones and the Internet simply and securely. The courses take a practical approach and provide participants with examples where they can put their newly-learned theory immediately into practice: weekly courses are held in training centres in Berne, Lausanne and Zurich, and four Help Point training buses travel around 70 towns and villages across Switzerland. The State Secretariat for Economic Affairs (seco) partners the Swisscom Help Point as part of the government's new regional policy (NRP), providing support for the training buses. The number of participants is limited to twelve per course so that instructors can provide one-on-one training. So far around 70,000 participants have attended the Swisscom Help Point courses, including 41,000 in 2007 alone.

The curriculum currently offers a choice of ten courses and is continually being expanded. New courses include digital photography, secure online shopping and payment, and mobile phone courses about SMS and MMS messaging and more.

Internet for Schools

Swisscom has been connecting primary and secondary schools in Switzerland to the Internet since 2001, as part of a federal initiative entitled «Internet for Schools» (PPP-SiN). Using the Internet helps children and young adults to think in more global terms and familiarises them with the tools of the modern workplace. They also acquire the media skills they need for the modern world at an early age. Not only do they know how to work with computers and use the Internet; they are also able to assess and judge the quality and relevance of information. Young people who know how to use the new media responsibly have a competitive edge, for example when it comes to finding an apprenticeship or traineeship.

The PPP-SiN federal initiative was completed in 2007, when Swisscom reached its infrastructure objective of providing more than 5,000 Swiss schools with a free broadband Internet connection. This offer will be continued and expanded with the addition of two new programmes: «School Service» and «Schoolnet», supplementary services designed by Swisscom for students, teachers and parents.

«School Service» provides free educational materials:

- Series of teaching materials and e-lessons about telecommunications for all grade levels: topics include telephones, mobile phones, the Internet, history, the environment, etc.;
- SchoolNetGuide, 10th edition published in summer 2007 on the topic of «Virtual Identities», circulation 230,000;
- Free access to the online Swissdrex newspaper archive as a research tool for students;
- Free access to Schultraining, the e-portal where students can find curriculum-based exercises in the subjects of math's and German;
- School projects: project weeks and excursions, radio in the school, exchanges: student exchange via mobile phone, mobile phones which can be lent out for project weeks;
- Free entrance to various museums for school groups;
- Close-up look at career choices: TV-quality downloads of Swiss television's popular film portraits of various careers.

«Schoolnet» – the largest publicity-free Swiss youth portal:

- Around 80,000 registered and active users, 600,000 visits and 12 million page views per month;
- Offers help with homework and recommends websites on virtually all school subjects, in German, French and Italian;
- Provides links and tips on using new media, vetted and broken down by target group;
- Offers a free, publicity-free SMS service, an e-mail service, moderated chat rooms, messaging and lots more (www.schoolnet.ch).

Safe, socially acceptable products and services

The safety aspects of products and services are incorporated in Swisscom's risk management system, where they are systematically recorded, tracked and regularly reviewed. This includes aspects related to personal and environmental protection, equipment and data protection, product and service safety and social acceptability.

Network and product safety

In terms of the telephone network Swisscom's top priority is operational security, i.e. reliability. Our customers rightly expect nothing less. Electromagnetic emissions remain a key issue in mobile and wireless communications, although such emissions are strictly regulated by law. According to a survey conducted by research institute gfs.bern on behalf of Forum Mobil and in cooperation with the Swiss Federal Office of Public Health, the Federal Office for the Environment and the Federal Office for Communications, the majority of the public (79 per cent) is convinced that the benefits of mobile communications technology outweigh the potential risk. However, 65 per cent of those surveyed still believe that mobile applications pose health risks.

Swisscom has for many years conducted a dialogue with interested and affected individuals and organisations on mobile communications technologies, the environment and health. This task is performed by a team of specialists, not just at the national level but also locally, within communities and the cantons. The team of experts can be reached on 0800 823 823 or at . In addition, anyone interested can join in the forum to discuss mobile communications issues.

