SWISSCOM AG
Form 20-F
April 23, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

or

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report ____________________

Commission file number: **1-14860**

Swisscom AG
(Exact name of Registrant as specified in its charter)
Switzerland
(Jurisdiction of incorporation or organization)
Alte Tiefenaustrasse 6,
3050 Bern, Switzerland
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one-tenth of one Registered Share, Nominal Value CHF 1 per share	New York Stock Exchange
Registered Shares, Nominal Value CHF 1 per share*	New York Stock Exchange

* Listed, not for trading or quotation purposes, but only in connection with the registration of American

Depositary Shares pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each of the issuer s classes of capital or common stock as of December 31, 2006: 51,801,943 Registered Shares, Nominal Value CHF 1 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act of 1934.

Yes o No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 þ

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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INTRODUCTION

Presentation of financial and other information

Swisscom publishes its financial statements in Swiss francs (CHF). Unless otherwise indicated, all amounts in this annual report are expressed in Swiss francs. Solely for the convenience of the reader, certain amounts denominated in foreign currencies appearing primarily under the headings *Item 4: Information on the Company Divestments/Discontinued Operations* and *Item 5: Operating and Financial Review and Prospects* have been translated into Swiss francs. These translations should not be construed as representations that the amounts referred to actually represent such translated amounts or could be converted into the translated currency at the rate indicated.

Swisscom s annual audited consolidated financial statements for the years ended December 31, 2006, December 31, 2005 and December 31, 2004, included in this annual report, are prepared in accordance with International Financial Reporting Standards (IFRS), which differ in certain significant respects from Generally Accepted Accounting Principles in the United States of America (US GAAP). For a reconciliation of such differences between IFRS and U.S. GAAP as they relate to Swisscom, see Note 43 to the consolidated financial statements.

As used in this annual report, the term Swisscom , unless the context otherwise requires, refers to Swisscom AG and its consolidated subsidiaries. The term Confederation refers to the Swiss Confederation.

Cautionary statement regarding forward-looking statements

This annual report contains statements that constitute forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. In addition, other written or oral statements, which constitute forward-looking statements have been made and may in the future be made by or on behalf of Swisscom. In this annual report, such forward-looking statements may be found, in particular, in *Item 4: Information on the Company* and *Item 5: Operating and Financial Review and Prospects* and include, without limitation, statements relating to:

- the implementation of strategic initiatives;
- the development of revenue overall and within specific business areas;
- the development of operating expenses;
- the anticipated level of capital expenditures and associated depreciation expense; and
- other statements relating to Swisscom s future business development and economic performance.

The words anticipate , believe , expect , estimate , intend , plan and similar expressions identify certain of these forward-looking statements. Readers are cautioned not to put undue reliance on forward-looking statements because actual events and results may differ materially from the expected results described by such forward-looking statements.

Many factors may influence Swisscom s actual results and cause them to differ materially from expected results as described in forward-looking statements. Such factors include:

- general market trends affecting demand for telecommunications services;
- developments in the interpretation and application of existing telecommunication regulations in Switzerland and the possibility that additional regulations may be imposed in the future;
- developments in technology, particularly the timely rollout of equipment;
- the evolution of Swisscom s strategic partnerships and acquisitions, including costs associated with possible future acquisitions and dispositions;

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the effects of tariff reductions and other marketing initiatives;

the outcome of litigation in which Swisscom is involved; and

macroeconomic trends, governmental decisions and regulatory policies affecting businesses in Switzerland generally, including changes in the level of interest or tax rates.

Swisscom disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3: KEY INFORMATION

Selected Financial Data

Selected Consolidated Financial and Statistical Data

The selected consolidated financial data below have been extracted or derived from, and are qualified by reference to, the audited consolidated financial statements of Swisscom. The consolidated financial statements were prepared in accordance with IFRS, which differ in certain significant respects from U.S. GAAP. For a reconciliation of the significant differences between IFRS and U.S. GAAP as they relate to Swisscom, see Note 43 to the consolidated financial statements.

CHF in millions	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Consolidated Income Statement Data:					
Amounts in accordance with IFRS:					
Net revenue	**9,653**	**9,732**	**10,057**	**10,026**	**10,415**
Capitalized costs and other income	296	260	195	231	228
Total	**9,949**	**9,992**	**10,252**	**10,257**	**10,643**
Goods and services purchased	1,840	1,831	1,847	1,706	2,073
Personnel expenses	2,278	2,173	2,194	2,266	2,329
Other operating expenses	2,044	1,817	1,823	1,798	2,004
Depreciation	1,280	1,286	1,542	1,537	1,546
Amortization	155	108	151	142	114
Total operating expenses	**7,597**	**7,215**	**7,557**	**7,449**	**8,066**
Earnings before interest and taxes	**2,352**	**2,777**	**2,695**	**2,808**	**2,577**
Financial expense	(240)	(160)	(272)	(226)	(495)
Financial income	189	242	138	213	197
Share of profit (loss) of affiliated companies	30	13	22	(9)	94
Income before income taxes	**2,331**	**2,872**	**2,583**	**2,786**	**2,373**
Income tax expense [1]	(462)	(535)	(392)	(467)	(313)
Net income from continuing operations	**1,869**	**2,337**	**2,191**	**2,319**	**2,060**
Discontinued operations[2] [3]	36	9	(243)	(408)	(933)
Net income	**1,905**	**2,346**	**1,948**	**1,911**	**1,127**
Net income attributable to equity holders of Swisscom AG	1,599	2,022	1,596	1,571	826
Net income attributable to minority interest	306	324	352	340	301

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CHF in millions except per Share and ADS amounts	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Basic earnings (loss) per share[4]					
-from continuing operations	28.27	33.64	28.42	29.89	26.00
-from discontinued operations[3]	0.65	0.15	(3.76)	(6.16)	(13.79)
-net income	28.92	33.79	24.66	23.73	12.21
Diluted earnings (loss) per share[4]					
-from continuing operations	28.27	33.64	28.42	29.88	25.98
-from discontinued operations[3]	0.65	0.15	(3.76)	(6.16)	(13.78)
-net income	28.92	33.79	24.66	23.72	12.20
Basic and diluted earnings per ADS[4]	2.89	3.38	2.47	2.37	1.22
Amounts in accordance with U.S. GAAP:					
Net revenue	**9,671**	**9,767**	**10,113**	**10,057**	**10,424**
Net income from continuing operations	1,553	2,066	1,968	2,066	1,780
Net income (loss) from discontinued operations[3]	36	263	145	(8)	(994)
Cumulative effect of a change in accounting policy	0			38	(1,649)
Net income (loss)	**1,589**	**2,329**	**2,113**	**2,096**	**(863)**
Basic earnings (loss) per share					
-from continuing operations	28.08	34.52	30.41	31.21	26.31
-from discontinued operations[3]	0.65	4.40	2.24	(0.12)	(14.69)
Cumulative effect of a change in accounting policy				0.57	(24.38)
-net income	28.73	38.92	32.65	31.66	(12.76)
Diluted earnings (loss) per share					
-from continuing operations	28.08	34.52	30.41	31.19	26.29
-from discontinued operations[3]	0.65	4.40	2.24	(0.12)	(14.68)
Cumulative effect of a change in accounting policy				0.57	(24.35)
-net income	28.73	38.92	32.65	31.64	(12.74)
Basic earnings per ADS[4]	2.87	3.89	3.27	3.17	(1.28)
Diluted earnings per ADS[4]	2.87	3.89	3.27	3.16	(1.27)

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CHF in millions	Year Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Consolidated Balance Sheet Data:					
(end of period)					
Amounts in accordance with IFRS:					
Cash and cash equivalents	673	1,023	2,387	3,104	1,512
Other current assets	2,883	4,180	3,790	2,805	2,857
Property, plant and equipment	5,795	6,000	6,190	6,760	7,274
Investments in affiliated companies	221	191	58	41	682
Other non-current assets	6,025	2,015	1,807	1,923	2,270
Assets from discontinued operations(3)				1,685	2,135
Total assets	**15,597**	**13,409**	**14,232**	**16,318**	**16,730**
Short-term debt	1,568	137(5)	158	319	827
Trade accounts payable and other current liabilities	2,616	2,461	2,287	2,204	2,170
Long-term debt and finance lease obligations	5,015	2,299	2,212	2,433	2,626
Accrued pension cost	719	805	1,118	1,113	1,101
Accrued liabilities and other long-term liabilities	1,176	1,083	1,004	948	935
Liabilities from discontinued operations(3)				794	886
Total liabilities	**11,094**	**6,785**	**6,779**	**7,811**	**8,545**
Minority interest	67	623	663	731	781
Shareholders equity	4,436	6,001	6,790	7,776	7,404
Total equity	**4,503**	**6,624**	**7,453**	**8,507**	**8,185**
Amounts in accordance with U.S. GAAP:					
Assets continuing operations	19,867	17,549	17,734	18,360	18,654
Assets discontinued operations(3)	0			1,012	1,165
Total assets	**19,867**	**17,549**	**17,734**	**19,372**	**19,819**
Long-term debt and finance lease obligations continuing operations	8,785	6,259	5,665	6,102	6,590
Long-term debt and finance lease obligations discontinued operations(3)				36	23
Total long-term debt and finance lease obligations	8,785	6,259	5,665	6,138	6,613
Shareholders equity	3,413	5,191	5,863	6,523	5,587
Consolidated Cash Flow Data:					
Amounts in accordance with IFRS:					

Cash provided by operating activities	3,264	3,432	4,066	4,708	3,698
Capital expenditures:					
Fixed-line networks	457	353	360	497	479
Mobile networks	199	238	434	381	295
Other intangibles	229	189	103	98	70
Buildings	154	104	13	6	2
Other	285	203	226	183	281
Total capital expenditures	**1,324**	**1,087**	**1,136**	**1,165**	**1,127**

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	Year Ended December 31,				
	2006	2005	2004	2003	2002
Statistical Data:					
Fixed-line access lines (*end of period, in thousands*)					
PSTN lines	2,891	2,922	3,007	3,086	3,163
ISDN lines	856	900	924	924	911
Total fixed-line access lines	**3,747**	**3,822**	**3,931**	**4,010**	**4,074**
Traffic (*in millions of minutes*):					
National fixed-line telephony(6)	9,024	9,483	10,211	10,957	12,316
Outgoing international fixed-line telephony(7)	1,245	1,282	1,316	1,341	1,394
Mobile telephony(8)	4,432	3,688	3,404	3,335	3,331
Total xDSL lines (*end of period, in thousands*)	1,368	1,098	802	487	195
Swisscom Mobile subscribers(9) (*end of period, in thousands*)	4,632	4,281	3,908	3,796	3,605
Number of full-time equivalent employees (*end of period*)	17,068	16,088	15,477	16,079	17,171

Notes to Selected Consolidated Financial and Statistical Data

(1) In 2002, Swisscom restructured its operations resulting in a weighted average statutory tax rate of 23%. For 2004 and 2005, the weighted average statutory tax rate was further reduced to 22.3%. For 2006, the weighted average statutory tax rate was 22.1%. See Note 14 to the consolidated financial statements.

(2) Swisscom sold debitel in June 2004 and granted the purchaser vendor loan notes amounting to EUR 210 million in connection therewith. The vendor loan notes were initially recognized at fair value and in the following period using the effective interest rate method. See Note 37 to the consolidated financial statements. The purchaser prematurely repaid the entire loan in the first six months of 2005 and made a payment of CHF 351 million, representing the nominal value of the loan and the contractually agreed interest. The difference of CHF 59 million between the recoverable value of the loan and the payment was recorded under discontinued operations.

(3) As a result of the sale of debitel in June 2004, Swisscom treats debitel in its consolidated financial statements as a discontinued operation.

(4) Earnings per ADS are based on the ratio of one-tenth of one share to one ADS. The basic weighted-average number of shares outstanding in 2002, 2003, 2004, 2005 and 2006 was 67,647,928, 66,199,789, 64,715,609, 59,835,529 and 55,299,323, respectively.

(5) Total debt at December 31, 2002 included debt outstanding to the Swiss Post in the aggregate principal amount of CHF 0.8 billion. In the course of 2003, Swisscom repaid the remaining outstanding loans of CHF 0.8 billion.

(6) Represents total traffic generated by customers of Fixnet and Solutions. Includes traffic from Swisscom s fixed-line network to mobile networks and to private user networks. Does not include Internet traffic and traffic generated from Swisscom-operated public payphones, Swisscom s toll-free, cost shared and premium rate telephone number services for business customers or by Swisscom s information services.

(7) Represents total traffic generated by customers of Fixnet and Solutions. Based on minutes as determined for customer billing purposes.

(8) Includes minutes from all outgoing calls made by subscribers of Swisscom Mobile. Figures include voice minutes only.

(9) Swisscom does not include accounts of any prepaid customer with inactivity of more than twelve months in its subscriber figures. As of December 31, 2004, approximately 124,000 customers, which had not registered with Swisscom on a timely basis, as required by law since July 2004, were deactivated.

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Dividend Information

The following table shows, in respect of each of the years indicated, information concerning the dividends per share paid in Swiss francs and in U.S. dollars. Dividends were declared in Swiss francs and converted into U.S. dollars using the noon buying rate for Swiss francs per U.S. dollar on the date of the shareholders meeting at which the relevant dividend was approved. As used in this annual report, the term noon buying rate refers to the exchange rate for Swiss francs per U.S. dollar, as announced by the Federal Reserve Bank of New York for customs purposes as the rate in The City of New York for cable transfers in foreign currencies.

	Dividend per Share	
Year Ended December 31,	**(CHF)**	**(USD)**
2002[1]	12	9.15
2003[1]	13	10.01
2004	14	11.77
2005	16	12.61
2006[2]	17	n/a

(1) In both 2002 and 2003, shareholders received an additional distribution of CHF 8 per share (equivalent to USD 4.93 per share and USD 6.00 per share, in each case on the date of the shareholders meeting at which the relevant distribution was approved) following par value reductions.

(2) The Board of Directors has proposed a dividend of CHF 17 per share in respect of fiscal year 2006, which is subject to approval by the Annual General Meeting to be held on April 24,

2007. In September 2006, Swisscom completed a share repurchase program, in which it repurchased shares by issuing tradable put options, in an aggregate amount of CHF 2.2 billion. For information on Swisscom s return policy, see *Item 8: Financial Information Dividend Policy* .

Exchange Rate Information

The following table shows, for the years indicated, information concerning the noon buying rate, expressed in Swiss francs per U.S. dollar. The noon buying rate on April 20, 2007 was CHF 1.2081.

Year Ended December 31,	**Average Rate(1)**
2002	1.5497
2003	1.3374
2004	1.2393
2005	1.2507
2006	1.2456

(1) The average of the noon buying rates on the last business day of each full month during the relevant period

The following table shows, for the periods indicated, information concerning the high and low noon buying rates for the Swiss franc, expressed in Swiss francs per U.S. dollar.

Month	**High**	**Low**
October 2006	1.2752	1.2424
November 2006	1.2566	1.1966
December 2006	1.2253	1.1911
January 2007	1.2470	1.2125
February 2007	1.2532	1.2189
March 2007	1.2332	1.2079

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Risk Factors

Risks Related to Swisscom s Business

Amendments to the Telecommunications Act require Swisscom to offer unbundled access to its local loop and other related services, which could negatively affect its fixed-line business and overall operating results

The Swiss telecommunications market has been open to competition since the Swiss Telecommunications Act (Fernmeldegesetz) (the Telecommunications Act) entered into force on January 1, 1998. While the Telecommunications Act contained provisions designed to facilitate competition in the fixed-line telephony market, Swisscom was not required, prior to 2007, to unbundle its local loop. Although Swisscom provides access services to the vast majority of Swiss fixed-line telephony customers, many of whom continue to use Swisscom as their default provider of national and international calling services, competition has resulted in a loss of market share and margin pressure for such calling services.

In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which entered into effect on April 1, 2007. Swisscom is now required to offer, among other things, unbundled access to its local loop in the form of full access on a cost-oriented basis as well as access rebilling. Unbundling of the local loop in the form of full access allows competitors to offer access services to customers in Switzerland without having to build local loops of their own, although they still have to make significant investments in their own network infrastructure in order to connect to the local loop. By doing so, competitors would be able to offer broadband access without using Swisscom s wholesale broadband access services. Moreover, with access rebilling, competitors are able to bill customers directly for the access services provided by Swisscom. As a result, Swisscom s competitors are able to offer their customers a full range of fixed-line services, including access, and their customers will receive a single bill covering all these services. Accordingly, competition in the access market is expected to increase and Swisscom may lose market share in the national and international calling markets.

Unbundling of the local loop requires market-dominant providers to also offer bitstream access to other providers for four years on a cost-oriented basis. Swisscom s competitors have historically provided ADSL services to its customers based on a wholesale contract with Swisscom on commercial terms. Regulated bitstream access would therefore enable Swisscom s competitors to offer ADSL services at lower rates than they have in the past. Market-dominant providers must make bitstream access available at the main distributor frame and over their copper network in the local loop. Accordingly, if Swisscom is deemed to be market-dominant and is required to provide bitstream access, its competitors will be required to make significant upfront investments in their own network infrastructure in order to reach Swisscom s main distributor frame for bitstream data traffic and will have to build their own access lines within four years or switch to full access. In addition, competitors will not be entitled to use Swisscom s fiber optic lines, even if Swisscom is deemed to be market-dominant. Nonetheless, the Telecommunications Act amendments are expected to cause competition to increase. With increased competition, Swisscom s share of the broadband access (xDSL) market is likely to decline and Swisscom could be required to lower its broadband access tariffs to remain competitive. While a portion of any lost retail access revenue will be compensated for by additional wholesale revenue for access services provided to Swisscom s competitors, those services must be provided on a cost-oriented basis. Accordingly, the introduction of bitstream access could have a significant and adverse effect on the growth and profitability of Swisscom s access business.

Swisscom does not believe that it is market-dominant in the market for bitstream access, and it therefore does not intend to offer competitors bitstream access on a cost-oriented basis. Swisscom expects competitors to challenge its position in court. Such proceedings may be costly to defend and may result in Swisscom being deemed to be market dominant.

The impact of the amendments to the Telecommunications Act on Swisscom will depend on certain details, including the type of products to be unbundled, the manner in which unbundling will occur and the applicable prices, which remain to be determined.

Overall, the amendments to the Telecommunications Act could negatively affect Swisscom s fixed-line business by reducing revenues and causing margins to decline. Because fixed-line services continue to account for a significant part of Swisscom s overall revenues, the amendments could adversely affect Swisscom s consolidated results as well.

Regulation of mobile access or call origination, mobile termination or mobile roaming may negatively affect Swisscom s mobile revenues and overall profitability

While the Telecommunications Act opened the Swiss mobile telephony market to competition, mobile telephony in Switzerland has not yet been the subject of extensive regulation. However, developments in the EU and Switzerland could result in additional regulation in the future, especially with regard to mobile access and call origination, mobile termination and mobile roaming.

On July 12, 2006, the European Commission submitted a proposal for a regulation on public mobile network roaming within the Community that would impose price caps on roaming charges that would cause roaming prices to decline by up to 60%. The European Parliament and the Council of Ministers will vote on roaming price limits in the spring of 2007. If approved, such limits would enter into effect in the summer of 2007.

While Switzerland is not a member state of the EU and therefore is not subject to EU legislation, EU directives and implementing legislation in various EU countries have served as points of reference for the development of the Swiss regulatory regime. Because the majority of Swisscom s roaming traffic is with the EU member states, EU-wide regulation would likely increase market pressure on mobile network operators in Switzerland, including Swisscom Mobile. With respect to roaming charges, which have been the subject of numerous Swiss media reports, EU legislation could also lead to intervention by the Swiss Competition Authority or the Swiss Pricing Monitoring Authority (*Preisüberwacher*).

In October 2002 the Competition Commission launched an investigation into the termination fees charged by three mobile phone operators, including Swisscom. On February 5, 2007, the Competition Commission imposed a fine of CHF 333 million against Swisscom Mobile. Although Swisscom intends to appeal, it may be required to pay large fines or recognize a provision. For more information, see *The Swiss Competition Commission may require Swisscom Mobile to pay large fines and reduce its mobile termination prices* .