Swisscom publishes the SAR limits* of all mobile devices so that our customers can factor this criterion into their purchasing decision. Swisscom customers also enjoy a wide choice of cordless DECT telephones, including a range of low-radiation Ecomode telephones.

* SAR (in watt/kg) stands for «Specific Absorption Rate» and indicates the amount of energy (watts) absorbed by the human body (kg) when exposed to the maximum transmission capacity of a mobile phone. In terms of exposure during daily use, the SAR limit can only serve as an upper reference value since handsets and base stations feature dynamic output control.

Social acceptability

The aforementioned survey conducted by the gfs.bern research institute also highlighted the general public's concern about displays of violent and pornographic content on mobile phones. Yet on average, parents buy their children a mobile at the age of 13.5 so that they can keep in better touch with them.

Swisscom shares the concerns of parents and teachers about the misuse of new media such as mobile phones and the Internet. We agree with the umbrella organisation for Swiss teachers that imposing bans will not solve the problem. Young people must learn to act responsibly and use the new media safely and sensibly.

For several years Swisscom has campaigned for safe, appropriate Internet use within the framework of the «Internet for Schools» initiative. The series of free «SchoolNetGuide» brochures published by Swisscom provide students, teachers and parents with comprehensive information on the opportunities and risks of Internet use. Swisscom has joined forces with the «Schule und Elternhaus» parents' organisation to offer a course entitled «Safe mobile phone and Internet use for your child».

Since adult content can also be transferred over the mobile network, Swisscom offers special subscriptions with an adult entertainment filter that irreversibly blocks access by young people to inappropriate content. Access to such content can be disabled under all other subscriptions, too. If parents hand over or give their mobile phone to children, they can block access to adult content (0906 numbers) at any time free of charge by calling the Hotline. Swisscom also runs the «School Service» programme to provide teachers and parents with background information on the safe handling of new media.

Social and ecological in one

The life cycle of hardware products must be socially acceptable and environmentally compatible. At the manufacturing end, Swisscom ensures this by exerting an influence on its suppliers (see Section on «Suppliers – responsibility in the supply chain»). At the recycling end, Swisscom's «Solidarcomm» project for recycling old mobile phones combines ecological and social benefits.

Since 2007, mobile phones returned to Swisscom Shops have been sorted into defective and still-functioning devices by recycling workshops operated by «Réalise» in Geneva, an organisation that campaigns for the reintegration of disadvantaged persons in the working world. The defective phones are ecologically disposed of by SWICO, while the functioning sets are sold by Idris Invest AG in countries with a demand for low-cost second-hand mobile equipment. For each mobile phone sold, CHF 1 is paid to «Réalise» and CHF 5 is donated to the Swiss «Terre des Hommes» charity.

This project handles a significant volume of equipment, given the fact that one million new mobile phones are sold in Switzerland each year, and 70 per cent of returned mobile phones are still in perfect working order. Because mobile phones are usually replaced long before the end of their useful life, they still have several years of life in them and can be sold as second-hand phones. The «Solidarcomm» project is unique in Switzerland. Used mobile phones enjoy a second lease of life, and in reselling them Solidarcomm contribute to environmental protection and job creation – while Terre des Hommes can use the proceeds to fund educational and vocational training projects in Africa, Asia and Latin America.

Economic ties

Swisscom has close ties with the Swiss economy: our products and services help companies in Switzerland to perform well and compete on a global scale. Direct financial payments in the form of salaries, procurement, social benefits, dividends, taxes, sponsorships and contributions to research, etc., are the fuel that drives Switzerland's economic engine.

By providing venture capital, Swisscom fosters the foundation of new companies and encourages job creation. The Swisscom Venture Fund offers a variety of benefits. Under this scheme, Swisscom employees are given the opportunity to set up their own business and provided with financial as well as professional assistance. In its first eight years, the Swisscom Venture Fund has helped to start up 22 new companies and created around 500 jobs. Swisscom's partnership with Vinci Capital focuses on another objective: the private equity company funds and develops new technology companies based in Switzerland. The aim of this cooperation is to promote small and medium-sized companies active in the high-tech sector, and strengthen Switzerland's innovative capabilities.

Swisscom has supported the Swiss Economic Forum for forward-looking, innovative Swiss entrepreneurs since 2002. Here, too, the focus is on small and medium-sized enterprises.

Knowledge transfer between the research sector and the business sector plays a critical role in Switzerland's economic development. Swisscom supports this transfer of knowledge: for instance, our Chairman sits on the Board of Trustees of the ETH Zurich Foundation.

Cultural and sporting ties

Swisscom's close ties with the population are reflected in its involvement in cultural and sporting events. Cultural and sports sponsorships are selected on the basis of quality, popularity and conformity with our brand values.

In the cultural arena Swisscom supports a broad range of musical genres from rock and pop to jazz, blues, classical and musicals, including Switzerland's major festivals. Swisscom also supports the film medium by acting as principal sponsor of the International Film Festival in Locarno and by broadcasting a Swiss film slot on Sunday evenings in association with Swiss television. It also presented the Swiss television and Bluewin viewers' award for the best Swiss television production in 2007, and is a trustee of the Museum of Communication in Berne, which organises exhibitions on communications past, present and future.

Swisscom's sports sponsorship commitments are concentrated on winter sports and football. For years Swisscom has supported Swiss winter sports athletes of all ages and in all disciplines, and helped them on their way to the top. Swisscom has acted as principal sponsor of Swiss-Ski, the Swiss ski association, since 2002 and will continue to do so until 2010. The aim of the long-term partnership is to restore Switzerland's standing as the world's Number One winter sports nation. Swisscom also sponsors all World Cup races in Switzerland and provides the telecoms infrastructure for these events.

As official sponsor of the Swiss Football Association, Swisscom supports Swiss football at the professional, amateur and junior levels. Swisscom is a National Supporter and Official Telecommunications Provider for UEFA's EURO 2008™ in Switzerland. This involves networking the four Swiss match venues and providing all telecommunications services on site, including press centres and workstations for journalists. Swisscom will be represented as one of four national supporters in the official Switzerland fan zones, combining mobile communications and entertainment to offer fans a unique experience.

Swisscom is also responsible for the television broadcasting network in Switzerland. Swisscom Broadcast will take care of the transmission of TV signals from the Swiss stadiums to UEFA's international UEFA broadcasting centre, from where they will be sent around the world. The project also involves managing and monitoring the signal transmission quality.

In 2007 Swisscom once more became an official partner of Swiss Olympic, the umbrella organisation for all sports clubs in Switzerland. Swisscom also acts as official telecommunications equipment provider at top national events such as the Federal Gymnastics Festival, the Federal Wrestling and Alpine Festival, track and field meetings and tennis tournaments.

Partnership ties

Active involvement in the community is an important part of Swisscom's corporate culture. As a Swiss company we take our social responsibility towards those in need seriously.

Swisscom has partnered Swiss Solidarity («Glückskette») since its foundation more than sixty years ago. Swiss Solidarity is a highly respected charity among the Swiss population. On appeal days, Swisscom places its entire telecommunications and Internet infrastructure at the charity's disposal.

Swisscom also supports the Swiss branch of the Samaritans («Die Dargebotene Hand»), which celebrated its 50th anniversary last year. The organisation's 143 helpline is available round the clock to offer emotional support for people in despair. The telephone is the main instrument, but support is also available by e-mail and in one-to-one chat sessions. Swisscom has been the official communication partner of the Samaritans for eight years.

Besides its offerings for disabled persons as part of its basic service mandate (see section on «Telecommunications for everyone»), Swisscom supports the SBS (Swiss Library for the Blind and Visually Impaired), which aims to provide blind and visually impaired persons with access to all kinds of literature. The SBS purchases and produces audio books, books in Braille and large print, music and tactile games. Swisscom provides support for the SBS «rucksack books» project, involving a special series of Braille books for blind and visually impaired children and young people aged six and above.