Regulation of mobile termination fees or roaming charges would have a material and adverse effect on Swisscom s mobile revenues and lead to additional pressure on margins and reduced profitability. Since the mobile business has been a major source of Swisscom s profitability in recent years, these regulatory changes would adversely affect Swisscom s business as a whole.

The Swiss Competition Commission may require Swisscom Mobile to pay large fines and reduce its mobile termination prices

In October 2002, the Competition Commission initiated proceedings against Swisscom Mobile in connection with mobile termination fees. These are the fees mobile network operators charge each other for connecting incoming calls to their network. On April 7, 2006, the Secretariat of the Competition Commission proposed to the Competition Commission that it impose a fine of at least CHF 489 million. On February 5, 2007, the Competition Commission issued a decision in which it determined that Swisscom Mobile has a market-dominant position which it has abused by demanding disproportionately high termination fees. As a result, the Competition Commission imposed a fine of CHF 333 million. The fine relates to the period from April 1, 2004 (when a new amendment to the Swiss Antitrust Law entered into effect) to May 31, 2005 (when Swisscom Mobile lowered its mobile termination fee from CHF 0.335 to CHF 0.20). Investigations into the mobile termination fees charged by Swisscom Mobile after May 31, 2005 will continue. For more information, see *Item 8: Financial Information Legal Proceedings Other Regulatory Proceedings* .

The CHF 333 million fine is based on the maximum legal fine amount (equal to 10% of the revenue realized in Switzerland during the previous three years), the severity of Swisscom Mobile s alleged anti-trust violations, the relevant timeframe, the amount of Swisscom Mobile s supposedly excess profits and the lack of mitigating factors. It is based on the assumption that prior to June 1, 2005, Swisscom Mobile s mobile termination fees of CHF 0.335 were too high. The Competition Commission s includes indications that CHF 0.10 is deemed appropriate as a cost-oriented and non-abusive price.

Should Swisscom Mobile be legally found to be market-dominant with regard to the termination of calls on its network, other mobile and fixed-network service providers could demand that Swisscom Mobile set its mobile termination fees on a cost-oriented basis. If this were to occur, the Federal Communications Commission (ComCom) would be responsible for determining the relevant prices. For more information, see *Item 8: Financial Information*

Legal Proceedings   Proceedings Relating to Mobile Termination Interconnection .

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The Competition Commission s decision indicates that the competition authorities are willing to strictly enforce the Antitrust Law and impose large fines and that they may consider cost-oriented pricing as a reference under circumstances where it is difficult to determine an appropriate non-abusive price. The approach indicated by the competition authorities actions may require Swisscom to reduce prices for mobile termination and other services and impact other competition proceedings against Swisscom. It could also give rise to civil actions brought by competitors or consumers. Reducing prices, particularly to cost-oriented levels, may have a significant negative impact on Swisscom s profitability.

Swisscom intends to appeal and, based on a legal assessment of the current situation, it has not recorded any related reserves in its financial statements as of December 31, 2006. If Swisscom s assessment proves to be inaccurate, it may result in large fines, the recognition of a provision and a cash outflow.

Service providers are increasingly able to offer Swisscom s core telecommunications services using alternative technologies

The availability of alternative technologies capable of supporting telecommunications services is increasingly enabling competitors to provide services which fully substitute for Swisscom s core services (fixed-line voice and data services and mobile telephony).

With market penetration rates for mobile having reached 98% in Switzerland by the end of 2006 (based on data published by mobile network operators), mobile telephony is increasingly used as a substitute for fixed-line telephony, resulting in a decline in access lines and fixed-line traffic revenues. To the extent a Swisscom Fixnet customer opts to use Swisscom s mobile services, Swisscom Mobile benefits from this trend. Where a customer switches to another mobile service provider, however, Swisscom may no longer earn any revenue from this customer. Some of this loss is compensated for by wholesale revenue which Swisscom Fixnet and Swisscom Mobile derive from collecting fees for terminating calls on their networks and for routing calls between the mobile networks of other mobile network operators. However, with direct mobile interconnection mobile network operators are able to terminate their traffic directly on each other s networks instead of routing traffic through Swisscom Fixnet, bypassing Swisscom entirely.

While the continuing substitution of mobile for fixed-line telephony has negatively affected Swisscom s fixed-line business, Swisscom faces an even greater threat from cable network operators, in particular Cablecom, the largest cable network operator in Switzerland, as well as from electrical power providers and local municipalities offering telecommunication services via their own high-capacity fiber networks. Having made significant investments in their cable networks to allow for bidirectional data transfer, Cablecom and other cable network operators have been able to leverage their existing networks into platforms for competing directly with Swisscom in its core competencies by offering voice and data services, as well as high speed Internet access services, to customers throughout Switzerland. In such cases, Swisscom not only loses revenue derived from such customers, it may also cease to have a direct relationship with such customers. Since mid-2004, Cablecom and other cable network operators have been adding subscribers to their voice telephony services at a rapid rate and Swisscom expects this trend to continue.

There are also numerous service providers with minimum network infrastructure who take advantage of interconnection rates and leverage the public Internet to provide low cost national and international calling services using Voice over Internet Protocol (VoIP). The increasing popularity of peer-to-peer communication also means that international calls may be placed at minimal cost. As the quality and convenience of using these IP-based services has improved in recent years, they have become a viable alternative to traditional fixed-line services for many users, a trend Swisscom expects to continue and accelerate in the future. As in the fixed-line business, the popularity of IP-based peer to peer communication is having an increasingly disruptive effect on Swisscom s mobile business due to substitution of instant messaging for SMS and of VoIP-services for mobile voice telephony services. While Swisscom continues to derive revenue from providing its infrastructure for some of these services, and has itself introduced a mobile instant messaging service, revenue is likely to decline overall as a result of the increased use of these services.

Increased competition may have a significant impact on the revenues and profitability of Swisscom s fixed-line broadband business, which may not allow Swisscom to recoup its investment in fixed-line broadband infrastructure and multimedia services

The provision of broadband access has been a fast-growing business for Swisscom over the last several years, partially offsetting declines in its traditional fixed-line business. In order to continue to grow this business, Swisscom is making significant capital expenditures to increase download capacity by upgrading its network.

However, there is a risk that increased competition may negatively impact this growth and prevent Swisscom from realizing a return on its investment.

Swisscom faces strong competition particularly from cable network operators, including Cablecom, who are able to offer broadband Internet access via cable. Cable network operators are particularly well positioned to combine voice, data and Internet access services with multimedia content. In response to this increased competition, Swisscom is making capital expenditures to enhance its broadband and IP networks to be able to combine its core activities in voice and Internet services with multimedia services such as TV and video on demand. However, Cablecom has already been offering multimedia services for some time, and Swisscom may not be successful in acquiring significant market share. Swisscom s television services, which were introduced in late 2006 ultimately may not be competitive with services offered by cable network operators.

If Swisscom is unable to acquire significant market share in the multimedia services market, it may further lose customers to cable network operators and experience higher customer churn. If Swisscom were forced to significantly reduce its retail prices as a result of increased competition and price pressure, this would have a significant impact on the revenues and profitability of Swisscom s fixed-line broadband business.

High penetration and increasing competition in the mobile telecommunications market have caused per minute prices to decline and could cause customer retention costs to increase substantially such that Swisscom may not be able to maintain its current market share

With mobile penetration having reached 98% in Switzerland at the end of 2006 (based on data published by mobile network operators), prices have declined, it has become more difficult to acquire new customers and Swisscom has been driven to increase its focus on customer retention. Swisscom already faces substantial competition from the other two mobile licensees in Switzerland, Orange and TDC (Sunrise). Competition for business customers is particularly intense, as Orange and TDC (Sunrise) have been increasing their efforts to win market share in this segment. In December 2003, ComCom awarded GSM licenses to Tele2 and In&Phone, which further intensified competition in the mobile business market. In response to competition, Swisscom has introduced budget service plans and service plans where calls are billed on a per-call or per-hour, rather than per-minute, basis. As a result, the average price per minute of mobile traffic has declined. Furthermore, given the high rate of mobile penetration and increasing competition, customer retention costs could increase substantially. If Swisscom is unable to attract new or retain existing customers in the mobile market, its mobile revenues would suffer and it would lose market share. At the same time, further declines in average minute prices and an increase in the cost of customer retention would put additional pressure on margins and could lead to a substantial decline in profitability.

Actual or perceived health risks and other problems relating to mobile devices or transmission masts could lead to decreased mobile communications usage, stricter regulation of radiation emissions from mobile base stations and antennae and additional compliance expenditures

Concern has been expressed that the electromagnetic signals from mobile devices and base stations may pose health risks or interfere with the operation of electronic equipment, including automobile braking and steering systems.

At least one study has indicated that UMTS radiation has an impact on the well-being of humans. While the impact of UMTS radiation on the well-being of humans is supposedly small, the results of the study are statistically significant. Additional studies, which attempt to replicate this study while correcting certain of its scientific shortcomings, have been concluded and did not confirm the results of the above-mentioned study. Since these replication studies only examined the short-term effects of UMTS radiation, however, a risk remains that such radiation could be found to have adverse long-term effects on the well-being of humans. Studies of long term effects started recently. In addition, new research on the impact of electromagnetic fields (50Hz) on DNA structures is currenctly being conducted. The results of these studies are not yet available, but they may have a negative impact, depending on the outcome. If these studies confirm that UMTS radiation may have adverse health effects, the use of mobile devices based on UMTS technology is likely to decline. Media coverage of any actual or perceived health risks could even lead to a decline in the use of mobile devices generally, causing Swisscom s customer base and average usage per customer to decline, which would have a material adverse effect on Swisscom s mobile communications business. Similar risks exist if mobile devices are found to interfere with vital electronic equipment, which could cause consumers to sharply curtail their use of such devices, or lead public authorities to restrict use in certain areas or during certain activities.

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Any findings of adverse health effects may cause regulatory authorities to set stricter emission standards for the UMTS network than currently apply. As a result, Swisscom could be required to install additional antennae or take other precautionary measures. These regulatory measures could have a severe and adverse effect on Swisscom s mobile business. Swisscom may be unable to recoup its investment in its UMTS network and may be required to take significant write downs.

Even if stricter regulatory measures are not adopted, environmental and health concerns are making it more difficult, and more costly, to find acceptable sites for base stations. This could impair the build-out of Swisscom s wireless infrastructure, primarily the mobile network.

If Swisscom is not able to benefit from a potential increase in market demand for integrated communication solutions and IT services, its solutions business and other businesses catering to business customers would suffer

Providing basic telecommunications services to business customers has become a commodity business characterized by low margins. Swisscom believes that to grow in this market in the future, it will have to provide enhanced business solutions. Accordingly, it has upgraded its data networks to enable it to provide integrated data and voice services with greater flexibility, scalability and performance. If demand for integrated communications solutions does not develop as currently anticipated, however, Swisscom may not be able to recoup the cost of these investments and its future growth prospects will be diminished. Moreover, Swisscom faces intense competition from other players in the market for integrated communication solutions and IT services, some of which have more experience than Swisscom and who are able to offer services on a global basis. As a result of these factors, and due to Swisscom s primarily domestic focus, there can be no assurance that Swisscom will benefit proportionately from any upturn in market demand.

The expansion of Swisscom s outsourcing business exposes it to the risk that it may not achieve expected cost savings, the risk of project failure and the risk of fines

In recent years, Swisscom has expanded its business in the outsourcing market. Outsourcing contracts are typically multi-year engagements under which Swisscom takes over management of a client s technology operations, business processes, network and/or IT infrastructure. Generally, Swisscom also takes over the clients employees associated with the outsourced operations and may become responsible for the related employee obligations, such as pension and severance commitments. The successful implementation of certain outsourcing projects depends, among other things, on Swisscom s ability to rapidly optimize the outsourced operations by reducing costs and on Swisscom s ability to accurately forecast the rate at which it will be able to reduce such costs. If Swisscom is not able to realize anticipated efficiencies, or if it fails to implement such efficiencies on the schedule predicted, it may not be able to perform these contracts on a profitable basis. In addition, some of these contracts may permit termination fees or impose other penalties if Swisscom does not meet performance levels specified in the contracts. Because these contracts extend over multiple years, a considerable amount of time may pass before Swisscom recognizes that its forecasts are inaccurate and that it is unable to implement anticipated cost reductions. In the mean time, Swisscom may enter into additional contracts based on the same or similar assumptions and forecasts, compounding its losses.

Other outsourcing contracts require Swisscom to implement complex systems and solutions for clients. As clients needs develop and become more complex, the risk increase that Swisscom will fail to meet a client s needs or that a project will fail entirely. The failure to implement a successful solution could lead to termination of a contract after Swisscom has already invested significant resources in the respective project, expose Swisscom to contractual fines and/or result in significant damage to Swisscom s reputation and credibility in the outsourcing market.

Swisscom may make investments and acquisitions, including potentially large acquisitions outside its home market, which would entail a variety of important risks

Swisscom continues to actively consider investment opportunities, including large acquisitions outside its home market. Although the strategic goals for 2006 to 2009 announced by the Swiss Federal Council, as Swisscom s majority shareholder, have limited Swisscom s flexibility in this regard, acquisitions that fulfill specified criteria may still be undertaken and Swisscom expects to continue to consider international investment opportunities.

On April 10, 2007, Swisscom launched an all-cash friendly public tender offer for 98.26% of the shares of FASTWEB S.p.A. (Fastweb), Italy s second largest fixed-network operator and leading provider of IP-based services. Swisscom already acquired 1.74% of Fastweb s shares in March 2007. Swisscom is offering all

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Fastweb shareholders EUR 47.00 per share for a maximum total consideration of EUR 3.7 billion. The Federal Council has indicated that it considers the proposed Fastweb transaction to be consistent with the strategic goals. The offer period will end on May 15, 2007.

Swisscom will fund the transaction (which will potentially involve refinancing Fastweb s existing debt in the amount of EUR 1.1 billion) via financial debt and, depending on the final acceptance level of the offer, by selling the 4.9 million treasury shares it acquired for CHF 2.2 billion in 2006 through its share buyback program. These shares represent 8% of Swisscom s share capital.

Swisscom faces various risks related to the Fastweb tender offer, including the risk that, due to adverse market conditions, it will not be able to generate the expected level of proceeds by selling its treasury shares. This would require Swisscom to increase the amount of debt assumed to finance the transaction. Because the consideration offered in the tender offer is denominated in euros, Swisscom will also be exposed to risks related to the exchange rate between Swiss francs and euros until the Fastweb transaction closes. Moreover, if the tender offer is successful, Swisscom will continue to be exposed to foreign exchange risks which may reduce the value (in Swiss francs) of dividend payments received in euros from Fastweb.

The Fastweb transaction and other significant acquisitions would entail a variety of other important risks as well. There can be no assurance that Swisscom will be able to successfully execute the business plan pursued in connection with any specific acquisition, such as leveraging the target s expertise in certain areas, or realizing other anticipated benefits, including synergies, from the transaction. This risk may be compounded in the case of cross-border transactions, such as the proposed Fastweb transaction, as political and cultural factors may make it more difficult to implement management and other changes. Although Swisscom will seek to conduct due diligence on potential targets, the opportunity to do so may be limited and it is possible that a transaction will entail costs that are higher than anticipated, that a target will have liabilities for which Swisscom is not entitled to indemnification or that write downs will be required, including of any goodwill arising out of such a transaction. Moreover, should Swisscom enter into a large acquisition, such as the proposed Fastweb transaction, Swisscom could incur substantial debt, which could negatively affect earnings and lead to an increase in leverage ratios, thereby reducing Swisscom s future financial flexibility. Such debt may also increase Swisscom s exposure to interest rate risks.

Additional risks are associated with smaller Swisscom investments at home or abroad. Swisscom may realize a loss on investments it makes in start-up companies, in uncertain technologies or in companies targeted for growth with potentially risky business plans, if such companies are unable to implement their business plans or pursue an unsuccessful strategy. For example, a risk exists that Hospitality Services (formerly Swisscom Eurospot) will be unable to repay loans received from Swisscom, that Swisscom will have to record an impairment charge in connection with its investment in Antenna Hungária, and/or that Swisscom will incur losses in connection with its recently started business based on an interactive TV remote control marketed under the Betty brand name.

Swisscom depends upon a limited number of suppliers, particularly for the supply of next generation fixed and mobile network components

Swisscom s ability to provide and roll out reliable, high quality and secure products and services depends upon, among other things, the adequate and timely supply of transmission, switching, routing and data collection systems, related software and other network equipment. If Swisscom were unable to obtain adequate supplies of equipment in a timely manner, or if there were significant increases in the costs of such supplies, Swisscom s operations would be adversely affected. This is particularly true with respect to network equipment and services that Swisscom requires to upgrade its existing fixed and mobile networks to enable new broadband and multimedia services based on new technologies, such as ADSL, very high bit-rate digital subscriber line (VDSL), symmetric digital subscriber line (SDSL), EDGE, UMTS and HSDPA. While Swisscom seeks to diversify its suppliers, it currently has only one supplier of ADSL equipment, who is also the supplier of VDSL and SDSL equipment, and one supplier of UMTS and EDGE equipment, who will also be the supplier of HSDPA equipment. Swisscom also depends on the timely supply of mobile handsets which can be used in the UMTS, EDGE and HSDPA networks.

Network failures may result in the loss of traffic, reduced revenue and harm to Swisscom s reputation

Modern telecommunication networks are vulnerable to damage or interruption caused by system failures, hardware or software failures, computer viruses or external events such as storms, floods, avalanches, fires, power loss or intentional wrongdoing. Swisscom has experienced network failures in the past. In June 2004, Swisscom s IP network for business customers was disrupted for several hours due to a software failure. If the disruption had continued for a longer period, it would have had significant adverse consequences, in particular for the banking sector. In 2005, flooding disrupted both Swisscom s mobile and fixed-line networks. While mobile coverage was quickly restored, thousands of customers remained without broadband access (xDSL) and other fixed-line services for weeks. The flooding caused Swisscom to incur additional repair costs and reduced revenue from affected customers. The risk of network failures can never be entirely eliminated. Any such failure may harm Swisscom s reputation and could result in customer dissatisfaction and reduced traffic and revenues.

Complex IT systems may fail to operate properly, hampering Swisscom s business development

Swisscom relies for many of its most important data processing functions on complex IT systems which have been developed over a long period of time. Older systems have been upgraded and adapted on an ongoing basis and new systems have been introduced. As a result, there is a lack of harmonization in Swisscom s IT systems which may affect Swisscom s ability to compete with newer service providers. Swisscom may be required to make further investments in its equipment and systems in order to facilitate the provision of flexible and cost-effective services to customers. Any failure to do so may harm Swisscom s competitive position. Further adaptation and extension of Swisscom s IT systems, in particular its billing, order management and customer relationship management systems, would be complex and time-consuming and could therefore hamper Swisscom s business development.

Swisscom s triple-play strategy for future growth and the continuing convergence among telecommunications technologies and devices will require it to integrate a variety of media and technologies. Swisscom may experience difficulties integrating existing systems and new equipment designed to facilitate the delivery of multimedia services as such equipment may not operate properly in connection with Swisscom s existing equipment and networks. Technical difficulties may delay the implementation of Swisscom s growth strategy and may lead to customer dissatisfaction, both of which could harm Swisscom s reputation and result in reduced revenues and profitability.

Swisscom s relations with the trade unions could deteriorate

In 2005, Swisscom entered into a new collective bargain agreement with the trade unions. The agreement, which entered into effect in January 2006, is of unlimited duration unless terminated by either party on six months notice to the end of a calendar year. The agreement will first become terminable on December 31, 2007. Termination of the collective bargaining agreement, the initiation of new negotiations and staff reductions could damage labor relations or even lead to work disruptions, which in turn could negatively affect Swisscom s profitability and competitiveness.