Swisscom employees are encouraged to make a personal contribution to the community through the company's Good Citizen Project, which was launched in 2005 when Swisscom decided, rather than distributing staff Christmas gifts, to support employees involved in community work. To be eligible, an employee must be personally involved in a project on a voluntary basis and to a significant extent. In 2007 90 projects were examined, and the jury selected 25 as worthy of support. To be selected, projects must be of major benefit to the community, innovative and sustainable.

Further information on Swisscom's engagements is available online at (www.swisscom.ch/corporate-responsibility).

Swisscom and the environment

More acute environmental problems

Swisscom's «environmental radar» regularly monitors the entire range of environmental challenges. These include:

- Environmental legislation and risks;
- Ecological problem areas and operational environmental aspects;
- Products and services as well as technology trends;
- Stakeholder interests.

Last year, two main environmental issues were the focus of public attention – climate change and the depletion of natural resources. Awareness of the climate change issue was primarily heightened due to the work and earnest pleas of the IPCC (International Panel on Climate Change). The global supply of natural resources (fossil fuels, metals, etc.) was only barely able to meet rising demand, driving prices up and delaying deliveries.

This has confirmed the correctness of Swisscom's long-established environmental efforts aimed at saving energy and reducing CO₂ emissions. Long ago, the urgent need for action in this regard prompted us to enter into an agreement with the Energy Agency for Industry (EnAW) governing targets for energy efficiency enhancement and the reduction of CO₂ emissions, and to join the WWF Climate Group.

Proven environmental instruments

Swisscom applies a range of environmental instruments in order to ensure comprehensive, efficient and targeted environmental management. These instruments are continually being developed and adapted to Swisscom's requirements, and cover:

- ISO 14001-certified environmental management systems supported by a standardised environmental process;
- A long-term environmental policy as the common platform for the entire Swisscom Group;
- A medium-term environmental strategy for action areas and targets;
- An annual environmental programme to ensure ongoing improvements in environmental performance;
- A Group-wide environmental team as along with environmental managers and officers in Swisscom Group companies, responsible for project implementation and as a point of contact for employees.

New environmental strategy

Alongside more stringent ecological conditions, Swisscom's sphere of action has changed in two other areas: firstly, an environmentally and socially critical customer segment designated LOHAS (Lifestyle of Health and Sustainability) has emerged, and secondly, Swisscom itself has undergone change and adopted new guiding principles. To meet these new and, in some cases, tougher requirements, Swisscom revised its environmental strategy at the end of 2007. While the environmental fields of action have not altered – Swisscom's environmental criteria remain more or less unchanged – the related activities are planned more comprehensively and assigned to the following three areas:

- Operational ecology, which covers all environmental aspects related to Group-wide operations;
- Green products and services: ecologically improved products and CO₂-reducing services for our customers;
- External environmental activities to reinforce our internal efforts and to express our commitment to the community.

We also believe it is important for all organisational units to contribute to Swisscom's environmental programme. This has a positive impact on our employee's interest in and awareness of the environment.

Where do we stand?

Operational ecology

In the year under review Swisscom Switzerland consumed 1868 terajoules of energy, consisting of 79% electricity, 11% heating and 10% fuels. Electricity and fuel consumption was higher year-on-year, while heating consumption declined.

This resulted in an overall increase of 4%. Regrettably, direct CO₂ emissions were also slightly higher than the previous year, rising by 3%.