Swisscom is involved in a number of legal proceedings which, if decided against Swisscom, could in the aggregate have a material adverse effect on its results

Swisscom is involved in several legal proceedings that are described in more detail under *Item 8: Financial Information Legal Proceedings* . Swisscom s position as the principal telecommunications provider in Switzerland has attracted the attention of its competitors in Switzerland and of the Swiss regulatory authorities. In addition, Swisscom is regularly involved in legal disputes with competitors as a result of its leading position in the fixed-line and mobile communications markets in which it operates. For example, Swisscom was recently involved in a legal proceeding with respect to fixed-fixed interconnection fees. In April 2006, the Federal Court issued a ruling requiring Swisscom to retroactively reduce its interconnection prices. Following the Federal Court s ruling, Swisscom paid an amount of CHF 101 million in 2006 and it expects to be required to make further payments in future years. As of December 31, 2006, Swisscom s provisions for potential future payments amounted to CHF 484 million.

Although Swisscom believes that most of the proceedings it is involved in would not individually have a material adverse effect on its results of operations and financial condition, in the aggregate these proceedings could have such an effect. This risk has been heightened by the latest approach indicated by the Swiss Competition Commission in its investigation of Swisscom Mobile s mobile termination fees. While the results of those proceedings are not directly applicable to other cases, they may signal greater scrutiny by the Competition Commission in enforcing the Antitrust Law coupled with higher potential fines.

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Risks Related to Ownership by the Swiss Confederation

The interests of the Swiss Confederation, which owns a majority stake in Swisscom, may differ from those of Swisscom and could hamper Swisscom s development

The Swiss Confederation holds a majority of Swisscom shares. Any reduction of the Confederation s holding below a majority would require a change in law. Swisscom may not undertake a capital increase that would otherwise have the effect of decreasing the Confederation s shareholding to less than a majority, unless the Confederation agrees to participate in the capital increase. Swisscom s ability to raise additional equity capital could therefore be constrained. In addition, for as long as the Swiss Confederation maintains a controlling interest in Swisscom, it will be able to influence Swisscom s strategy. In December 2005, the Swiss Federal Council, as Swisscom s majority shareholder, announced its new strategic goals for 2006 to 2009 which limit Swisscom s flexibility for corporate acquisitions. The strategic goals permit holdings abroad only if they support Swisscom s core business within Switzerland or can be shown to further other strategic-industrial logic. The Federal Council expects that Swisscom will not enter into any investments in foreign telecommunications companies with a universal service obligation mandate. Finally, the Federal Council has indicated that net debt should be restricted to no more than one and a half times earnings before interest, taxes, depreciation and amortization (EBITDA), although with regard to Swisscom s recent repurchase of a 25% interest in Swisscom Mobile from Vodafone International Holdings B.V., the Federal Council decided that debt incurred in connection with the purchase would not be taken into account in determining Swisscom s compliance with the net debt limitations. The Federal Council has also indicated that it considers the proposed Fastweb transaction to be consistent with the strategic goals. Nonetheless, as a result of the Federal Council s position, Swisscom could be limited in its ability to undertake other major corporate actions, such as acquisitions or entry into strategic partnerships, either at the parent company level or through subsidiaries, which are important elements of its strategy. Swisscom may also be limited in its ability to incur debt to finance such an acquisition and may be prevented from optimizing its balance sheet structure.

The sale of a substantial stake in Swisscom by the Swiss Confederation could negatively affect Swisscom s share price and reputation

As of January 31, 2007, the Swiss Confederation held a 54.8% stake in Swisscom.

On April 5, 2006, the Swiss Federal Council adopted a dispatch on the Confederation s holdings in Swisscom for submission to the Federal Assembly. The proposal recommended that the Telecommunications Enterprise Act of 1997 (the TUG) be amended to transfer power to the Federal Council to sell the government s controlling interest in Swisscom. In May and June of 2006, this proposal was narrowly rejected by both chambers of the Federal Assembly. In response to several parliamentary requests, the Federal Council has reaffirmed its intention to reexamine legislative proposals that would permit the sale of the Confederation s holdings in Swisscom, given that the reasons in favor of privatizing Swisscom were not denied by the Federal Assembly. Such a reexamination is not expected to take place before 2008. Future sales by the Swiss Confederation may occur, whether as a result of similar, new initiatives or as part of a reduction the Swiss Confederation s stake to the current legal minimum shareholding of 50%-plus-one-share. Swisscom will have only a very limited ability to influence the structure or details of such sales. The sale or distribution of a significant number of Swisscom s shares by the Swiss Confederation may cause the market price of Swisscom s shares and ADSs to decline.

In addition, part of Swisscom s reputation for reliability and trustworthiness among its customers is due to its ownership by the Swiss Confederation. If the Swiss Confederation sells a significant portion of its stake in Swisscom, Swisscom s reputation may be impaired, it may lose customers to competitors, and the market price of Swisscom s shares and ADSs may decline.

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Risks Related to Swisscom s Shares

Currency fluctuations may adversely affect the trading prices of Swisscom s ADSs and the value of any distributions Swisscom makes

Because Swisscom s stock is traded in Swiss francs and the ADSs are traded in U.S. dollars, fluctuations in the exchange rate between the two currencies may affect the relative value of Swisscom s ADSs. In addition, should Swisscom make any distribution on its common stock in Swiss francs, the depositary will convert such distributions to U.S. dollars. If exchange rates fluctuate before the depositary converts the currencies, U.S. shareholders may lose some of the value of the distribution.

Shareholders rights are governed by Swiss law and differ in some respects from the rights of shareholders under U.S. law

Swisscom is a stock corporation organized under the laws of Switzerland. The rights of holders of Swisscom s shares, and therefore, many of the rights of its ADS holders, are governed by Swisscom s articles of incorporation and by Swiss law. These rights differ in some respects from the rights of shareholders in typical U.S. corporations. In particular, Swiss law significantly limits the circumstances under which shareholders of Swiss corporations may bring derivative actions.

It may not be possible for shareholders to enforce judgments of U.S. courts against members of Swisscom s Board of Directors or Group Executive Board

Swisscom is a Swiss stock corporation. The members of its Board of Directors and Group Executive Board are non-residents of the United States. In addition, Swisscom s assets and the assets of members of its Board of Directors and Group Executive Board are located in whole or in substantial part outside the United States. As a result, it may not be possible for shareholders to enforce against Swisscom or members of its Board of Directors and Group Executive Board judgments obtained in the United States courts based on the civil liability provisions of the securities laws of the United States. In addition, awards of punitive damages and judgments rendered in the United States or elsewhere may be unenforceable in Switzerland.

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ITEM 4: INFORMATION ON THE COMPANY

Overview

Business

Swisscom is the principal telecommunications provider in Switzerland, offering a comprehensive range of products and services to residential and business customers. As the leading provider of fixed-line services, Swisscom offers analog and digital access services. In addition, Swisscom offers broadband services over existing subscriber lines. As of December 31, 2006, Swisscom provided 3.7 million fixed-line telephone access lines in Switzerland, of which 0.9 million were digital or ISDN lines and 1.4 million were being used for broadband access. In 2006, Swisscom billed an aggregate of 9.0 billion national and 1.2 billion international retail voice traffic minutes. In addition, Swisscom billed an aggregate of 16.2 billion minutes of national transit and interconnection traffic on behalf of other telecommunication service providers. Swisscom is also the leading mobile telecommunications service provider in Switzerland, with over 4.6 million subscribers to its mobile service as of December 31, 2006. Swisscom also offers a full range of state-of-the-art data services, from leased lines to integrated solutions for its business customers. In 2006, Swisscom s net revenues amounted to CHF 9.7 billion.

Swisscom operates a variety of state-of-the-art telecommunications networks which enable the quick and cost-effective introduction of innovative services. Swisscom s PSTN/ISDN network features fully digitalized transmission and local switching and fully integrated ISDN. Swisscom has upgraded its access networks to provide broadband connectivity services in the local loop. Broadband technologies operate, like ISDN, over existing copper lines, but offer higher speed for data transmission. Swisscom s broadband service is available to approximately 98% of the population of Switzerland, and its fastest offering provides download speeds of up to 6 Mbit/s. In 2006, Swisscom completed the first phase of its very high-bit rate digital subscriber line (VDSL) infrastructure deployment, and is able to offer VDSL to over 25% of households with speeds of up to 30 Mbit/s. Swisscom also operates several data networks used for the provision of packet switched, frame relay and asynchronous transfer mode (ATM) data services and, to an increasing extent, IP and Ethernet communication. Swisscom s mobile telephony network is a digital mobile dual band network based on the international GSM standard. In order to respond to increasing demand for mobile data services, Swisscom introduced nationwide Enhanced Data Rates for GSM Evolution (EDGE) coverage. EDGE technology permits faster transmission of data via existing GSM installations. Swisscom has also built out a separate third generation UMTS network. UMTS is a mobile radio system that creates additional mobile radio capacity and enables broadband media applications while also providing high speed Internet access. Swisscom is currently capable of providing UMTS service to approximately 90% of the Swiss population. In addition, Swisscom enabled high-speed downlink packet access (HSDPA) in selected densely populated urban areas in 2006. HSDPA is a packet-based data service with a theoretical downlink data transmission rate of up to 8-10 Mbit/s over a 5MHz bandwidth. As described in more detail below, Swisscom is currently making targeted investments in both its fixed-line and mobile networks to increase coverage where needed, as well as to enhance capacity and upgrade functionality. See *Networks and Technology* .

The expanded capacity provided by Swisscom s upgraded networks and new technology (*e.g.,* VDSL) have allowed Swisscom to introduce a variety of new services, such as Bluewin TV. This service, introduced in November 2006, provides subscribers with over 100 television channels and over 70 radio channels, hundreds of on-demand films and live sports coverage. Video is seamlessly streamed to subscribers televisions over their high-speed Internet connections. Swisscom intends to continue to expand its service offerings to take advantage of its evolving networks.

The following table sets forth Swisscom s capital expenditures for the periods indicated.

CHF in millions	**Year Ended December 31,**		
	2006	**2005**	**2004**
Fixed-line network	457	353	360
Mobile network	199	238	434
Other	668	496	342

Total	**1,324**	**1,087**	**1,136**

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Recent Developments

On April 10, 2007, Swisscom launched an all-cash friendly public tender offer for 98.26% of the shares of FASTWEB S.p.A. (Fastweb), Italy s second largest fixed-network operator and leading provider of IP-based services. Swisscom already acquired 1.74% of Fastweb s shares in March 2007. Swisscom is offering all Fastweb shareholders EUR 47.00 per share for a maximum total consideration of EUR 3.7 billion. The offer is conditional on, among other things, Swisscom achieving a participation of greater than 50% of Fastweb s share capital. Fastweb s board of directors has ruled in favour (espresso parere favorevole) of the Swisscom tender offer, after taking into account the fairness opinions provided by its financial advisors. The offer period will end on May 15, 2007.

Fastweb is Italy s leading alternative broadband telecommunications provider with more than one million customers, 2006 revenues and net loss of EUR 1.26 billion (CHF 2.04 billion) and EUR 124 million (CHF 200 million), respectively. Fastweb delivers innovative telephony, Internet and television services in more than 130 cities via state of the art broadband IP networks. Fastweb s experience in operating its fully IP-based broadband network, expanding and commercialising optical networks, and developing and marketing broadband-based multimedia services is expected to be highly valuable to Swisscom. In return, Swisscom intends to support Fastweb s plans to position itself in Italy as a mobile virtual network operator.

Swisscom will fund the transaction (which will potentially involve refinancing Fastweb s existing debt in the amount of EUR 1.1 billion) via financial debt and, depending on the final acceptance level of the offer, by selling the 4.9 million treasury shares it acquired for CHF 2.2 billion in 2006 through its share buyback program. These shares, representing 8% of Swisscom s share capital, were acquired by issuing tradable put options. Depending on the acceptance level of Swisscom s tender offer and following the closing of the Fastweb transaction, Swisscom may review its future payout policy with a view to further increasing its attractiveness. See *Item 8: Financial Information Dividend Policy* .

On February 5, 2007, the Competition Commission issued a decision in connection with the mobile termination proceedings in which Swisscom is involved. See *Item 8: Financial Information Legal Proceedings Other Regulatory Proceedings* . In this decision, the Competition Commission determined that Swisscom Mobile has a market-dominant position which it has abused by demanding disproportionately high termination fees and imposed a fine of CHF 333 million. Swisscom rejects both the charge that it misused its dominant market position and the sanction. Swisscom intends to appeal to the Swiss Federal Administrative Court and, if necessary, in the final event to the Swiss Federal Supreme Court. Based on a legal assessment of the current situation, Swisscom has concluded that the sanction is unlikely to ultimately be upheld. Accordingly, Swisscom did not record any related reserves in its financial statements as of December 31, 2006.

On December 20, 2006, Swisscom repurchased a 25% stake in Swisscom Mobile AG from Vodafone International Holdings B.V., which originally acquired its interest in April 2001. As a result of the transaction, Swisscom Mobile AG is now a wholly-owned Swisscom subsidiary. The purchase price of CHF 4.25 billion was fully financed by a group of four financing institutions who each provided equal loans. These bank loans were syndicated in a banking consortium in the first quarter of 2007. The loan is divided into two tranches. The first tranche of CHF 1.5 billion has a term of one year with an extension option for one further year. The second tranche of CHF 2.75 billion has a term of five years. The bank loans will become due for immediate repayment if the Confederation s share of Swisscom s share capital drops below 35% or if another shareholder can exercise control over Swisscom. The Federal Council has decided that these loans will not be taken into account in determining Swisscom s compliance with the net debt limitations contained in the government s strategic goals.

In conjunction with the transaction, Swisscom Mobile entered into comprehensive, exclusive cooperation and branding agreements with Vodafone Group Plc and certain affiliates thereof, respectively. The agreements set out the terms on which Swisscom Mobile and Vodafone will continue to cooperate in certain areas. In addition, Vodafone has agreed to pay Swisscom 25% of the amount of any fine imposed by the Competition Commission in connection with the pending mobile termination proceedings.

Background

Prior to January 1, 1998, Swisscom was the state monopoly service provider and was subject only to limited competition. On January 1, 1998, the Swiss telecommunications market was opened to competition with the implementation of the Telecommunications Act. Since then, a large number of competitors have entered the Swiss market, with intense competition in both fixed-line and mobile telephony and in services provided to business customers.

Although Switzerland is not a member of the EU, the Swiss market has been liberalized on the schedule and in the manner set forth in the EU directives mandating the liberalization of telecommunications services in member states. In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which entered into force on April 1, 2007. All market-dominant service providers are now required to offer, among other things, unbundled access to their local loop on a cost-oriented basis in the form of full access as well as bitstream access for a limited period of four years. See *Regulation Unbundling of the Local Loop and Other Access Regulation* .

The Telecommunications Act initially required Swisscom to provide certain basic telecommunications services, comprising Universal Service, throughout Switzerland until December 31, 2002, with a number of such services subject to price ceilings. Swisscom s Universal Service license was later renewed for a five-year term (2003-2007) and ISDN access became part of Universal Service subject to a price ceiling.

Swisscom is the sole applicant for the 2008-2017 Universal Service license. The new license will include the obligation to offer broadband internet access to every household in Switzerland. Swisscom, which is already capable of providing broadband access to more than 98% of the Swiss market, will be able to fully comply with the new obligation without significant new investment. The new obligation is technologically neutral and ISDN will no longer be explicitly required. The new license is expected to be awarded by the end of June 2007 at the latest.

Historically, Swisscom s operations were a part of the Swiss PTT, a dependent agency of the Swiss Government. The TUG established Swisscom as a special statutory stock corporation. The TUG provides that the Swiss Confederation must hold a majority of the capital and voting rights of Swisscom. As of January 31, 2006, the Swiss Confederation held a 54.8% stake in Swisscom.

On April 5, 2006, the Swiss Federal Council adopted a dispatch regarding the Swiss Confederation s holdings in Swisscom. The main proposal contained in the dispatch recommended that the TUG be amended to permit the Federal Council to sell the Confederation s controlling interest in Swisscom. The proposal was later narrowly rejected by both chambers of the Federal Assembly. In response to several parliamentary requests, the Federal Council has reaffirmed its intention to reexamine legislative proposals that would permit the sale of the Confederation s holdings in Swisscom, given that the reasons in favor of privatizing Swisscom were not denied by the Federal Assembly. Such reexamination is not expected to take place before 2008.

Swisscom s principal executive offices are located at Alte Tiefenaustrasse 6, 3050 Bern, Switzerland. For a list of Swisscom s subsidiaries and affiliated companies, see Note 41 to the consolidated financial statements.

Strategy

Swisscom is active in a highly dynamic market that is characterized by constant change. The continually changing requirements of Swisscom s residential customers are one of the forces driving the pace of change in terms of demand and corresponding service offerings. The market is also being shaped by ongoing process optimization among Swisscom s business customers and by rapid technological changes, both requiring Swisscom to constantly adapt to new needs in order to grasp associated opportunities.

To confront these challenges, Swisscom announced a new TIME strategy in spring 2006 that is based on three pillars:

Maximize performance in Swisscom s home market.

Swisscom aims to further expand its already high level of customer loyalty by building on its leading portfolio of products and services and excellent customer care. Residential customers want integrated access and increasingly convergent voice, data and multimedia products and services. They expect simplicity and support when dealing with the growing number of technological options available. In response to the developing needs of these residential customers, Swisscom is expanding its portfolio of

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convergent products and services to include, among other things, services that can be easily and securely accessed using a variety of devices (e.g., phone, computer, TV). Similarly, Swisscom will meet the future needs of business customers by providing them with a portfolio of convergent Information and Communications Technology (ICT) products and services, improved international connectivity and excellent customer service.

The push toward convergence will not only benefit Swisscom s customers, it will also allow Swisscom to significantly reduce costs and complexity by eliminating cross-functional overlaps between its business activities. Swisscom believes it can achieve substantial cost reductions in the future by (1) combining its fixed and mobile infrastructure in a single all-IP network , (2) optimizing its IT infrastructure, (3) setting up shared service centers for IT and administrative applications as well as (4) eliminating redundancies in its sales infrastructure.

These measures will allow Swisscom to prepare for future changes while continuing to provide its customers with the highest level of service.

Extend services to new markets and customers.

Swisscom intends to offer a wider range of ICT solutions to existing and new customers, both domestically and abroad. This will allow Swisscom to exploit new sources of growth as it moves along the value chain. For example, in November 2006, Swisscom launched its TV over Internet protocol (IPTV) service Bluewin TV . Swisscom will follow its customers abroad, offering solutions beyond the borders of Switzerland through international expansion and cross-border alliances. It will gradually expand vertically, entering new markets where such expansion is supported by clear industrial logic. Finally, Swisscom will engage in selective acquisitions to secure its market position and accelerate growth (*e.g.,* Swisscom Mobile s acquisition of Minick helped Swisscom secure a leading position in European content delivery).

Expand by leveraging core competences in closely related business areas.

Swisscom will continue to apply its competencies in European markets with substantial growth prospects, but which have not reached the same maturity level as the Swiss market. Swisscom will also expand its presence in domestic market segments where it is not yet the market leader. To achieve these goals, Swisscom will establish and grow new businesses (as it did with Hospitality Services), and it will continue to consider larger transactions abroad (within the bounds of the Federal Council s strategic goals), such as the proposed Fastweb transaction described above. Such transactions will be subject to a set of stringent tests concerning: industrial logic, growth and short term operating free cash flow accretion, business benefits for Swisscom and/or the target, quality of management and the existence of a favourable competition and regulatory environment.

While the first pillar is primarily aimed at optimizing Swisscom s current core business, the second and third pillars are clearly focused on growth. The TIME strategy will open new business opportunities that will distinguish Swisscom from the competition, generate further growth and help offset the decline in Swisscom s traditional core business (voice communications and access services).

The strategic goals of the Federal Council limit Swisscom s ability to enter into acquisitions. The Federal Council expects Swisscom not to enter into any investments in any foreign telecommunications company with a universal service obligation (USO) mandate and to limit net debt (not including CHF 4.25 billion in bank loans used to finance Swisscom s repurchase of a 25% stake in Swisscom Mobile AG from Vodafone International Holdings B.V.) to a maximum of one-and-a-half times EBITDA as reported on a consolidated basis. Nonetheless, the Board of Directors has analyzed the Federal Council s strategic goals for 2006 to 2009 and believes they provide sufficient leeway for the company s further value-adding development. Moreover, the Federal Council has indicated that it considers the proposed Fastweb transaction to be consistent with the strategic goals. For more information, see *Item 7: Major Shareholders and Related Party Transactions Relationship and Transactions with the Swiss Confederation The Confederation as Shareholder Strategic Goals* .