The increase in electrical energy is due to the intensive drive to expand the network infrastructure, and particularly the installation of «street cabinets» which enable higher data transmission speeds. Other areas recorded lower electricity consumption or still have the potential to cut down. This applies, for example to the MISTRAL project (fresh air cooling system for telecommunications installations), which was partially implemented last year and when completed will reduce Swisscom's electricity consumption by 10%. The project has attracted a great deal of interest among other European telecoms operators. The network remains in a transitional phase, with two networks – the conventional telephone network and the new IP broadband network – co-existing. This phase is set to last for several more years, following which Swisscom expects substantial savings on electricity with the demise of the old telephone network. In the meantime Swisscom is implementing innovative solutions in a bid to optimise electricity consumption in all areas. Swisscom was also Europe's first telecommunications operator to sign the European code of conduct governing efficiency enhancement for broadband equipment. Electricity savings are a key criterion for all new installations, particularly energy-intensive computer centres. For example, the cooling systems at the new computer centre operated by Swisscom IT Services in Zollikofen use 40% less electricity than standard solutions.

Swisscom continues to purchase around 13 million KWh of «nature made star» green electricity a year, thereby promoting the use of new renewable energies (hydroelectricity, wind and solar power, and biomass). And in 2007 our trainees planned and built two new solar power installations on Swisscom buildings, one in Köniz and one in Zurich.

In the year under review Swisscom added 11 gas-driven cars and 35 hybrid vehicles to its fleet, and used bio fuel (lead-free petrol with 5% bio-ethanol) for vehicles in the Berne region. The number of hybrid vehicles will be increased to several hundred over the next few years, which will drive our CO₂ emissions down.

Green products and services

When it comes to the volume of electricity consumed by telecommunications, Swisscom takes a holistic view. Consequently, it is not enough for us merely to optimise the network infrastructure; we also take steps to enhance the energy efficiency of our customers' equipment. This is even more important in view of the growing number of new devices which have come onto the scene in recent years (modems, set-top boxes, etc.). Typically, such devices or the associated charging equipment are permanently connected to the mains and consume a relatively high volume of electricity in standby mode. Working with its suppliers, Swisscom has succeeded in equipping all end devices with more economical, switch-mode power adapters. Fixed-line phones, mobile phones and set-top boxes were converted in the course of 2007, and modems will be converted in early 2008. In a code of conduct agreed on with the Federal Office for Energy, Swisscom is pledged to enhance the efficiency of set-top boxes.

Measurements to minimise electromagnetic radiation offer further potential for improvement in green telecoms products. Swisscom has launched ECOMODE – a label for low-radiation cordless phones whose transmission signal is interrupted as soon as the handset is replaced on the base station. This label is now to be found on copy products. Swisscom offers several low-radiation cordless phone models, some of which also transmit significantly less radiation when in operation. Needless to say, low emission limits are also important for mobile phones, and options are currently being examined with this in mind.

Green Services contribute to environmental conservation. Swisscom defines these as services that reduce CO₂ emissions for our customers, for example when market offerings and operations that are harmful to the environment are replaced by alternatives that have no adverse environmental impact. Examples of such telecoms applications are teleworking (access to the company network from home) and conferencing services for corporate customers that circumvent the need for commuting or business trips. For residential customers, home entertainment can also circumvent the need for travel. Another option is dematerialisation, for example by hosting (outsourcing the IT infrastructure), which lessens the strain on the environment by optimising IT resources, and e-billing (electronic invoicing), which does away with the need for paper bills – including Swisscom bills. Swisscom's Green Services are 100% powered with «nature made star» green energy.

External environmental activities

Swisscom works closely with the Swiss arm of the World Wildlife Fund: we are a member of the WWF Climate Group, which brings together companies that aim to make a significant contribution towards climate protection, and support the WWF SMARAGD project, a Europe-wide network for the protection of endangered flora, fauna and habitats. We are not only the principal sponsor of the SMARAGD project; we also play an active role by regularly sending teams of employees on voluntary nature conservation assignments in various SMARAGD regions. Swisscom compensates employees for 50% of the time devoted to such assignments. We also support the Swiss National Park as well as the GLOBE project for environmental education that links up teaching staff, school classes and research scientists around the world. This kind of global collaboration among young people is only possible thanks to modern telecommunications.

All these projects ideally complement Swisscom's environmental management activities and other involvements: they are globally oriented yet take account of Switzerland's special ecological characteristics, provide a network for all those involved, and offer the opportunity to devise appropriate corporate volunteering projects for Swisscom employees.