Should no suitable investment opportunities arise, Swisscom intends, in accordance with its dividend policy, to return capital it does not require to its shareholders. Annual dividends are expected to continue to amount to approximately half of Swisscom s net income. For information on Swisscom s return policy, see *Item 8: Financial Information Dividend Policy* .

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Overview of Business Segments

In 2006, Swisscom operated in the following business segments:

Fixnet provides access, fixed-line voice, Internet and a comprehensive range of other fixed network telecommunication services to residential and business customers. In addition, Fixnet provides wholesale services and also offers a variety of other services, including the provision of leased lines and the operation of a directories database. Until 2006, Fixnet also sold customer equipment through the Swisscom shops.

Mobile provides mobile telephony, data and value-added services in Switzerland and sells mobile handsets.

Solutions provides national and international fixed-line voice telephony services to business customers and offers leased lines, Intranet services and integrated communication technology solutions, including outsourcing services, to business customers.

Other covers mainly the provision of IT services through Swisscom IT Services, the broadcasting businesses of Swisscom Broadcast and Antenna Hungária in Switzerland and Hungary, the billing services and customer cards business of Accarda and the operation of a pan-European network for broadband Internet connectivity through Hospitality Services (formerly Swisscom Eurospot).

Corporate includes Swisscom s headquarter functions, group-company shared services, property rentals through the real estate company, Swisscom Immobilien, and Swisscom s programs under its social plan.

The following table sets forth external revenue generated by Swisscom s segments for the periods indicated.

CHF in millions	Year Ended December 31,		
	2006	**2005**	**2004**
Fixnet	4,130	4,319	4,555
Mobile	3,541	3,651	3,679
Solutions	1,072	1,123	1,279
Other	840	571	476
Corporate	70	68	68
Total	**9,653**	**9,732**	**10,057**

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Fixnet

Overview

Through Fixnet, Swisscom is the leading provider of fixed network telecommunication services in Switzerland, which it provides to residential, business and wholesale customers. In 2006, Fixnet generated total revenue of CHF 5.0 billion, including sales of CHF 0.8 billion to other Swisscom business segments. With external revenues of CHF 4.1 billion, Fixnet accounted for 42.8% of Swisscom s consolidated net revenue in 2006.

Services provided by Fixnet include:

Access. Fixnet provides access services, including traditional analog, digital and broadband access services, to residential and business customers. As of December 31, 2006, Fixnet provided 3.7 million fixed-line telephone access lines, including 0.9 million ISDN lines, and offered xDSL access to approximately 1.4 million subscriber lines.

Retail Traffic. Fixnet provides national and international fixed-line voice telephony services to residential and small and medium-sized business customers. In 2006, Fixnet carried an aggregate of 8.7 billion minutes of national telephony and dial-up Internet traffic and 0.9 billion minutes of outgoing international traffic.

Wholesale Traffic. Fixnet provides a wide range of wholesale services to Swisscom s other segments (which results in the recognition of intersegment revenue) and to other telecommunications providers. In 2006, Fixnet billed a total of 16.2 billion minutes of national interconnection and transit traffic.

Other Traffic. Fixnet operates public payphones, provides operator services and offers prepaid calling cards.

Other. Fixnet also offers a variety of other services, including the provision of leased lines and the operation of a directories database. Until 2006, Fixnet also sold customer equipment through the Swisscom shops.

Effective January 1, 2007, Swisscom reallocated certain responsibilities within the group in order to refine and enhance the customer focus of each segment. Fixnet and Mobile will continue to focus on residential customers. In addition, Fixnet will focus on meeting the needs of small and medium-sized enterprises. Solutions is now responsible for larger corporate accounts, and has assumed related functions which were transferred from Fixnet and Mobile. In addition, responsibility for Swisscom shops was transferred from Fixnet to Mobile, reflecting the fact that most of the products and services offered in Swisscom shops are related to mobile communications. See *Other Customer Equipment* .

The following table sets forth external revenue generated by Fixnet for the periods indicated.

CHF in millions	**Year Ended December 31,**		
	2006	**2005**	**2004**
Access	2,081	1,992	1,876
Retail traffic	974	1,082	1,240
Wholesale traffic	351	483(1)	691
Other traffic	105	130	158
Other	619	632	590
Total	**4,130**	**4,319**	**4,555**

(1) In 2005, Swisscom contributed its international

wholesale business to a joint venture with Belgacom. As Fixnet only has a minority stake in this new company, certain associated revenues (and costs) are no longer recorded by Fixnet.

In order to strengthen its competitive position in the retail fixed-line market, Swisscom aims to increase usage of its broadband access services and to strengthen customer loyalty. Swisscom believes that demand for broadband connectivity services will continue to increase and is actively marketing broadband connectivity in the retail market. 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.

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In line with this strategy, Fixnet launched its Bluewin TV service at the beginning of November 2006. Swisscom has incurred, and expects to incur, significant start-up costs in connection with the launch of this service. Bluewin TV provides subscribers with over 100 television channels and over 70 radio channels, hundreds of on-demand films and live sports coverage. Rather than sending television and video signals by broadcasting or transmitting them via cable connections, subscribers use their high-speed Internet connections to seamlessly stream video to their televisions. Swisscom s triple play strategy is further supported by Swisscom s 2005 acquisition of a 49% strategic stake in CT Cinetrade AG, a Swiss media company whose activities include a pay-TV channel, video and DVD film rights, as well as movie theaters. See *Other Participations Cinetrade* .

By providing television and multimedia content over its network, Swisscom competes with cable network operators, who are particularly well positioned to combine voice, data and Internet access services with multimedia content. For more information, see *Item 3: Key Information Risk Factors Risks Related to Swisscom s Business Increased competition may have a significant impact on the revenues and profitability of Swisscom s fixed-line broadband business, which may not allow Swisscom to recoup its investment in fixed-line broadband infrastructure and multimedia services* .

Access

Fixnet provides homes and businesses in Switzerland with analog and digital telephone access lines as well as a variety of supplementary services. In addition, Swisscom offers Internet access services to residential and business customers as well as broadband Internet access services to other Internet service providers on a wholesale basis. In 2006, external revenue from access services amounted to CHF 2,081 million.

Voice Access

Swisscom s analog voice access service, provided over the public switched telephone network (PSTN), consists of providing connections between 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. In 2006, PSTN services comprised 39% of total access revenue.

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 bandwidth capacity of the access network. ISDN also supports a full range of supplementary services. Swisscom offers both basic ISDN access lines with two channels and primary ISDN access lines with thirty channels.

The following table sets forth, for the periods indicated, selected data relating to access lines provided by Fixnet to residential and business customers.

In thousands of lines	**As of December 31,**		
	2006	**2005**	**2004**
PSTN(1)	2,891	2,922	3,007
ISDN(2)	856	900	924
Total access lines	**3,747**	**3,822**	**3,931**
Total access channels	4,929	5,043	5,175

(1) Each PSTN line provides one access channel.

(2) ISDN lines consist of basic ISDN lines and primary ISDN lines. A basic ISDN line provides two access channels and a primary ISDN line provides 30 access channels.

The number of ISDN lines declined in 2005 and 2006 due to the increasing use of broadband access services, which are also offered over PSTN lines, and because of the introduction of caller identification on PSTN by mid-2005, which up to then had only been offered over ISDN. The total number of access lines also declined due to (i) the growing market share of Cablecom, Switzerland s major cable network operator, which offers voice and Internet access over its own infrastructure and (ii) the effects of mobile substitution. Swisscom expects this trend to continue.

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Swisscom does not receive revenue in connection with the initial in-house installation of access lines, which is generally performed by independent contractors. Most of the supplementary services available are included in the monthly subscription.

The following table sets forth information relating to Swisscom s charges in effect in 2006 for the provision of voice access services.

CHF (including VAT)	Activation Fee	Monthly Fee
PSTN	43.00	25.25
ISDN basic with up to 3 access numbers	43.00	43.00
ISDN basic with up to 7 access numbers	43.00	53.80
ISDN basic with up to 10 access numbers	43.00	63.90
ISDN basic with 1 access number and Direct Dial In(1)	170.20	53.80
ISDN primary	914.60	538.00

(1) Direct Dial In enables calls to be directed straight to end-user terminals connected to a private branch exchange.

Under the terms of the Universal Service license, the provision of ISDN access is included within Swisscom s Universal Service obligation and is subject to a price ceiling of CHF 40.00 (excluding VAT). PSTN access is subject to a price ceiling of CHF 23.45 (excluding VAT). Additional charges may be levied for the provision of supplementary services. See *Regulation Universal Service* and *Regulation Price Ceilings for Universal Service* .

In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which entered into force on April 1, 2007. Swisscom is required to offer, among other things, unbundled access to its local loop on a cost-oriented basis in the form of full access as well as access rebilling. Unbundling of the local loop will also require market-dominant providers to offer bitstream access for a limited period of four years on a cost oriented basis. See *Regulation Unbundling of the Local Loop and Other Access Regulation* and *Item 8: Financial Information Legal Proceedings* .

Internet Access

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

The following table provides information about the number of access subscribers for the periods indicated:

In thousands of lines/subscribers	Year Ended December 31, 2006	2005	2004
Retail xDSL lines	936	708	490
Wholesale xDSL lines	432	390	312

Total xDSL lines	**1,368**	**1,098**	**802**
Retail narrowband subscribers[1]	282	410	523

(1) Includes active access subscribers only, defined as all paid-access subscribers and those subscribers to Swisscom s free-access services who had accessed their accounts at least once in the last 40 days.

In recent years, growth in the access area has come from xDSL technology, which offers significantly higher transmission speeds compared to ISDN. Because xDSL may be offered over a traditional PSTN line, xDSL growth has contributed to a decline in the number of ISDN lines.

Swisscom offers residential Internet users and small businesses Internet access service packages facilitating high-quality Internet access using both narrowband and broadband access technologies, IP-based communication services, personal information management services and shared hosting services. Internet access over xDSL is offered on a flat-fee basis for high bandwidth users, and on a minutes-of-use basis for 300kbit/s low bandwidth users. In March 2006, Swisscom completed the acquisition of Cybernet (Schweiz) AG from the Viatel Group, strengthening its position in this market. Cybernet focuses its activities on the small and

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medium-sized business market, where its core businesses include connectivity, data centers and e-business. Effective January 1, 2007, Cybernet was merged into Fixnet.

Swisscom seeks to increase the number of subscribers to broadband access services by offering new broadband services and significantly increasing the bandwidth of its xDSL lines. Swisscom continues to complement its existing network with VDSL technology (very high bit-rate digital subscriber lines), which will allow Swisscom to offer downstream speeds of up to 30 Mbit/s.

The following table sets forth information relating to Swisscom s charges in effect in 2006 for the provision of broadband access services.

CHF (including VAT)	**Downstream / upstream bandwidth (kbit/s)[(2)]**	**Monthly Fee**	**Hourly rate**
ADSL 300[(1)]	300/100	9.00	2.40
ADSL 2000	2000/100	49.00	
ADSL 3500	3500/300	69.00	
ADSL 5000	5000/300	99.00	

(1) Pay-as-you-go service. In mid-November 2006, ADSL 300 replaced the previous ADSL 150 service package for new customers, which had offered downstream/upstream bandwidth capacity of 150 / 50 kbits/s. The monthly and hourly fees remained unchanged.

(2) In mid-March 2006, ADSL 2000 replaced the previous ADSL 600 service package for new customers which had offered downstream/upstream bandwidth capacity of 600 / 100 kbits/s, ADSL 3500 replaced ADSL 1200, which had offered 1200 / 200 kbits/s, and ADSL 5000 replaced ADSL 2400, which had

offered 2400 / 200 kbits/s. In March 2007, the respective bandwidth capacities were further enhanced. The monthly fees remained unchanged. Bandwidth capacities are maximum figures; actual capacity depends on the quality and length of copper access lines.

On October 20, 2005, the Competition Commission launched an investigation against Swisscom (Swisscom AG and Swisscom Fixnet) to determine whether its ADSL wholesale prices were abusively high and prevented other Internet service providers from realizing sufficient profits in the retail market (price-squeezing). This investigation is still pending. See *Item 8: Financial Information Legal Proceedings Other Regulatory Proceedings* .

In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which entered into force on April 1, 2007. Market-dominant providers are required to offer bitstream access to other providers on demand for four years on a cost oriented basis. See *Regulation Unbundling of the Local Loop and Other Access Regulation* .

Retail Traffic

Swisscom provides comprehensive national and international calling services to residential and business customers. Fixnet s business customers are small and medium sized enterprises that do not require customized telecommunications solutions. External revenue attributable to national traffic and outgoing international traffic originating on the fixed-line network generated by Fixnet customers amounted to CHF 974 million in 2006.

Retail traffic has declined in recent years, mainly due to a significant decline in local area traffic and Internet traffic. In 2005 and 2006, the continued growth in the number of broadband access lines contributed to the decline in Internet traffic, while increased competition reduced voice traffic. Swisscom expects that retail traffic will continue to decline. Swisscom believes it is well-positioned to remain the leading provider of national traffic and outgoing international calling services in the Swiss market. To this end, Swisscom continues to implement new measures designed to maintain its market share in national and international telephony traffic and to increase customer loyalty.

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Traffic. The following table sets forth, for the periods indicated, selected information relating to Fixnet s national and outgoing international fixed voice telephony traffic.

In millions of minutes[1]	Year Ended December 31, 2006	2005	2004
Local and long distance traffic	6,312	6,628	7,205
Fixed-to-mobile traffic	926	925	949
Internet traffic	1,487	2,252	3,323
Total national retail traffic	**8,725**	**9,805**	**11,477**
International retail traffic[2]	903	926	955
Total retail traffic	**9,628**	**10,731**	**12,432**

(1) Figures do not include traffic generated from Swisscom-operated public payphones or from calling cards.

(2) Based on minutes of outgoing international traffic as determined for retail customer billing purposes. Does not include international wholesale traffic originating outside Switzerland.

In 2006, 57% of the outgoing international traffic generated by Fixnet customers (excluding outgoing international mobile traffic) was directed toward three countries: Germany, France and Italy.

Tariffs. Swisscom offers a variety of tariff packages targeting different customer segments. Under some tariff packages, Swisscom s national traffic charges are calculated on the basis of call duration, time of day, day of the week, and whether the call is fixed-to-fixed or fixed-to-mobile. Swisscom has also implemented pricing models under which customers pay a monthly subscription fee allowing them to make national and international calls at reduced per-minute rates, on a price-per-call basis or even for free during certain off-peak times or to other members of a closed user group. These new pricing models have effectively resulted in an overall tariff reduction.

Local and long-distance fixed-fixed calls within Switzerland are billed on a per-minute basis as follows:

CHF/minute[1]	**Peak**[2]	**Off-Peak**[3]
National fixed-fixed tariff	0.08	0.04

(1)

Calls are charged in incremental steps of CHF 0.10 without a set-up charge.

(2) Monday to Friday, from 8:00 a.m. to 5:00 p.m.

(3) Monday to Friday, from 5:00 p.m. to 8:00 a.m., as well as on Saturdays, Sundays and holidays.

National fixed-to-mobile calls are billed as follows:

CHF/minute(1)	**Peak**(2)	**Off-Peak**(3)
Tariffs applicable to calls terminating on:		
Swisscom Mobile	0.41	0.31
TDC (Sunrise) Mobile	0.49	0.39
Orange / Coop-Mobile		
prior to September 1, 2006	0.55	0.45
as of September 1, 2006	0.49	0.39
Tariff applicable to other mobile network operators	0.55	0.45

(1) Calls are charged in incremental steps of CHF 0.10 without a set-up charge.

(2) Monday to Friday from 7:00 a.m. to 7:00 p.m.

(3) Monday to Friday from 7:00 p.m. to 7:00 a.m., as well as on Saturdays, Sundays and

holidays.

Swisscom s international calling charges are generally based on duration, destination and day of the week. In recent years, Swisscom has substantially reduced its international calling charges, both through tariff reductions and volume discounts. Swisscom has a weekday rate applicable from Monday to Friday and a weekend rate for Saturday and Sunday and five tariff groups.

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The following table sets forth information relating to Swisscom s international tariffs in effect at the end of December 2006 for calls to the countries generating the most outgoing international traffic.

In CHF/minute, including VAT[(1)]	Weekday	Weekend
Germany, Austria, France, Italy, United Kingdom, United States, Canada	0.12	0.10
Portugal, Spain, Netherlands	0.25	0.20
Serbia, Montenegro, Turkey	0.65	0.50

(1) Calls are charged in incremental steps of CHF 0.10 without a set-up charge. A surcharge is applied for calls to foreign mobile networks.

Swisscom offers a variety of promotions, such as discounts for evening and weekend calls, temporary discounts and new pricing models designed to improve price perception and reduce churn.

Under its Universal Service obligation, Swisscom is required to provide, subject to price ceilings, comprehensive local and national long distance calling services throughout Switzerland until December 31, 2007. Swisscom s current tariffs are well below the applicable ceiling. See *Regulation Price Ceilings for Universal Service* .

Wholesale Traffic

Swisscom provides various wholesale services to other telecommunications providers, including network operators, service providers and resellers. Swisscom s portfolio of wholesale services includes basic interconnection services, which Swisscom offers to all licensed operators, registered service providers and others entitled to interconnection under the Telecommunications Act. See *Regulation Interconnection by a Market-Dominant Provider* .

Effective July 1, 2005, Swisscom and Belgacom, the leading telecommunications company in Belgium, formed a new joint venture company, named Belgacom International Carrier Services (BICS), combining their international wholesale activities. See *Other Participations Belgacom International Carrier Services* . Fixnet s wholesale business now consists only of its wholesale national business. In 2004 and 2005, Fixnet s international wholesale operations contributed CHF 445 million and CHF 256 million to Swisscom s wholesale traffic revenues, respectively.

As of July 1, 2005, a large portion of Swisscom s wholesale international traffic ceased to be routed through Fixnet, and is now routed directly through BICS. As Fixnet only has a minority stake in the joint venture, associated costs and revenues should not have been recorded by Fixnet following the Belgacom transaction. Nonetheless, international incoming traffic to be routed through BICS in Switzerland to Swisscom s Mobile network continued to be routed through Fixnet s network until June 2006. Traffic to domestic third party networks has been, and will continue to be, routed through Fixnet s network in the future. The associated revenues and costs are recognized by Fixnet.

Since February 2003, direct mobile interconnection has been available, and mobile network operators have been able to terminate their traffic directly on each other s networks. As a result, traffic between networks, which had previously been routed via Fixnet s wholesale network, was initially routed directly, resulting in a decrease in traffic over Swisscom s network in 2004 and 2005. In 2006, however, traffic between other telecommunication providers that was routed through Swisscom Fixnet rather than through a direct interconnection increased again.

Swisscom has a standard interconnection offer which it markets to all licensed operators, registered service providers and others eligible for interconnection under the Telecommunications Act, and it complements this standard offer with a portfolio of extended interconnection services and wholesale products. In 2006, external revenue from national wholesale services amounted to CHF 351 million.

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The following table sets forth information relating to Fixnet s national interconnection and transit traffic for the periods indicated.

In millions of minutes	Year Ended December 31, 2006	2005	2004
Wholesale national traffic[(1)]	16,160	17,524	18,576

(1) Based on minutes as determined for customer billing purposes. Includes traffic related to third party revenues for access, termination and transit services.

Swisscom s standard interconnection offer encompasses a set of basic interconnection services which Swisscom is required to offer under the Telecommunications Act. The standard offer comprises interconnection between access points on the Swisscom network and competitors access points, originating, terminating and transit services, access to Swisscom s emergency, national and international directory enquiry services, as well as access to the Business Numbers of Swisscom and other service providers.

Under the Telecommunication Act, the interconnection rates charged by a market dominant provider must be cost-oriented. Interconnection rates are based on the long run incremental costs (LRIC) of an efficient operator and may not include historical costs. See *Regulation Interconnection by a Market-Dominant Provider* .

The following table sets forth information relating to Fixnet s interconnection prices for the periods indicated.

CHF/minute[(1)]	As of December 31, 2006	2005	2004
Regional termination	0.0107	0.0112	0.0114
National termination	0.0150	0.0175	0.0186
Regional carrier selection	0.0108	0.0113	0.0115
National carrier selection	0.0151	0.0176	0.0187

(1) Includes set-up charge. Calculated based on the weighted average price of a call of four minutes duration, whereby the traffic split in peak, off-peak

and night calls was taken into consideration.

In 2006, Swisscom reduced its standard interconnection rates by up to 15%. Due to a Federal Court decision from April 2006 and its impact on the cost calculation according to LRIC, prices for 2007 will not be published until the middle of 2007 and will be applied retroactively to January 1, 2007. See *Regulation Interconnection by a Market-Dominant Provider* and *Item 8: Legal Proceedings Proceedings Relating to Fixed-Fixed Interconnection*. Swisscom expects to continue to adapt its interconnection charges from time to time as it realizes further cost savings through network optimization or improvements in efficiency.

Other Traffic

Swisscom generates other traffic revenue from the operation of private and public payphones (which Swisscom is required to maintain as part of its Universal Service obligation), operator services and from the sale of pre-paid cards. In 2006, Swisscom realized external revenue of CHF 105 million from these services.

Other

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

Customer Equipment

Swisscom is a leading provider of customer equipment to residential customers in the Swiss telecommunications market. Swisscom purchases all of the telecommunications equipment that it sells or rents under the Swisscom brand name from third-party suppliers. In addition, Swisscom sells telecommunications equipment under third-party brand names. Swisscom primarily offers residential customers PSTN and ISDN corded and cordless telephone handsets and facsimile machines. Swisscom also offers mobile handsets and a variety of other products through its Swisscom shops, including ADSL modems. In 2006, sales of customer equipment generated external revenue of CHF 238 million.

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Swisscom uses both Swisscom shops and third-party distribution channels to distribute customer equipment. The approximately 100 Swisscom shops were transferred from Fixnet to Mobile effective January 1, 2007, reflecting the fact that most of the products and services offered in Swisscom shops are related to mobile communications. Nonetheless, the comprehensive range of fixed-network offerings in such shops will remain unchanged, and revenues from sales of fixed-network voice equipment will continue to be recognized by Fixnet.

Leased Lines

Fixnet offers small and mid-sized enterprises a full portfolio of leased lines throughout Switzerland. Customers can choose among a wide range of bandwidths and a selection of different service levels. Swisscom has contracts with approximately 62 wholesale customers in Switzerland. Corporate customers, the primary customer segment for leased lines, are targeted through Solutions. See *Solutions Leased Lines National* . In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which entered into force on April 1, 2007. Swisscom is required to offer, among other things, access to leased lines on a cost-oriented basis in areas where it is deemed market dominant. See *Regulation Unbundling of the Local Loop and Other Access Regulation* . In 2006, the provision of leased lines generated external revenue of CHF 144 million.

Directories

Swisscom Directories operates, maintains and sells Switzerland s most comprehensive telephone directory database. This database includes over 6 million residential and business entries and is updated daily with subscriber information from Switzerland s major telecommunications service providers. Swisscom Directories is also responsible for the production, marketing and distribution of printed telephone books, as well as the operation, production and development of electronic directories that are also accessible on the Internet. In 2006, Swisscom Directories generated external revenue of CHF 122 million.

The directories business is regulated under the Telecommunications Act. Every telecommunication service provider is required to provide its regulated data, including daily data updates. In 2002, Swisscom Directories was appointed by all major telecommunication providers as their data agent and is now responsible for centrally handling the provision of regulated data.

Other

Other revenue comprises mainly Internet narrowband traffic to third-party ISP numbers. In addition, it provides a range of value added services and data services to residential customers. In 2006, external revenue from these services amounted to CHF 115 million.

Competition

In the area of fixed network telephony and related services, Swisscom faces intense competition, particularly in the national and international calling markets. Since 2004, price competition has intensified due to increased competition from cable network operators, especially Cablecom, the largest cable network operator in Switzerland, and from Internet service providers. Swisscom expects price competition to further intensify in 2007.

Access. As recently as three years ago, Swisscom did not face significant competition in the residential access market, mainly due to the fact that Swisscom had not yet been required to unbundle its local loop. However, competition has increased since mid-2004, when Cablecom started offering telephony services over cable on a commercial basis and thereby began to compete directly with Swisscom s PSTN and ISDN access services. In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which entered into force on April 1, 2007. Swisscom is required to offer, among other things, unbundled access to its local loop on a cost-oriented basis in the form of full access as well as access rebilling. Unbundling of the local loop will require market-dominant providers to also offer bistream access on a cost-oriented basis for a limited period of four years. See *Regulation Unbundling of the Local Loop and Other Access Regulation* . Unbundling the local loop gives competitors direct access to Swisscom s customers and the ability to offer them a full range of services without the need to use Swisscom as an intermediary. In addition to losing access revenues, unbundling the local loop is likely to lead to increased competition for national and international traffic as, for the first time, customers will be able to choose among competing full-service providers of fixed-line telephony.

Swisscom s principal competitors in the Internet access market are Cablecom and TDC (Sunrise). TDC (Sunrise) offers narrowband dial-up access through its own network as well as ADSL broadband access through a reselling agreement with Swisscom Fixnet.

In the market for broadband access, Swisscom faces stiff competition from cable network operators, including Cablecom, who offer broadband Internet access via cable. Cable network operators are particularly well positioned to combine voice, data and Internet access services with multimedia content. In response to this increased competition, Swisscom is making capital expenditures to enhance its broadband and IP network and it is working to complement its existing network with VDSL technology to provide downstream speeds of up to 30 Mbit/s. These efforts enable Swisscom to combine its core activities in voice and Internet services with multimedia services such as TV and video on demand. At the beginning of November 2006, Swisscom launched its Bluewin TV service based on its broadband network. However, cable network operators have been offering multimedia services for some time and Swisscom may not be successful in acquiring substantial market share. With the rollout of broadband mobile services based on UMTS, DVB-H and other wireless broadband access technologies, Swisscom may face additional competition from broadband mobile service providers.

In order to compete with cable operators more effectively, Swisscom has successively increased the capacity of its broadband access services since 2003. The most recent upgrades occurred in March 2006 and March 2007 and more than doubled the bandwidth for most service plans.

After revoking, on October 17, 2005, a provisional order from May 6, 2002 relating to a petition filed by two of Swisscom s competitors, the Competition Commission announced, in a letter dated October 20, 2005, that it was opening a new investigation of Swisscom and Swisscom Fixnet, based primarily on allegations made by one of Swisscom s competitors, TDC (Sunrise). The Competition Commission believes facts exist which indicate Swisscom may be abusing its dominant position. In addition, the Competition Commission wants to examine whether its ADSL wholesale prices were abusively high and prevented other Internet service providers from realizing sufficient profits in the retail market (price-squeezing). This investigation is still pending. See *Item 8: Financial Information Legal Proceedings Other Regulatory Proceedings* .

National Retail Traffic. Swisscom faces increasing competition in the national retail traffic market, especially from Cablecom. Currently, Swisscom s principal competitors in the national retail traffic market are TDC (Sunrise), Cablecom and Tele2. In 2007, prices are expected to remain under pressure, mainly due to increased competition from cable network operators, mobile network operators and Internet service providers offering Internet telephony (known as Voice over IP) services.

Tariffs for fixed to mobile calls, which are accounted for in national traffic, are expected to remain under continuous pressure due to regulatory framework in which Swisscom operates. See *Regulation Mobile Telecommunications* .

Swisscom s competitors for national long distance service depend on Swisscom for the provision of wholesale origination and termination access and transit services. As a result, the pricing of these services has had an important impact on the development of retail competition. Since January 1, 2000, Swisscom has been required to calculate its interconnection costs in any market in which it is market-dominant on the basis of the long-run incremental cost of an efficient operator and may no longer include historical costs. As a result, interconnection prices have steadily declined. Because interconnection rates calculated on the basis of long-run incremental costs only cover the additional cost to Swisscom of giving other providers access to its network and do not include the historical costs incurred by Swisscom in building out its network, Swisscom s competitors may be able to offer retail services at lower prices than Swisscom while still covering their costs. See *Regulation Interconnection by a Market-Dominant Provider* .

International Retail Traffic. Swisscom also faces strong competition in the outgoing international calling market. Swisscom s principal competitors in the outgoing international traffic market are TDC (Sunrise), Tele2, Cablecom and Solaris, which focus their marketing on offering reduced rates for calls directed to countries of high traffic volume. The development of interconnection pricing will also impact competition in the area of outgoing international telephony.

Over the long term, Swisscom expects that additional market share will be lost in the area of international fixed voice telephony due to the increasing use of Voice-over-IP technologies and increased low-price competition. The international rates are therefore expected to come under additional pressure.

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Wholesale Traffic**.** In 2006, Swisscom continued to face increasing competition in the national wholesale market from various network providers such as TDC (Sunrise), Verizon, Cablecom and Colt, currently offering services between major Swiss cities and international outgoing services to resellers.

Other Traffic**.** In the public and private payphones market, Swisscom does not face significant competition. However, the overall market for public and private payphone use is expected to decline further due to increasing use of mobile phones and phone cards issued by other operators.

In the market for operator services, Swisscom faced only limited competition in 2006, as it was allowed to use the well-known 111 access number until the end of the year. Effective January 1, 2007, Swisscom switched to a new service number, 1811. Swisscom s competitors received similar service numbers. The new competitive landscape will result in a significant reduction in traffic volume for Swisscom s operator services.

Customer Equipment. In the area of customer equipment, Swisscom competes directly with equipment manufacturers and third-party vendors. A number of Swisscom s principal suppliers of telephones and other customer equipment, including mobile handsets, also compete with Swisscom. Vigorous competition and rapid technological change in the sector, as well as increasing competition from companies that are also active in other sectors of the telecommunications market, have led to falling prices.

Leased Lines**.** In 2006, Swisscom continued to face intense competition in the market for national leased lines, particularly in metropolitan areas. Swisscom s main competitors in this market are Cablecom, TDC (Sunrise) and Colt. In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which entered into force on April 1, 2007. Swisscom is required to offer, among other things, access to leased lines on a cost-oriented basis, which is expected to intensify competition. See *Regulation Unbundling of the Local Loop and Other Access Regulation* .

Directories**.** Swisscom faces significant competition in the directories market from online directory operators, internet search engines and traditional direct marketing companies entering the market. Under the amended Telecommunications Act, which entered into effect on April 1, 2007, prices charged for regulated data must be cost-oriented. Swisscom therefore expects prices to continue to decrease. Barriers to entry remain low, particularly in the online directory market, and Swisscom Directories expects competition to increase further.

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Mobile

Overview

Swisscom Mobile is the leading provider of mobile telephony services in Switzerland, with 4.6 million mobile subscribers as of December 31, 2006. In 2006, Swisscom s mobile activities generated total revenue of CHF 4.0 billion, including sales of CHF 0.5 billion to other Swisscom business segments. With external revenues of CHF 3.5 billion in 2006, Swisscom Mobile accounted for 36.7% of Swisscom s consolidated net revenue.

The following table sets forth the external revenue generated by Mobile for the periods indicated.

CHF in millions	Year Ended December 31,		
	2006	**2005**	**2004**
Base fees	635	677	691
Connectivity voice	2,040	2,203	2,286
Connectivity data and value-added services	667	604	521
Other mobile revenue(1)	199	167	181
Total Mobile	**3,541**	**3,651**	**3,679**

(1) Includes revenue from the sale of handsets sold through sales channels other than Swisscom shops and from the business with prepaid billing, device management and content services through the subsidiaries SICAP, Swapcom and Minick.

Most of Swisscom s mobile telephony revenue is generated from monthly subscription fees and traffic charges for mobile voice telephony, which accounted for 76% of its external revenues in the mobile segment in 2006.

With the successful implementation of services enabled by high speed GPRS, PWLAN, EDGE, UMTS and HSDPA technologies, Swisscom believes that an increasingly significant portion of its mobile revenue will be generated by mobile data services, value-added services, Internet access and e-commerce services. In November 2003, Swisscom implemented the Vodafone live! portal, providing mobile information, entertainment, community and lifestyle premium services, and Swisscom has added significant new features such as a short news broadcasts that can be viewed on mobile handsets. These services are attracting an increasing number of subscribers, making it the fastest growing content offering. Swisscom believes that such services will contribute to the generation of future m-commerce revenue and enhance customer retention. Consequently, Swisscom moved to acquire Minick Holding AG in December 2006. Minick develops and operates mobile Internet portals, multimedia services and news applications such as M-Voting, Teletext-Chats, SMS and MMS. The company is also active in mobile marketing and mobile video streaming. The acquisition will support Swisscom s expansion into a business area closely related to its core competence and its triple play strategy.

In April 2006, Swisscom upgraded its Mobile Unlimited service, which enables seamless data download/synchronization via a PC card, by adding HSDPA to the existing list of supported mobile broadband technologies (GPRS, PWLAN, EDGE, UMTS) which Swisscom believes will contribute in the future to the generation of data revenues.

On February 5, 2007, the Competition Commission imposed a fine of CHF 333 million against Swisscom Mobile for alleged misuse of mobile termination fees. Swisscom rejects both the charge that it misused its dominant market position and the sanction. Swisscom intends to appeal to the Swiss Federal Administrative Court and, if necessary, in the final event to the Swiss Federal Supreme Court. Under the terms of Swisscom s recent repurchase of a 25% interest in Swisscom Mobile from Vodafone, Swisscom is entitled to claim from Vodafone 25% of any sanction ultimately imposed in this matter. For more information, see *Item 3: Key Information Risk Factors Risks Related to Swisscom s Business The Swiss Competition Commission may require Swisscom Mobile to pay large fines and reduce its prices* and *Item 8: Financial Information Legal Proceedings Other Regulatory Proceedings* .

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Cooperation with Vodafone

On December 18, 2006, Swisscom Mobile entered into comprehensive, exclusive cooperation and branding agreements (together, the Agreements) with Vodafone Group Plc and certain affiliates thereof (together, Vodafone), respectively. The Agreements were entered into in conjunction with Swisscom s repurchase of a 25% interest in Swisscom Mobile that Vodafone had originally acquired in April 2001. The Agreements set out the terms on which Swisscom Mobile and Vodafone will continue to cooperate in certain areas, replacing a previous service agreement, which was terminated. The Agreements will run for five years and may be extended by two-year periods.

Under the Agreements, Swisscom Mobile and Vodafone agree to provide each other with access to their respective products and services and to provide consultancy and supporting services in agreed circumstances. The Agreements provide a framework for co-operation in the areas of roaming and product development and set forth the terms for mutual use of Swisscom Mobile s and Vodafone s trade names and marks. Under the Agreements, Swisscom Mobile pays a flat fee for licensing rights, services and products provided by the Vodafone group companies. In the event Swisscom Mobile provides products to Vodafone, it will receive certain royalties.

Swisscom Mobile believes its cooperation with Vodafone enhances its competitive position in the mobile market. Through this cooperation, Swisscom Mobile has access to Vodafone products, services and know-how. Swisscom Mobile may also participate in Vodafone s worldwide arrangements for the procurement and/or supply chain management of infrastructure, handsets and other products, which enables Swisscom Mobile to realize cost savings.

In 2006, Swisscom generated revenues from the co-operation with Vodafone in the amount of CHF 96 million and paid an amount of CHF 180 million for services purchased from Vodafone. These payments primarily related to roaming charges that each of Swisscom Mobile and Vodafone paid the other for the use of the other s network by its customers.

Network Service Offerings

Swisscom s mobile services are provided using 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 covers 99% of the population of Switzerland, and its UMTS network covers 90% of the population. For more information on Swisscom s mobile network, see *Networks and Technology Mobile Telecommunications Network* .

Swisscom Mobile is the leading public wireless LAN (PWLAN) network operator in Switzerland, currently operating approximately 1,032 hotspots in Switzerland. In addition, Swisscom Mobile offers access to additional hotspots through roaming agreements, mainly with Swisscom s Hospitality Services (formerly Eurospot). For more information on these networks and Swisscom s PWLAN services, see *Networks and Technology Mobile Telecommunications Network* and *Other 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 (HSDPA) technology, Swisscom is able to provide customers a variety of enhanced services such as live-TV. Swisscom s EDGE service is available to 99% 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 believes that it can provide its customers with a true broadband experience by providing seamless connectivity through a variety of technologies, e.g. HSDPA, UMTS, EDGE, WLAN and DVB-H. For further information on Swisscom s mobile network, see *Networks and Technology Mobile Telecommunications Network* .

Base Fees

Swisscom s base fees are generated from monthly subscription fees paid by Swisscom s postpaid mobile subscribers and include revenue generated from the sale of SIM cards. For more information on Swisscom s mobile subscribers, monthly base fees and SIM card fees, please see *Connectivity Voice* , below.

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Connectivity Voice

As the leading provider of mobile telephony services in Switzerland, Swisscom offers its customers mobile telephony services in Switzerland as well as abroad. Swisscom has roaming agreements with 453 mobile network operators worldwide covering 187 countries and earns revenue from those operators when their subscribers make mobile phone calls in Switzerland.

Traffic. The table below sets forth, for the periods indicated, the volume of traffic relating to Swisscom s mobile telephony business.

In millions of minutes	Year Ended December 31,		
	2006	**2005**	**2004**
Connectivity Voice (1)	4,432	3,688	3,404

(1) Includes minutes from all outgoing calls made by Mobile subscribers as well as service accounts and traffic generated by service accounts.

For information on average monthly minutes of use and average monthly revenue per mobile customer, see *Item 5: Operating and Financial Review and Prospects Results of Operations by Segment Mobile* .

Principal Products. Swisscom currently offers a wide variety of mobile products, including pre- and post-paid products and products where calls are charged on a per minute, per hour or per call basis.

All of Swisscom s mobile products except its data-only and prepaid, low-cost products provide Swisscom customers with the full range of mobile services, allowing them to make and receive calls within Switzerland or internationally, using the same telephone number over GSM and/or UMTS systems in countries where Swisscom has roaming agreements.

In 2005, Swisscom introduced new products designated as liberty products, for which subscribers are charged on a per-hour basis when calling numbers in Swisscom s networks. By launching these products, Swisscom successfully stimulated customer usage, increasing average usage per month and the loyalty of its customers.

Subscribers. The following table shows the total number of subscribers to Swisscom s mobile services as of the dates indicated.

In thousands(1)	As of December 31,		
	2006	**2005**	**2004**
Postpaid	2,805	2,640	2,518
Of which subscribers to liberty products	*1,142*	*570*	
Prepaid(2)	1,827	1,641	1,390
Of which subscribers to liberty products	*466*	*65*	
Total Subscribers	**4,632**	**4,281**	**3,908**

(1)

Includes service accounts.

(2) Swisscom does not include accounts of any prepaid customer with inactivity of more than twelve months in its subscriber figures. A customer is deemed inactive after a period of twelve months without making a call or sending a SMS message.

Since 1995, the number of mobile customers in the Swiss marketplace has grown each year, with overall market penetration reaching 98% at the end of 2006, based on data published by mobile network operators. Swisscom expects growth in the mobile market to continue, although at a slower rate in light of high market penetration. With growing market penetration, Swisscom increasingly focuses on customer retention.

In order to promote customer retention, Swisscom pursues various customer loyalty and win-back activities, including incentives for 12 and 24-month contract commitments, handset subsidies and handset renewal possibilities, which enabled Swisscom to maintain a low customer churn rate. While Swisscom s mobile business relies primarily on Swisscom shops for sales and marketing, it is also expanding its use of indirect and alternative sales channels.

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***Tariffs*.** The following table provides an overview of the range of tariffs applicable as of December 31, 2006, in Swisscom s principal product categories. All tariffs include VAT.