For more information on Swisscom and the environment, visit www.swisscom.ch/umwelt.

Environmental performance indicators

	Unit	2002	2003	2004	2005	2006	2007
Performance indicators¹							
Employees (full-time equivalents)	FTE	17,171	16,085	15,477	15,199	15,909	16,041
Financial added value ²	CHF in millions	7,006	6,770	6,598	6,334	5,947	6,204
Telecom traffic	Mio. Gigabit	192	222	309	393	567	1,051
Ground / Buildings							
Net floor space (NFS)	Mio. m ²	2.0	1.7	1.5	1.0	0.9	1.02
Paper for photocopying and printing							
Format A4	Mio. sheet	104.0	91.2	90.9	80.8	76.4	58.1
Of which recycled ³	%	12.9	54.9	54.2	53.2	50.0	100.00
Water / wastewater							
Water consumption	m ³	480,788	450,380	433,356	425,572	446,406	449,725
Energy, Electricity							
Electrical energy consumption ⁴	Terajoule	1,215	1,346	1,366	1,372	1,410	1,477
	GWh	338	374	380	381	392	410
Energy, heating							
Heating oil ⁵	Terajoule	222.9	188.1	185.6	152.9	151.0	148.3
Natural gas	Terajoule	84.1	66.7	48.0	36.4	30.3	30.7
District heat	Terajoule	58.5	47.3	43.8	46.5	38.7	34.4
Heating, total	Terajoule	365.5	302.1	277.4	235.8	220.0	213.4
Energy, fuels							
Gasoline	Terajoule	120.4	104.6	89.4	86.8	92.4	96.4
Diesel	Terajoule	46.1	60.0	66.8	65.5	72.5	81.4
Vehicles total	FTE	4,248	3,865	3,455	3,275	3,215	3,166
Kilometers driven	Mio. km	54.4	61.3	58.1	60.7	63.5	66.1
Energy, total							
Energy consumption	Terajoule	1,747	1,812	1,799	1,760	1,795	1,868
	GWh	486	504	500	489	499	519
Air emissions							
Carbon dioxide CO ₂	Tonns	33,345	29,673	27,833	24,510	24,962	25,736
Nitrous gases NO _x	Tonns	37.7	38.2	36.5	35.2	36.1	37.2
Sulphur dioxide SO ₂	Tonns	5.0	4.8	4.8	4.3	4.5	4.7
Waste							
Waste tonnage ⁶	Tonns	1,894	1,651	1,492	1,390	1,304	1,265

1 Only Switzerland, as per system limit for environmental indicators.

2 Financial added value: EBITDA (operating income before interest, taxes, depreciation and amortisation) + personnel expenses.

3 In 2003 Swisscom switched from white paper to 50% recycled TRIOTEC® sandwich paper, and in 2007 to 100% recycled EVOLVE® paper.

4 Energy conversion: 1 terajoule (TJ) = 0.278 Gigawatt hours (GWh).

5 Heating oil consumption based on projections.

6 Based on data provided by the Swiss Waste Exchange and the Group companies, domestic waste not included.

Swisscom Group

Five year review

CHF in millions, except where indicated		2003	2004	2005	2006	2007
Net revenue		10,026	10,057	9,732	9,652	11,089
Operating income (EBITDA) ¹		4,487	4,388	4,171	3,786	4,501
Net revenue	%	44.8	43.6	42.9	39.2	40.6
Operating income (EBIT) ²		2,808	2,695	2,777	2,351	2,515
Income from continuing operations		2,319	2,191	2,337	1,868	2,071
Net income attributable to equity holders of Swisscom Ltd		1,571	1,596	2,022	1,598	2,068
Net income		1,911	1,948	2,346	1,904	2,071
Equity		8,507	7,453	6,624	4,480	6,004
Equity ratio ³	%	52.1	52.4	49.4	28.7	25.4
Number of full-time equivalent employees at end of period ⁴	FTE	16,049	15,477	16,088	17,068	19,844
Average number of full-time equivalent employees ⁵	FTE	16,506	15,664	15,455	16,734	18,755
Revenue per employee	CHF in thousands	607	642	630	577	591
EBITDA per employee	CHF in thousands	272	280	270	226	240
Cash flow provided by operating activities		4,708	4,066	3,432	3,264	3,437
Capital expenditure		1,165	1,136	1,087	1,324	2,025
Net debt (net funds) ⁶		(1,880)	(2,518)	(1,632)	4,379	10,337