(CHF)	SIM Card Fee	Monthly Base Fees	Peak(1)	Off-Peak(2)	Night and Weekend(3)
Charge per Min.					
Postpaid products	40	10-75	0.19-0.70	0.15-0.70	0.15-0.70
Prepaid products	40	(4)	0.37-0.99	0.37-0.90	0.37-0.80
Charge per Hour/Call (liberty products)					
Postpaid products	40	12/25	0.50 / 0.70	0.50 / 0.70	0.50 / 0.70
Prepaid products	40	(4)	0.80	0.80	0.80

(1) Monday to Friday from 7:00 a.m. to 7:00 p.m., except holidays.

(2) Monday to Friday from 6:00 a.m. to 7:00 a.m. and 7:00 p.m. to 10:00 p.m.

(3) Monday to Friday from 10:00 p.m. to 6:00 a.m., weekends and holidays.

(4) Customers who use prepaid mobile products are charged an initial fee for the SIM card only; there is no fee for recharging the card.

Swisscom offers a variety of tariff and service packages targeting different customer segments. Swisscom has introduced lower-cost products for residential and business customers, which have effectively resulted in an overall tariff reduction. Because Swisscom s mobile customers can switch from one tariff to another, which Swisscom believes helps to prevent customer churn, the introduction of these new tariffs has led to a decline in the number of subscribers to Swisscom s higher priced services. Swisscom expects that pressure on tariffs in both the residential and business segments will remain fierce in the future. Regulation of mobile access could still result in Swisscom being required to sell its competitors mobile telephony minutes on a cost-oriented basis for resale, which would put additional pressure on turnover.

For calls placed and received outside Switzerland, customers are generally billed using a fixed tariff model under which tariffs vary depending on the user s geographic zone . This model provides the customer high cost transparency and good cost control. However, customers also have the option of being billed using a surcharge model under which a roaming surcharge is added to the tariffs imposed by the local mobile network operator.

Connectivity Data and Value-Added Services

Connectivity data and value-added services comprise mainly short messaging services (SMS), data traffic and services.

Short messaging services (SMS), one of the most popular mobile data services, allows messages with up to 160 letters to be sent via a digital mobile phone. In 2002, Swisscom launched a multimedia messaging service (MMS), which is a further development of its SMS service.

The table below sets forth, for the periods indicated, the numbers of SMS messages sent.

	Year Ended December 31,		
	2006	**2005**	**2004**
Number of SMS messages (in millions)[(1)]	2,107	1,991	1,986

(1) Includes service accounts and traffic generated by service accounts. Does not include wholesale SMS messages.

The mobile data service Vodafone live! allows customers to take and send picture messages, download games and ringtones and to access information and entertainment services, such as live television, which now includes 29 television channels. These mobile entertainment and mobile data services are continually upgraded either globally through Vodafone or locally through Swisscom. E-mail synchronization services have been the primary growth driver for data services, and are expected to continue growing.

Swisscom Mobile utilizes standardized interfaces to enable platforms used by third parties to offer mobile data and other services to Swisscom mobile subscribers. Examples of such services include premium priced SMS and MMS, which allow point of sale payment through mobile handsets.

Other

Customer Equipment Sales. Swisscom uses both Swisscom shops and third-party distribution channels to distribute customer equipment. As of January 1, 2007 responsibility for overseeing the approximately 100 Swisscom shops was effectively transferred from Fixnet to Mobile, reflecting the fact that most of the products sold in such shops are related to mobile communications. Nonetheless, revenue from sales of fixed-network voice equipment through Swisscom shops will continue to be accounted for in Swisscom s Fixnet segment. For more information on Swisscom shops, see *Fixnet Other Customer Equipment* .

SICAP. 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. In 2006, SICAP acquired a 100% interest in Swapcom. Swapcom, a French company founded in 1999, provides software solutions for remotely managed devices and messaging platform services as part of a customized mobile multimedia service portfolio. Future revenues from multimedia services and applications largely depend on real-time device setting and control, for which OTA is key.

Competition

In its mobile business, Swisscom faces competition primarily from the two other original 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 2007 due to increased tariff pressure and competing enhanced data solutions. Competition in the residential segment is expected to be driven by handset subsidies, with enhanced customer service quality growing in importance as a basis for competition.

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Solutions

Overview

Solutions is the leading provider of telecommunication services to corporate customers in Switzerland with complex needs. In 2006, Solutions generated total revenue of CHF 1.2 billion. With external revenues of CHF 1.1 billion in 2006, Solutions accounted for 11.1% of Swisscom s consolidated net revenue in 2006.

Effective January 1, 2007, Swisscom reallocated certain responsibilities within the group in order to refine and enhance the customer focus of each segment. Whereas Fixnet and Mobile will continue to focus on residential customers and the needs of small and medium-sized enterprises, Solutions is now responsible for larger corporate accounts, including approximately 6,000 of the largest corporate accounts. Accordingly, Solutions has extended its business-to-business (B2B) portfolio and now resells Swisscom Mobile s products for corporate customers. For this purpose, Swisscom Mobile s employees catering to corporate customers were transferred to Solutions, although revenues generated from sales of these products continue to be recognized by Swisscom Mobile.

Services provided by Solutions include:

National and International Traffic. Solutions offers national and international fixed-line voice telephony services to business customers. In 2006, Solutions carried an aggregate of 1.8 billion minutes of national telephony traffic and 0.3 billion minutes of outgoing international traffic generated by business customers.

Leased Lines National. Solutions offers national leased lines services to business customers.

Intranet Services. Solutions offers Intranet services, consisting primarily of managed VPN (Virtual Private Networks) services to business customers.

Other Service Business. Solutions offers private network services, business internet access and business numbers, which business customers use to provide their customers with access to information services. In addition, Solutions offers international VPN and leased line services to its customers through partnerships.

Solution Business. Solutions offers business customers custom-made modular solutions to plan, build and run customers business communication needs.

System Integration. Solutions provides a comprehensive portfolio of products and services related to data and telecommunications infrastructure, complimented by customer interaction management, consulting services, security solutions and live event support.

Customer Services. Solutions offers a full range of operations and maintenance services in the field of private branch exchanges (PBXs) and in-house local area networks (LANs).

Outsourcing. Solutions outsourcing services range from telecommunication outsourcing up to complete Information and Communications Technology (ICT) outsourcing.

Other. Solutions offers rental agreements and various other financing models through third parties to its business customers as financing alternatives for PBXs.

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The following table sets forth external revenue generated by Solutions for the periods indicated.

CHF in millions	Year Ended December 31, 2006	2005	2004
National and International Traffic	200	239	297
Leased Lines National	122	147	184
Intranet Services	140	152	173
Other Service Business	230	247	272
Solution Business	338	283	277
Other	42	55	76
Total Solutions external revenue	**1,072**	**1,123**	**1,279**

Depending on each customer s size and the complexity of its communication needs, Solutions markets its services through a key-account management team and through direct and indirect sales channels.

Due to generally high market penetration, implementation of IP-based services, overcapacity and, as a result, high price pressure in the telecommunications market, Solutions has experienced a general decrease in revenues from traditional telecommunications services in most of its customer segments. Nonetheless, Solutions revenues derived from complex telecommunications solutions have been rising. Solutions continues to focus its resources on meeting customers needs for complex telecommunications services to ensure its long-term growth and, where necessary, will complement its portfolio through new developments, partnerships or acquisitions.

National and International Traffic

Solutions provides national and international fixed-line voice telephony services to business customers. For a description of these voice telephony services, which Swisscom also provides to residential customers, and of developments impacting the provision of fixed-line telephony services, see *Fixnet Access* and *Fixnet Retail Traffi*

The following table sets forth, for the periods indicated, selected information relating to Solutions national and international fixed voice telephony traffic generated by business customers.

Traffic (in millions of minutes):	Year Ended December 31, 2006	2005	2004
Local and long-distance traffic	1,540	1,672	1,779
Fixed-to-mobile traffic	246	258	278
Total national traffic	**1,786**	**1,930**	**2,057**
International traffic(1)	342	356	361
Total traffic(2)	**2,128**	**2,286**	**2,418**

(1) Based on minutes of outgoing international traffic as determined for retail customer billing purposes.

Does not include international wholesale traffic originating outside Switzerland.

(2) Does not include VoIP traffic.

For information on tariffs for national and international traffic, see *Fixnet Retail Traffic Tariffs*.

As the quality and convenience of using IP-based services has improved in recent years, they have become a viable alternative to traditional fixed-line services for many users, a trend Swisscom expects to continue and accelerate in the future. Solutions introduced its Voice over Internet Protocol (VoIP) service in the business market in 2006 and expects active migration from traditional voice traffic to VoIP services to continue.

Leased Lines National

Solutions 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 assemble their own private networks and by resellers to establish networks in order to offer information services. Swisscom also offers leased line services on a wholesale basis. See *Fixnet Other*.

Solutions also offers managed leased line services to its national leased line customers. Through active fault management and automatic rerouting in case of network failure, Solutions managed leased line services guarantee up to 99.97% end-to-end availability.

The number of national leased lines has declined in recent years, as customers increasingly migrate to high capacity services based on Internet Protocol (IP) due to customer applications requiring higher flexibility.

Solutions leased line subscribers pay an initial installation charge based on the type and capacity of the line and, thereafter, pay a monthly fee based on the type, length and capacity of the leased line. In recent years, leased line tariffs have declined due to regulatory pressures and increased competition from other infrastructure-based operators 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.

Intranet Services

Solutions Intranet services consist primarily of managed VPN (Virtual Private Networks) services, based on multiprotocol label switching (MPLS) technology. As of December 31, 2006, Solutions managed slightly more than 25,000 routers, mainly on behalf of banking and insurance clients, as well as on behalf of large retailers. Other services within the Intranet services portfolio 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.

Other Service Business

In the past couple of years, the increased substitution among large business customers of IP services for frame relay and ATM services has resulted in decreased sales of such services. Solutions completed the process of phasing out services based on frame relay and ATM technologies at the end of February 2007.

Solutions business Internet service portfolio includes a full range of Internet access services for customers with high bandwidth requirements (up to several Gbits/s). Solutions also offers services and applications for business customers and national Internet service providers (ISPs). These services include managed firewall services and spam filtering IP transit services over a dedicated backbone. In 2007, Solutions expects to broaden its Internet access services by offering VDSL technology.

In 2006, Solutions launched a VoIP service, providing customers with access to a replacement for traditional voice services. Solutions also launched an IP Centrex solution in 2006, whereby customers are offered a network-based PBX Solution (Public Branch Exchange) instead of a traditional in-house PBX switch.

Solutions also offers customers business numbers toll-free, cost-shared and premium rate numbers for both national and international use, which business customers use to provide their own customers with access to information services. Solutions also offers premium rate services that, among other things, allow for flat rate charging on a per call or product basis. These numbers are mainly used by business customers as retail sales channels and/or as an additional form of payment. Demand for business numbers has declined over the past few years, primarily as a result of companies using the Internet and informational company websites to distribute information instead of toll-free or other numbers.

Solutions plans to launch a variety of convergence solutions in 2007 that are expected to be important sources of future growth. Examples of these offerings include: (1) bundled LAN, WAN and VoIP services; (2) an integrated workplace solution, consisting of a pre-configured computer and a PDA as well as all necessary software and data and voice services; or (3) a single telephone terminal offering mobile and fixed network telephone connections.

Swisscom Solutions AG has concluded a commercial partnership agreement with UK-based Vanco plc, with a view towards offering multinational and international customers services outside of its home market in Switzerland. Solutions and Vanco plc have been cooperating as part of the process of migrating former Vanco plc customers to Solutions.

Solutions offers international leased lines to its business customers through Belgacom (BICS) and other partners. For more information, see *Other Participations Belgacom International Carrier Services* .

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Despite the sale of its stake in Infonet Services Corporation in 2005, Swisscom remains the exclusive distributor of Infonet services in Switzerland through Infonet Switzerland AG, in which Swisscom has a 90% interest, and which is accounted for in the Solutions segment.

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

Solution Business

The Solution Business provides customers with customized modular solutions, designing, installing and operating customers business communication infrastructure. Together with other Swisscom companies or external partners, Solutions is able to offer complete communication solutions.

System Integration Solutions provides a comprehensive portfolio of professional services, including consulting services, customer interaction management, security solutions and live event support. In addition, Solutions offers product integration services, including the design, provision, implementation and support of PBXs, LANs and other data and telecommunication infrastructure.

Solutions has expanded its security services, including Public Key Infrastructure certification, which allows customers to digitally sign and transmit documents with a digital signature recognized by Swiss law.

Effective February 28, 2006, Swisscom Solutions AG took over 300 mid- to large-sized customers, the related assets and 120 employees from Siemens Schweiz AG, extending its know-how in planning, installing, operating and maintaining company-internal voice and data networks. Furthermore, the parties agreed that Siemens will provide Swisscom Solutions with support, including technical support for its technicians and engineers, and current and future PBX-related products. Solutions also agreed to collaborate with Siemens Schweiz AG on a commercial basis.

Customer Service Solutions offers a full range of operations and maintenance services relating to private branch exchanges (PBXs) and in-house LANs. Solutions operates and maintains the customer s PBX or LAN remotely and/or via Solutions nationwide technical force, or via partners. For in-house LANs, Solutions has also introduced a variety of services designed to prevent system failures and to ensure that systems are quickly repaired and made operational if a failure does occur.

Outsourcing Solutions outsourcing services consist primarily of providing telecommunications network services. In 2006, Solutions continued to expand its outsourcing activities by winning further major national and international contracts. Solutions believes that its outsourcing business will grow further as demand for combined IT and telecommunications solutions (provided by Solutions in cooperation with Swisscom IT Services) increases and as an increasing number of companies decide to focus on their core activities. See also *Item 3: Key Information Risk Factors The expansion of Swisscom s outsourcing business exposes it to the risk that it may not achieve expected cost savings, the risk of project failure and the risk of fines* .

Other

Solutions offers its business customers rental agreements and, through third parties, other financing models for PBXs.

Competition

Cablecom Cablecom, a cable network operator in Switzerland, operates its own infrastructure and has invested heavily to upgrade it. This network allows Cablecom to compete with Solutions in the following areas: traffic, VoIP, leased lines, intranet services, and PBX related services. In addition, Cablecom is aiming to enhance its product and service offerings throughout Switzerland by entering into partnerships. Cablecom offers interregional connections throughout Switzerland.

TDC (Sunrise) TDC (Sunrise) is one of Solutions most significant competitors in traffic, VoIP, leased lines, intranet services, PBX related services and the operation and maintenance of in-house LANs. TDC (Sunrise) is positioning itself as a full-service provider and offers interregional connections throughout Switzerland.

NextiraOne NextiraOne competes with Swisscom in the following areas: PBX related services, telecommunication infrastructure services, consultancy services and the operation and maintenance of in-house LANs.

Getronics Getronics is one of Solutions primary competitors in telecommunication infrastructure services and the operation and maintenance of in-house LANs.

Utilities and Municipalities Electrical power providers and local municipalities compete with Solutions leased line business by offering telecommunication services to customers via their own high-capacity fiber networks. Competition in the national leased line market may also increase as a result of amendments to the Telecommunications Act. See *Regulation Unbundling of the Local Loop and Other Access Regulation* .

International telecommunication companies Solutions faces intense competition from Colt (a prime competitor in the national leased line market), Orange Business Services, Verizon Business, British Telecom (BT) and Deutsche Telecom in its international business. This has lead to stiff price competition and a decline in market share. Overcapacity in international networks continues to place market prices under high pressure. With regard to outsourcing services, BT Global Services, Orange Business Services and T-Systems are Solutions main competitors. BT competes on the basis of its wide service offering and existing consulting know-how as well as its world-wide outsourcing experience within the telecommunications industry.

Consultants BearingPoint, Capgemini and Accenture compete with Swisscom in the operation and maintenance of in-house LANs, consulting services and security solutions.

Local and niche players Many local IT providers with long-established customer relationships play an important role in the market for telecommunication infrastructure services. With regards to consulting services and security solutions, specialized niche players are also significant competitors.

International ICT providers Solutions expects additional competition in the mid-term primarily from IT providers, such as IBM and EDS, as well as from traditional software providers, e.g., Microsoft and Skype, with regard to telecommunication solutions for business customers.

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Other

Swisscom is also active in a variety of other businesses, including the provision of IT, broadcasting and billing services as well as the provision of high-speed Internet access to business travelers across Europe.

The following table sets forth external revenue for the periods indicated.

CHF in millions	Year Ended December 31, 2006	2005	2004
Swisscom IT Services Group(1)	346	249	207
Swisscom Broadcast	152	150	148
Antenna Hungária Group(2)	162	26	
Accarda Group	118	115	112
Hospitality Services Group(3)	58	31	9
Other(4)	4		
Total Other	**840**	**571**	**476**

(1) Includes Comit as of 2006.

(2) Acquired in October 2005.

(3) Formerly Swisscom Eurospot.

(4) Consists primarily of broadband network businesses in Central and Eastern Europe and an interactive TV remote control (Betty) business in Germany and Switzerland.

Swisscom IT Services Group

The Swisscom IT Services Group consists of the Swisscom IT Services and Comit businesses.

Swisscom IT Services offers end-to-end business solutions, primarily in the financial services and telecommunications industries. In addition to business solutions, Swisscom IT Services focuses on systems integration, IT outsourcing and infrastructure services, including desktop services and datacenter services. Swisscom IT Services currently manages 85,000 desktop computers nationwide. Approximately 76% of these became part of Swisscom IT Services service portfolio over the last four years through outsourcing deals.

Swisscom IT Services customers are largely the Swisscom group companies and several small to large-sized financial institutions. In addition, Swisscom IT Services provides IT outsourcing services to major companies in the transportation, telematics, media, airline and health care sectors, and to parts of the Swiss government.

On January 4, 2006, Swisscom IT Services acquired Comit, an IT specialist in the financial services industry, for CHF 69 million. Swisscom IT Services financial services unit has been incorporated into the newly acquired company. The acquisition strengthened Swisscom IT Services know-how in the banking sector and allow it to offer IT services along the entire value chain. In 2006, Comit won several migration projects for banking platforms and signed outsourcing agreements with several cantonal banks.

Competition. In the IT services market for business customers, Swisscom IT Services competes with IBM, Hewlett-Packard, T-Systems, EDS, Accenture, CSC and a number of local players.

Swisscom Broadcast

Swisscom Broadcast operates a national network for the transmission and broadcast of analog and digital signals for television and radio broadcasting. Such services are provided primarily to the Swiss Broadcasting Corporation (*Schweizerische Radio- und Fernsehgesellschaft*) (SRG), the main provider of public television and radio broadcasting in Switzerland.

Swisscom Broadcast provides its services to SRG on freely negotiated commercial terms under a long-term contract with SRG that was terminated effective December 31, 2006. In March 2005, Swisscom Broadcast agreed on a new long-term contract with SRG that became effective at the beginning of 2007 and will run at least until the end of 2010. In 2006, Swisscom Broadcast was paid approximately CHF 110 million to broadcast SRG programs.

Swisscom Broadcast acquired Tele Rätia AG in December 2004, a company providing terrestrial retail TV services. By the end of 2006, Tele Rätia had largely completed the roll-out of a new digital video broadcasting terrestrial (DVB-T) program offering, which was developed jointly with Swisscom Broadcast. Tele Rätia AG merged into Swisscom Broadcast AG effective June 30, 2006.

In 2006, Swisscom Broadcast began testing the DVB-H digital transmission standard (Digital Video Broadcasting Handheld), along with Swisscom Mobile and other mobile telecommunications companies. DVB-H is based on radio broadcasting technology and provides mobile users with TV reception on handheld devices.

As a result of the increasing migration from analog to digital broadcasting signals, Swisscom Broadcast expects future growth to come from the introduction of the DVB-H digital transmission standards.

On December 18, 2002, the Federal Council presented the Swiss Parliament a draft of a revised radio and television law. After extensive consultations, the amended law was adopted by the Swiss Parliament on March 24, 2006. According to the new law, certain obligations will be imposed on providers of multiplexing devices used to broadcast signals, requiring them to provide other broadcasters with access to these devices so that they can deliver their own broadcasting signals to the public. In addition, operators of transmission and broadcasting networks will have to offer their services on a non-discriminatory basis to all broadcasting companies. The new law entered into effect on April 1, 2007. As Swisscom Broadcast is already in full compliance with this new law, it will not affect Swisscom Broadcast s business.

Antenna Hungária Group

In 2006, Swisscom completed its acquisition of the Hungarian broadcasting network operator, Antenna Hungária. Antenna Hungária provides both analog and digital terrestrial and satellite program transmission. Antenna Hungária s business communication services include managed leased-line, LAN, voice-data integration, Internet, VPN, VoIP and VSAT services through the country-wide microwave network (2,805 end points for managed lease lines; 2,799 end points for VSAT). Antenna Hungária also provides field maintenance services to other telecom network operators. Antenna Hungária is currently running a digital broadcasting trial in two areas and plans to develop new skills and capabilities to successfully expand into the residential market (DVB-H and DVB-T private) when the necessary frequencies become available. Swisscom intends to contribute its knowledge of digital broadcasting to promote the growth of digital television service in Hungary.

Due to Hungary s entry into the EU in 2004, it is expected that Hungary s regulations will be aligned with EU requirements. Currently, only analog services are regulated in Hungary. New legislation is due to be introduced in the course of 2007 that will include obligations relating to (i) access and interconnection, (ii) transparency, (iii) non-discrimination and (iv) cost orientation and price control. This draft regulation will not automatically be applicable in the digital market. It is currently unclear when the regulations will enter into effect and what impact they may have on Antenna Hungária s business.

Accarda Group

The Accarda Group comprises the business activities of Billag AG, Accarda AG and Medipa Abrechnungskasse AG. Accarda AG provides customer loyalty card processing and billing services in the private sector. These loyalty cards are branded by third parties, where they act as issuer, or else are co-branded with Accarda AG, where Accarda AG acts as the issuer. Accarda AG either acts as issuer, assuming the full financing risk, or as processor, in which case the risk is assumed by the third party issuer. Accarda AG also offers a factoring service whereby outstanding accounts receivable are acquired from the third party issuer. Accarda AG also provides debt collection services to Swisscom Group companies and to third parties.

Medipa Abrechnungskasse AG is a leading service provider in Switzerland s medical billing industry, providing doctors practices, hospitals and health insurance companies with electronic billing services and debtor management. Billag AG provides billing services to the public sector as part of an agreement to collect radio and television reception fees for the Swiss Broadcasting Corporation (SRG). The current agreement was due to expire at the end of 2007, but after a recent bidding process, the Federal Department of Environment, Transport, Energy and Communications (UVEK) extended the agreement to 2014.

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Hospitality Services Group

In 2006, Swisscom Eurospot changed its name to Hospitality Services. Swisscom Hospitality Services is a global provider of ICT services (Information and Communication Technology) to hotels and their guests across Europe and North America (excluding Switzerland, where the market is served by Swisscom Mobile). The Hospitality Services Group operates its network in premium hotels, spanning more than 2,350 properties in 16 countries and providing approximately 220,000 hotel rooms with communication services. Additionally, the Hospitality Services Group supports over 8,500 events globally.

In June 2006, the Hospitality Services Group acquired and integrated the U.S.-based Core Communications Corporation in order to strengthen its position in the European conference services market. Hospitality Services North America Corp. (formerly Core Communications) is recognized as an innovative leader in ICT services for the meetings and events industry and supports medium and large events in conference centers and business hotels throughout North America.

During 2006, the Hospitality Services Group continued to strengthen its customer relationships, focusing on product line diversification as well as service excellence. In order to better meet customer expectations, an expanded product portfolio was introduced in the fall of 2006.

Corporate

The Corporate segment encompasses Swisscom s headquarter functions, group-company shared services, the real-estate company Swisscom Immobilien AG (SIMAG) and its social plan programs (PersPec and Worklink). For a description of PersPec and Worklink, see *Item 6: Directors, Senior Management and Employees Employees Workforce Deployment and Productivity Improvement* .

SIMAG

SIMAG manages Swisscom s portfolio of real estate properties, some of which it leases to other group companies and, to a limited extent, to third parties. In addition, it provides facility management services, such as energy purchasing, and security and cleaning, to third parties and other Swisscom group companies. SIMAG has further expanded its service portfolio to include fleet and business travel management for the Swisscom Group, which it took over from headquarters in 2005. For more information on Swisscom s real estate, see *Property, Plant and Equipment* .

Other Participations

Cinetrade

On April 8, 2005 Swisscom acquired a 49 % stake in CT Cinetrade AG, a Swiss media company whose activities include a movie theater chain, a pay-TV channel, video and DVD film rights and which has extensive experience managing media content and related rights. Cinetrade s current license (*Veranstalterkonzession*) for the pay TV channel was recently renewed and is valid until May 31, 2013.

The Competition Commission has approved Swisscom s participation in CT Cinetrade AG from a market point of view. Should Swisscom decide to exercise its option to acquire a majority stake in this company, certain issues regarding the Swiss constitutional law of media independence and the Swiss Confederation s majority interest in Swisscom would have to be examined by regulatory authorities.

In 2006, Swisscom paid an amount of CHF 19 million for services purchased from Cinetrade; no revenues were generated from transactions with Cinetrade.

Belgacom International Carrier Services

The international wholesale business is characterized by low margins due to overcapacity and strong competition. Effective July 1, 2005, Swisscom and Belgacom, the leading telecommunications company in Belgium, formed a new joint venture company, named Belgacom International Carrier Services (BICS), combining their international wholesale activities. As part of the transaction (the Belgacom transaction), Swisscom received a 28% interest in the joint venture in exchange for its international wholesale business and international network, valued at CHF 36 million. To protect its interests, Swisscom was granted extensive veto rights on decisions by the board of directors.

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In 2006, Swisscom generated revenue with BICS in the amount of CHF 127 million and paid CHF 192 million for services purchased from BICS. Revenues and expenses derived from transactions with BICS relate primarily to incoming and outgoing international voice traffic.

Divestments/Discontinued Operations

debitel

As of December 31, 2003, Swisscom owned 93% of debitel AG, which it had acquired in a series of transactions in 1999 and 2001. debitel is a network-independent mobile communications service provider in Europe.

On June 8, 2004, Swisscom sold its 95% stake in debitel, including 2% it had acquired from Electronic Partner in connection with this transaction, in a leveraged buyout by funds advised by the private equity firm Permira (Permira Funds), for a purchase price of EUR 640 million (equity value). The purchase price paid in cash amounted to EUR 430 million. The remainder was financed by Swisscom through the conversion of existing intercompany loans in the amount of EUR 210 million into two vendor loan notes of EUR 105 million each, assumed by debitel Konzernfinanzierungs GmbH, an indirect 100% owned subsidiary of the entity acquired by Permira Funds in the transaction. Consideration from the sale, including the vendor loan notes, was recorded at fair value upon completion of the transaction.

A portion of the purchase price was also financed on a senior secured basis by a consortium of banks, and repayment of Swisscom s vendor loan notes was subordinated to the full repayment of the senior facilities provided by these banks. The vendor loan notes were repaid in full in the first six months of 2005 by means of a payment of CHF 351 million, representing the nominal value of the loan and the contractually agreed interest. The difference of CHF 59 million between the estimated recoverable value of the loan and the payment received was recorded as income from discontinued operations.

In connection with the transaction, Swisscom agreed to indemnify the purchaser for any breach of the representations and warranties made by it in the purchase agreement and for certain liabilities, including tax liabilities, of debitel. In 2005, debitel became the subject of a tax audit and Swisscom recorded a CHF 50 million provision for its potential liability under the indemnification. In 2006, the tax audit concluded and resulted in a CHF 14 million tax liability, of which CHF 8 million was paid in 2006. The remaining CHF 36 million of the provision was reversed in 2006. As a result of the sale, debitel is treated in Swisscom s consolidated financial statements as a discontinued operation. Prior years have been restated to facilitate comparison. For further information, see Note 37 to the consolidated financial statements.

Networks and Technology

Overview

Swisscom owns and operates a number of fixed and mobile telecommunications networks to support 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 the direct responsibility of Mobile. For more information on Swisscom s technical equipment relating to its networks, see *Property, Plant and Equipment* .

Reduction of network complexity and cost optimization have been central aspects of Swisscom s network strategy in the past. This strategy was accompanied by a rigorous investment policy focusing Swisscom s resources on developing and enhancing strategic growth platforms for broadband and IP technologies.

In 2006, 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 457 million in 2006.

With respect to 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 2006, Swisscom s capital expenditures related to its mobile network totaled CHF 199 million.

Fixed-Line Networks
Swisscom operates a highly sophisticated PSTN/ISDN network, principally for the provision of public voice telephony, several data networks and a continuously enhanced broadband and IP network that carries Internet, voice over IP and TV traffic. These networks are supported by Swisscom s access networks and its extensive national transmission infrastructure.
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 2006, the entire IP network was upgraded to the next generation of high capacity routers, which included the installment of Ethernet access rings and IP-based VDSL components (so-called digital subscriber line access multiplexer (DSLAM)). On the other hand, the legacy data networks such as frame relay and asynchronous transfer mode (ATM) were scaled down and phased out at the end of February 2007.
The following table shows data relating to Swisscom s fixed-line network as of the dates indicated.

	Year Ended December 31,		
	2006	**2005**	**2004**
xDSL Ports (in thousands)	1,471	1,176	849
Transit exchanges	30	30	30
Local exchanges	1,439	1,428	1,408
Kilometers of fiber optic cable	34,300	32,500	31,500

Access Networks. Swisscom s access network is divided into 923 individual access networks.
The local loops which connect customers to Swisscom s local exchanges use a variety of technologies, including radio and copper and fiber optic cables. Since the launch of Swisscom s triple play strategy the amount of fiber optic cable in the access network has significantly increased. In addition, the roll-out of VDSL technology also resulted in more fiber in the access network since it requires closer proximity of active network elements to customer locations.
In 2000, Swisscom implemented a broadband connectivity service which connects end-customers to Swisscom s IP backbone via ADSL technology in the local loop and allows Internet service providers to offer faster IP-based services to these same end-users. ADSL technologies operate, like ISDN, over existing copper lines, but offer higher speed and volume for data transmissions. The service is now available to more than 98% of the population of Switzerland. Swisscom s current service offering provides speeds of up to 6 Mbit/s (downstream) and Swisscom currently has the ability to offer xDSL bandwidth of up to 4 Mbit/s (downstream) to approximately 80% of Swiss households. xDSL is increasingly complemented by VDSL technology, which allows far higher speeds. In 2006, Swisscom completed the first phase of its VDSL infrastructure deployment and is now able to offer VDSL to over 25% of Swiss households at speeds of up to 30 Mbit/s downstream and 6 Mbit/s upstream. This allows transmission of several standard definition TV streams or at least two high definition TV streams in parallel to high speed Internet access and voice over IP. Currently, VDSL connections are only available to customers choosing IP-TV (Bluewin TV) service, but Swisscom also plans to start offering VDSL connections to Internet-only users in the course of 2007.
In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act, which entered into effect on April 1, 2007. These amendments require Swisscom to unbundle the local loop and the local subloop. Unbundling requirements are restricted to copper lines only, *i.e.* fiber cables are not included. Swiss legislation carefully chose this stance not to deter investment into new network infrastructure, in particular fiber. Swisscom welcomed this position and is currently taking the necessary measures in order to prepare for copper based unbundling.
Starting January 1, 2008, the new Universal Service obligation will require the provision of broadband Internet access. Swisscom intends to fulfill its broadband service obligations by deploying alternative technologies such as WiMAX and satellite transmission in addition to xDSL.
Transmission Infrastructure. Swisscom s domestic interexchange transmission system is 100% digital and, as of December 31, 2006, consisted of approximately 34,300 kilometers of fiber optic cable representing 1,002,000 kilometers of individual optical fibers. Capable of operating at speeds of up to 10 Gbit/s, fiber optic cable vastly

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exceeds the capacity of traditional copper cable or radio links. All of Swisscom s exchanges have been connected with fiber optics.

Swisscom s core network contains a synchronous digital hierarchy (SDH) transmission system and its regional network has SDH self-healing rings in selected areas. SDH is a transmission standard for networks that use fiber optics, which allows for a simpler and more easily managed network with enhanced reliability.

In addition to its classic SDH networks, in 2006 Swisscom continued to build out regional Ethernet rings that are used to deliver Ethernet service to business customers as well as to connect the VDSL equipment deployed close to the customers homes. The regional rollout of Ethernet rings has been completed in 2006, but capacity is expected to be added in the coming years, depending on bandwidth usage and customer demand.

PSTN/ISDN Network. Swisscom s domestic network connects virtually all Swiss homes and the vast majority of Swiss businesses, with traffic routed, as of December 31, 2006, through 1,439 local exchanges and 30 transit exchanges. These switches are connected by Swisscom s transmission infrastructure.

Swisscom s ISDN service, which is fully integrated with the PSTN, is based on the ETSI (European Telecommunication Standards Institute) standard. Swisscom is capable of providing ISDN service to 100% of its customers. The Swisscom PSTN/ISDN network offers a high level of quality and security. With four-fold redundancy built into the core network on the transmission layer and two-fold redundancy on the switching layer, Swisscom is able to ensure a very high level of availability.

On top of its network switches, Swisscom operates an intelligent network platform, which supports a range of value-added services by associating advanced computer technologies with traditional switching techniques.

The PSTN/ISDN network is expected to be kept in service at least until 2010, but will no longer be enhanced or upgraded. Swisscom s focus will be to build a common IP-based voice and multimedia platform of Swisscom Fixnet and Swisscom Mobile in order to offer fixed VoIP, mobile IP and, most importantly, convergent services combining fixed-line as well as mobile services.

Data and IP Networks. Swisscom owns leased line networks used for managed and unmanaged services and a number of switched data networks used for packet switched (X.25), frame relay and ATM data transmission services. These platforms will be phased out in the course of 2007 reflecting the growing trend towards IP-based networks and services.

The platforms used for the provision of leased lines and managed bandwidth services include a dedicated multiplexing platform which allows transmission speeds ranging from 64 kbit/s up to 2 Mbit/s. Swisscom s SDH platform supports managed and unmanaged services starting at 2 Mbit/s and ranging up to 155 Mbit/s and in some cases even up to 622 Mbit/s. The newly built Ethernet platform can deliver speeds up to 10 Gbit/s.

Mobile Telecommunications Network

Swisscom currently operates one national mobile telephony network, capable of providing service to over 99% of the populated areas in Switzerland. Swisscom s current mobile network is a digital mobile dual band network, based on the international GSM standard that operates at both 900 MHz and 1800 MHz. Swisscom currently operates 13.6 MHz in the 900 MHz band and 12.4 MHz in the 1800 MHz band. The Federal Communications Commission (ComCom) recently decided that it will renew Swisscom s GSM license when it expires in 2008. In exchange, Swisscom will be required to abandon use of certain 900 MHz frequencies in exchange for gaining certain 1800 MHz frequencies. Swisscom also operates a third generation, high bandwidth UMTS mobile radio system using 20 MHz in the 2.1 GHz band. The state of the art network architecture allows Swisscom to extend its network in a very flexible, market driven and cost optimized way.

Swisscom s mobile network consists of base transceiver stations for GSM and UMTS, base station controllers, mobile switching centers and radio network controllers. The base transceiver stations transmit calls to and from mobile handsets. The base station controllers relay calls between the base transceiver stations and mobile switching centers, which in turn are connected to the PSTN and ISDN network. The base station controllers for UMTS are referred to as radio network controllers.

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The following table shows data relating to Swisscom s mobile network as of the dates indicated.

	As of December 31,		
	2006	**2005**	**2004**
Base Transceiver Stations	5,627	5,551	5,481
Base Stations UMTS (Node B)	1,781	1,609	1,308
Base Station Controllers	43	43	43
Mobile Switching Centers	31	31	32
Radio Network Controller	17	17	16

The design of the core network allows for the efficient integration of new technologies such as GPRS, EDGE, UMTS and HSDPA.

GPRS. In 2001, Swisscom completed implementation of general packet radio service (GPRS) technology in the network. GPRS is a standard for data transfer on GSM mobile phone networks and utilizes packet switching technology. This means that data is divided up into small packets and sent in a similar way to data transmission on computer networks or when surfing on the Internet. With this technology, the user is always online and can send and receive data at any time. In February 2002, Swisscom launched its GPRS service with data capacities of up to 50 kbit/s.

EDGE. In order to further improve its GPRS services, Swisscom implemented Enhanced Data Rates for GSM Evolution (EDGE) technology in all active GSM locations in early 2005. EDGE is a further development of the GPRS standard that allows considerably higher transmission speeds of between 150 kbit/s and 200 kbit/s.

UMTS. In 2000, Swisscom was awarded one of four universal mobile telecommunication system (UMTS) licenses auctioned in Switzerland, for which it paid CHF 50 million. The license took effect on January 1, 2002 and will be valid for 15 years. Swisscom received one Frequency Division Duplex Channel and one Time Division Duplex Channel in the allocated Frequency Band of 2.1 GHz. UMTS is a third generation mobile radio system that creates additional mobile radio capacity and enables broadband media applications while also providing high speed Internet access. Swisscom launched its UMTS service in 2004. As of December 2006, Swisscom had installed 1,781 UMTS base transceiver stations (Node B), ensuring population coverage of approximately 90%. Swisscom has fulfilled all of the requirements set forth in the terms of the UMTS license.

Swisscom is investing in its mobile network to upgrade its existing network, and to further extend the coverage of UMTS. Swisscom expects to make significant additional investments over the next several years in connection with the continued build-out of its UMTS network. To provide customers with enhanced services, Swisscom enabled high-speed downlink packet access (HSDPA) in selected densely populated urban areas in 2006. HSDPA is a packet-based data service with a theoretical downlink data transmission rate of up to 8-10 Mbps over a 5MHz bandwidth.

PWLAN. Swisscom offers a public wireless LAN (PWLAN) service in Switzerland through Swisscom Mobile and across Europe and North America through Hospitality Services. For more information, see *Mobile* and *Other Hospitality Services*. PWLAN provides complementary wireless broadband Internet access through gateways connected to a fixed-line network. Swisscom intends to further expand its PWLAN network in 2007.

WiMAX. In 2006, Swisscom Mobile was awarded the first WiMAX license in Switzerland. WiMAX is an acronym for Worldwide Interoperability for Microwave Access and refers to broadband wireless networks based on a common standard, which ensures compatibility and interoperability between broadband wireless access equipment. In April 2007 Swisscom started a field trial using the WiMAX communications standard in the community of Boltigen (Canton of Berne). This will be the first test of the new technology since receiving the Broadband Wireless Access licence in 2006.

Broadcasting Networks

Swisscom Broadcast operates a terrestrial broadcasting network, including a wireless backbone. The network components are installed throughout Switzerland on over 500 towers, which are owned by Swisscom Broadcast. Eleven sites are located outside Switzerland in the border regions of neighboring countries. Swisscom Broadcast s broadcasting network serves as a feeder network and as a distribution network by gathering signals from their sources (e.g., radio and TV studios) and feeding them to radio and television transmitters, which then distribute the programs to individual households. Swisscom Broadcast s feeder network for gathering and transmitting signals uses both microwave and fiber-optic ATM networks ensuring coverage on a redundant basis. The microwave part of the feeder network is also used to feed TV programs from neighboring countries to local cable network operators. Swisscom Broadcast operates approximately 800 FM radio transmitters, over 1,000 analog and digital TV transmitters and approximately 30 digital audio broadcasting transmitters. In addition, Swisscom Broadcast operates approximately 60% of the transmitters used by private broadcasters in Switzerland.

As a result of the increasing migration from analog to digital broadcasting signals, Swisscom Broadcast plans to dismantle its analog infrastructure. Digital broadcasting requires fewer broadcast sites, as it provides better coverage than the analog equivalent.

Antenna Hungária operates a terrestrial broadcasting network with more than 200 towers throughout Hungary. Antenna Hungária operates approximately 118 FM radio transmitters and 44 analog TV transmitters, and 213 relay stations. Antenna Hungária s broadcasting network serves as a feeder network and as a distribution network by gathering signals from their sources (e.g., radio and TV studios) and feeding them to radio and television transmitters. The feeder network for gathering and transmitting signals uses both microwave and fiber-optic networks. The telecommunications network consists of a ring-protected national microwave SDH backbone connecting transmitter stations nationwide, and a fiber optical network in Budapest. The access network is built by point-to-point and point-to-multipoint microwave links, VSAT and leased wireline connections from other operators.