Key figures per share

Par value per share at end of period	CHF	1.00	1.00	1.00	1.00	1.00
Average number of shares outstanding	In mio.	66.200	64.716	59.836	55.299	51.802
Price per share high		438.50	454.75	470.00	466.50	486.00
Price per share low		367.00	382.50	399.25	388.00	402.50
Income from continuing operations	CHF	35.03	33.86	33.64	28.25	39.92
Net income	CHF	23.73	24.66	33.79	28.90	39.92
Equity	CHF	117.46	104.92	100.29	79.80	107.60
Dividend	CHF	13.00	14.00	16.00	17.00	18.00 ⁹
Capital reduction	CHF	–	–	–	–	–
Pay-out ratio ⁷	%	54.78	56.77	47.35	58.83	45.09 ⁹
Market capitalisation at end of period ⁸		27,011	27,543	23,523	23,894	22,896

1 Definition operating income (EBITDA): operating income before depreciation, amortization and impairment on tangible and intangible assets, gain on sale of subsidiaries, net financial result, share of profit of investments in associates and income tax expense.

2 Definition operating income (EBIT): operating income before gain on sale of subsidiaries, net financial result, share of profit of investments in associates and income tax expense.

3 Equity as a percentage of total assets.

4 Excluding 360, 475, 512, 429 and 275 full-time equivalent employees of Worklink at December 31, 2003, 2004, 2005, 2006 and 2007, respectively.

5 Excluding 295, 433, 498, 471 and 352 Worklink full-time equivalent employees in 2003, 2004, 2005, 2006 and 2007, respectively.

6 Definition net debt (net funds): financial liabilities and liabilities from collecting activities less cash and cash equivalents, current financial assets, receivables from collecting activities, financial assets from cross-border lease agreements and non-current derivative financial instruments.

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

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

9 In accordance with the proposal of the Board of Directors to the Annual General Meeting.

Cautionary statement regarding forward-looking statements

The annual report 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 and Fastweb's past and future filings and reports, including those filed with the U.S. Securities and Exchange Commission and in past and future filings, press releases, reports and other information posted on Swisscom Group Companies' websites. Readers are cautioned not to put undue reliance on forward-looking statements, which speak only of the date of this communication. Swisscom disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Publishing Details

Key dates 2008

March 5 2008
Annual Press Conference
Zurich

April 22 2008
General Meeting of Shareholders, Zurich

April 25 2008
Dividend distribution

Mai 7 2008
2008 First-Quarter Report

August 8 2008
2008 Half-Year Report

November 5 2008
2008 Third-Quarter Report

Published by
Swisscom Ltd
Group Communications, Berne

Design and Layout
Gottschalk+Ash Int'l

Translation
Dr. Steiner & Partner KG, Basel and Vienna
Sustainability Report:
CLS Communication AG, Basel

Photos
Caspar Martig, Berne

Production
MDD Management Digital Data AG,
Schlieren

Prepress and printing
Neidhart + Schön Group, Zürich

Printed on chlorine-free paper

© Swisscom Ltd, Berne

The image brochure of Swisscom is published in German, English, French and Italian.

The Annual Report is published in English and German.

Further copies of the Annual Report can be ordered from:
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An online version of the Swisscom Annual Report is available at:
German: www.swisscom.ch/bericht2007
French: www.swisscom.ch/rapport2007
English: www.swisscom.ch/report2007
Italy: www.swisscom.ch/rapporto2007