Antenna Hungária s nationwide TV networks provide 86% and 96% of the population with access to commercial and public TV content, respectively. Antenna Hungária s nationwide commercial and public radio network covers between 60% and 100% of the population.

Property, Plant and Equipment

Real Estate Property

As of December 31, 2006, Swisscom had real estate property with an aggregate net book value of CHF 808 million. Of this amount, CHF 437 million relates to property that Swisscom uses under the leaseback contracts described below and in Note 22 to the consolidated financial statements. Such property was not subject to any mortgages or other security interests as of December 31, 2006. Substantially all of Swisscom s properties are used for telecommunications installations, research centers, service outlets and offices.

Swisscom s real estate portfolio is managed by real estate professionals with a view to realizing value from the portfolio. Swisscom sold a significant portion of its real estate portfolio and has entered into leaseback contracts for some of the buildings sold, a number of which have been qualified as finance leases. The gain from the sale of these buildings, CHF 239 million in 2001, will be recognized in income over the duration of these leasing contracts. Due to a change in IAS 17 as of January 1, 2005, the land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification and the land element is no longer classified as a finance lease. This resulted in a reduction of real estate property and corresponding leasing liabilities on Swisscom s balance sheet. In 2005, Swisscom implemented the IAS 16 component approach to depreciating assets.

Over the last few years, Swisscom implemented a strategy to steadily reduce its real estate management costs. This strategy included the outsourcing of certain real estate management functions, especially cleaning and maintenance. From 2004 to 2006, Swisscom carried out a program aimed at optimizing workplace infrastructure by moving employees to main buildings and reducing the office space allocated per employee. These measures allowed Swisscom to terminate various leaseback contracts as of March 31, 2006, which resulted in reduced rental and facility management costs.

Technical Equipment

As of December 31, 2006, Swisscom carried assets on its balance sheet that primarily related to its network infrastructure in the amount of CHF 3,634 million. Of this amount, CHF 21 million relates to technical equipment for which Swisscom has entered into sale and leaseback contracts. For more information, see Note 22 to the consolidated financial statements.

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Research and Development

Swisscom s central research and development expenses (not including software development costs) amounted to CHF 34 million in 2006 and CHF 39 million in both 2005 and 2004.

Swisscom believes that continued research and development activities enhance its competitiveness. Swisscom continues to focus its research and development efforts on three main areas: (1) extending its range of communication services by exploiting the increasing convergence of fixed-line telecommunication, mobile telecommunication, information and entertainment technologies; (2) enhancing the quality of service and customer care; and (3) exploring network technologies to enable new services as well as to achieve cost efficiencies.

Furthermore, in line with its TIME strategy, Swisscom has decided to address and adapt to changing market needs. As of 2007, specific emphasis will be placed on selected strategic topics relevant to the Swisscom Group as a whole in order to broaden existing (convergence) and establish new (TIME) business segments.

There are continuous efforts to explore and develop new opportunities, with special emphasis being placed on: (1) advanced communication and information services that seamlessly integrate a wide range of networks, applications and devices using state-of-the-art technologies such as Voice over IP, web technologies, voice-controlled interactions and intelligent network technologies, (2) multimedia information and entertainment services provided via broadband through various access networks and terminals, focusing in particular on mobile entertainment and quadruple play (fixed and mobile voice, broadband and TV), (3) emerging network technologies enabling fixed and mobile broadband services, including home-networking applications, (4) current software technology trends and their impact on the efficiency of creating new services, on the quality of service and on managing communication security, (5) the analysis of emerging business models enabling innovation with customers and external parties as well as rapid prototyping, and (6) electromagnetic compatibility and perceived health issues arising from existing and emerging service delivery technologies.

Moreover, Swisscom continues to explore strategies and the use of technology to increase customer satisfaction and customers use of new services. In particular, Swisscom takes into account social and socio-economic trends, diffusion and adoption of telecommunication services, management of customer expectations and new marketing approaches, and applies usability testing in order to optimize the design of user interfaces.

Swisscom is able to respond quickly to promising new technologies with high business potential by developing them as so-called Innovation Ventures. In 2006, two exploration projects were developed and turned into successful start-ups: Swisscom Auto-ID Services (RFID services) and CoComment (Web 2.0 application for blogs).

Swisscom monitors, on a continuous basis, the consortia that develop technologies and applications that serve as industry-wide standards, such as the Global System for Mobile Communications (GSM) Association, the 3rd Generation Partnership Project (3GPP) Consortium (UMTS services and beyond), the Open Mobile Alliance (OMA, interoperable mobile service enablers), the Moving Picture Experts Group (MPEG, making video signals suitable for transmission at lower bandwidths), the Liberty Alliance (virtual identity management and authentication services), the Digital Living Network Alliance (DLNA, home-networking applications) as well as groups dealing with the NGN (Next Generation Networks) development, including migration to VoIP. In addition, Swisscom participates in a number of international organizations, e.g., the Home Gateway Initiative (HGI), the Wi-Mesh Alliance (IEEE 802.11s), the Wireless World Research Forum (WWRF) and Fireworks , the group of telecommunication operators which jointly monitor standardization activities in order to pursue their common interests.

Swisscom pursues a number of research initiatives with industrial partners, universities, institutes and other research labs. Under these initiatives, Swisscom and its partners cooperate in carrying out joint projects and by sharing research and development results. Various research projects are funded by the European Commission s Sixth Framework Programme, for example IST-OBAN (Information Societies Technologies Open Broadband Access Networks) and IST-WIP (Information Societies Technologies All Wireless Network Architecture).

Swisscom has a variety of patents and licenses to protect its investments. No single patent or license is material to its business.

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Regulation

Overview

The regulatory framework governing telecommunications services in Switzerland was established with the entry into effect on January 1, 1998 of the Telecommunications Act. The Telecommunications Act and the implementing ordinances thereunder opened domestic and international public fixed-line telephony in Switzerland to competition and provided for the granting of national mobile telecommunications licenses to Swisscom and to new competitors. Switzerland is not a member state of the EU and therefore is not subject to EU legislation relating to telecommunications. However, EU directives and implementing legislation in various EU countries have served as points of reference for the development of the Swiss regulatory regime.

In March 2003, the Federal Council adopted significant amendments to the Telecommunications Ordinance (*Verordnung über Fernmeldedienste*), which is the principal ordinance on telecommunications services. Based on a decision issued by the Federal Court in November 2004, however, these amendments were not applicable at that time on the grounds that the Telecommunications Act, in the form then in effect, did not provide a sufficient legal basis for such amendments.

In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which entered into effect on April 1, 2007. These amendments were intended to bring the Swiss telecommunications regulatory regime in line with regulatory developments in the EU and were also designed to reflect some of the amendments to the Telecommunications Ordinance. Under the revised Telecommunications Act, Swisscom is required to offer, among other things, unbundled access to its local loop in the form of full access on a cost-oriented basis as well as access rebilling. Unbundling of the local loop requires market-dominant providers to also offer bitstream access to other providers for four years on a cost-oriented basis. Such access must be available at the main distributor frame and is limited to the market-dominant provider s copper network. Competitors will not be entitled to use Swisscom s fiber optic lines. These amendments are generally expected to cause competition to increase.

On September 13, 2006, the Federal Council defined the scope of the new Universal Service obligation, which will apply for a ten-year period beginning on January 1, 2008 when the existing Universal Service license held by Swisscom will expire. The new Universal Service license requires the provision of broadband access services and additional services for people with disabilities, but omits directory information and call-forwarding services.

The Telecommunications Act is intended to ensure that (1) reliable universal service is provided at affordable prices to the entire population of Switzerland; (2) telecommunications traffic is free from interference and respects personal and intellectual property rights; and (3) effective competition in the provision of telecommunications services is allowed to develop. Important features of the current regulatory framework include:

Open Competition Subject to Licensing and Notification Requirements. A basic principle of the Telecommunications Act is to permit open competition in telecommunications services, subject to licensing and notification requirements. Until recently, most providers of telecommunication services, independent operators of significant telecommunications transmission installations and anyone who wished to make use of radiocommunication frequencies was required to obtain a license from the regulatory authority. Anyone meeting the conditions for a license application was entitled to receive a license, subject to frequency availability in the case of licenses to use radiocommunication frequencies. By the end of 2006, more than 500 operators had been licensed or registered under this requirement.

The amended Telecommunications Act, which entered into effect on April 1, 2007, no longer requires anyone who provides telecommunication services and independently operates a significant telecommunications transmission installation to obtain a license. Nonetheless, anyone who provides telecommunications services must notify the Federal Office for Communication (*Bundesamt für Kommunikation, BAKOM*) (OfCom) and licenses are still required for users of the radio frequency spectrum and for operators with Universal Service obligations.

Swisscom to Provide Universal Service until at least December 31, 2007. As a transition measure under the Telecommunications Act, Swisscom was initially required to provide Universal Service throughout Switzerland until December 31, 2002. In June 2002, ComCom renewed Swisscom s Universal Service license for a five year term. ComCom opened the tender for the new Universal

Service license in October 2006 and Swisscom was the only applicant. The new license will apply for 10 years following the expiration of Swisscom s current Universal Service license in December 2007. The new Universal Service license is expected to be awarded by the end of June 2007 at the latest. As it has done in the past, Swisscom renounced the right to receive contributions from other telecommunications service providers from 2008-2012 for providing Universal Service. However, Swisscom reserves the right to request such contribution for the period following 2012.

Price Ceilings on Universal Service. According to the Telecommunications Ordinance and under the terms of its Universal Service license, Swisscom may not increase the prices charged for certain specified Universal Services above the price ceiling for each such service set forth in the regulatory ordinance. With effect from January 1, 2003, ISDN has been included in Universal Service and the provision of ISDN access is subject to a price ceiling. The price ceilings do not restrict Swisscom from offering lower prices or selective discounts in connection with tailored service packages or to particular customer segments. The new Universal Service obligation will include broadband internet access, which must be offered together with basic access at a price of no more than CHF 69 (excluding VAT). Telephone calls within Switzerland in the fixed network will be subject to a price ceiling of CHF 0.075 per minute (excluding VAT), which corresponds to Swisscom Fixnet s current peak rates for domestic fixed-fixed network calls.

A Market-Dominant Service Provider Must Allow Interconnection to its Network. A tele-communications service provider that is dominant in a particular market must allow interconnection to its installations and services by other service providers on a non-discriminatory basis, and in particular may not put other service providers in a worse position than its internal departments or affiliates. The Telecommunications Act and ordinances require a market-dominant service provider to publish a standard offer of interconnection services, and contemplates that the market-dominant provider and those providers seeking interconnection will reach negotiated interconnection agreements. Otherwise, the regulatory authority is empowered to determine interconnection conditions.

Interconnection Prices. In any market where an operator is deemed to be dominant, it must set its prices for the relevant interconnection service in a transparent and cost-oriented manner. Since January 1, 2000, such prices have had to be based on the long-run incremental cost of providing the interconnection service, which may include an appropriate return on capital employed.

Carrier Selection. In order to promote competition in national and international telephony services, public fixed-line telephony service providers are required to provide their users with the ability to select their desired national and international service providers on both a call-by-call basis (by dialing a five-digit prefix number), known as easy access , and a pre-selection basis for all calls (subject to call-by-call override), known as equal access . Mobile telephony service providers are currently required to provide their users with the ability to select their desired international service provider on an easy access basis only. Public telephony service providers offering Voice over IP are required to provide their customers with the ability to select their desired national and international service providers on a call-by-call basis.

Number Portability. Under number portability , public fixed-line telephony service providers, mobile telephony service providers and providers of certain services such as toll-free numbers must allow customers who switch to another service provider within the same category of service to retain the same telephone number. The cost of implementing number portability is borne by each service provider. The original service provider may charge a fee to the new service provider to cover the direct administrative costs of connection for a particular customer change.

Important features of the amendments to the Telecommunications Act that entered into force on April 1, 2007 include:

Unbundling of the Local Loop and Other Access Regulation. Market-dominant service providers are required to offer full access to the unbundled local loop and the local subloop (but only with respect to copper lines), bitstream access for a limited period of four years (also limited to copper lines), access to ducts, access to leased lines and access rebilling on a cost-oriented basis.

Elimination of Licensing Requirement to Reduce Barriers to Entry. The former requirement that telecommunications service providers obtain a license to provide most services was eliminated by the amendments to the Telecommunications Act.

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The Telecommunications Act sets forth an overall regulatory framework and provides for the promulgation of ordinances establishing more detailed rules. The Federal Council has issued a number of ordinances, the most important of which is the Telecommunications Ordinance (*Verordnung über Fernmeldedienste*), which covers licensing conditions and procedures, universal service requirements (including price ceilings), usage of public lands, interconnection, telecommunications confidentiality and privacy requirements, services in extraordinary circumstances such as civil defense and other matters. The Federal Council has also issued the Frequency Management and Radio Licenses Ordinance (*Verordnung über Frequenzmanagement und Funkkonzessionen*), as well as ordinances concerning signal protocols and numbering systems, telecommunications installations and fees. ComCom has issued an ordinance under the Telecommunications Act specifying requirements for number portability and carrier selection. OfCom and the Department of Environment Transport, Energy and Communication (*Eidgenössisches Departement für Umwelt, Verkehr Energie und Kommunikation*) (UVEK) have also issued ordinances under the Act.

Many important matters of regulatory policy were not resolved by the Telecommunications Act, having been left to the legislative bodies and regulatory agencies responsible for the promulgation of such ordinances. As has occurred in other countries, legal challenges to the application of the Telecommunications Act and the interpretation of the ordinances promulgated thereunder have arisen and may continue to arise. While amendments to the Telecommunications Act have to be approved by the Parliament and therefore take considerable time, ordinances can be amended quite quickly. As a result of the amendments to the Telecommunications Act, the ordinances mentioned above also had to be amended. The necessary amendments to the ordinances entered into effect simultaneously with the amendments to the Telecommunications Act on April 1, 2007.

Regulatory Authorities

Under the Telecommunications Act, responsibility for regulation of the telecommunications sector and the promotion of fair and open competition has been allocated among several regulatory bodies. The two principal regulatory bodies under the Telecommunications Act are the Federal Office for Communication (*Bundesamt für Kommunikation, BAKOM*) (OfCom) and the Federal Communications Commission (*Eidgenössische Kommunikationskommission*) (ComCom). OfCom is responsible for day-to-day oversight of the telecommunications sector and answers to UVEK and the Federal Council, as well as to ComCom. ComCom is an independent regulatory agency which is vested with decision-making authority in the telecommunications sector. The Federal Council has also delegated certain limited powers to UVEK.

OfCom was created by the Swiss Telecommunications Act of 1992, which separated the principal regulatory functions of Swiss Telecom PTT from its commercial operations and transferred those regulatory functions to OfCom, whose senior officers are appointed by the Federal Council. Under the Telecommunications Act, all residual regulatory functions of Swiss Telecom PTT were transferred to OfCom. OfCom s duties include supervising compliance by license holders with the Telecommunications Act and the ordinances thereunder, as well as with the terms and conditions of their respective licenses, proposing interconnection terms to ComCom for approval in cases where the parties fail to agree on interconnection terms, managing the radiocommunications spectrum, managing signal protocols and numbering systems, and issuing certain technical and administrative regulations. OfCom s responsibilities also include proposing the text of any amendments to the ordinances for approval by the Federal Council, UVEK or ComCom, as the case may be. Decisions made by OfCom may be appealed in the first instance before the Swiss Federal Administrative Court (*Bundesverwaltungsgericht*) and in the second instance before the Swiss Federal Supreme Court. OfCom also represents Switzerland in specific international bodies. In order to separate the role of the Confederation as shareholder from its role as regulator, the Telecommunications Act created ComCom as a fully independent regulatory agency, and provided that ComCom would have responsibility for all matters affecting the development of competition in the telecommunications market. ComCom acts as the exclusive licensing authority under the Telecommunications Act, rules on the terms of interconnection in cases where the parties are unable to reach agreement, has the power to obligate a license holder to provide Universal Service if the request for tenders fails to result in adequate Universal Service coverage, and approves the national radiocommunications frequency allocation plan and national numbering plans. The Telecommunications Act allows ComCom to delegate responsibility for certain tasks to OfCom. ComCom has delegated responsibility for granting all licenses to be granted without bidding procedures to OfCom. OfCom must take direction from ComCom, which cannot be overruled by

UVEK or the Federal Council in respect of any matter falling within the sphere of its regulatory authority. The members of ComCom, who must be independent specialists, are appointed by the Federal Council to four-year terms. ComCom members may not be removed once appointed, but the Federal Council has the right to not renew the appointment of a member upon the expiration of his term. ComCom decisions may be appealed before the Swiss Federal Administrative Court.

UVEK retains certain limited roles under the Telecommunications Act. In the Telecommunications Ordinance, the Federal Council has delegated to UVEK the power to regulate the provision of Universal Service in remote areas. In addition, UVEK has the right to order the expropriation of private property for the establishment of telecommunications installations if in the public interest. UVEK also fixes the amount of administrative charges necessary to cover the expenses of the regulatory authorities.

Licensing and Notification Requirements

The amended Telecommunications Act no longer requires that anyone who provides telecommunication services and independently operates a significant telecommunications transmission installation obtain a license. Nonetheless, anyone who provides telecommunication services must notify OfCom, and licenses are still required for users of the radio frequency spectrum and for operators with Universal Service obligations.

Licenses for the use of radiocommunication frequencies are subject to availability, taking into account the national frequency allocation plan, and must not eliminate or constitute a serious obstacle to effective competition unless an exception can be justified on grounds of economic efficiency. In questions relating to effective competition, ComCom may consult with the Competition Commission. Radiocommunications licenses are normally granted on the basis of an open request for tenders if there are not enough frequencies to meet all applicants present and future needs. As discussed below under Mobile Telecommunications , in 1998 ComCom adopted a frequency allocation plan under which there were three national mobile telephony licenses, consisting of the mobile telephony license automatically granted to Swisscom pursuant to the Telecommunications Act and two licenses awarded through a competitive process based on designated criteria. In 2003, this frequency allocation plan was revised to cover two additional mobile telephony licenses, which were awarded to In&Phone and Tele2 in December 2003.

Under the Telecommunications Act, the regulatory authorities require the payment of administrative charges to cover their expenses. For 2006, Swisscom was required to pay charges of CHF 7 million, excluding fees relating to the broadband wireless access (BWA) license awarded to Swisscom Mobile through a public auction. The charges include license and administrative fees and fees for the use of radiocommunication frequencies and numbering/naming/addressing elements. Under the amendments to the Telecommunications Act which were recently adopted by the Swiss Parliament, ComCom will be entitled to levy certain additional charges.

Under the amended Telecommunications Act, a failure to abide by the terms of applicable law (including the Telecommunications Act, the ordinances thereunder and the terms of the license) may be sanctioned by OfCom or ComCom. Such sanctions may include the suspension, revocation or withdrawal of a license. In addition, to the extent that a provider of telecommunications services fails to comply with applicable law, the terms of its license or with a decision having the force of law, such service provider may be required to pay a monetary penalty equal to up to 10% of its average revenues realized in Switzerland during the previous three years.

Universal Service

One of the principal objectives of the Telecommunications Act is to ensure that affordable Universal Service is provided to all sections of the Swiss population. Under the Telecommunications Act transition provisions, Swisscom was initially required to provide Universal Service throughout Switzerland until December 31, 2002. In June 2002, ComCom renewed Swisscom s Universal License for a five year term. When Swisscom submitted its bid for the 2002-2007 license, it renounced the right to receive contributions from other telecommunication service providers for providing Universal Service. ComCom opened the tender for the new Universal Service license (to apply for 10 years following the expiration of Swisscom s current Universal Service license in December 2007) in October 2006 and Swisscom was the only applicant. The new Universal Service license is expected to be formally awarded by the end of June 2007 at the latest. As it has done in the past, Swisscom renounced the right to receive contributions from other telecommunications service providers from 2008-2012 for providing Universal Service. Competitors of Swisscom are free to offer some or all of the services included in Universal Service. However, Swisscom reserves the right to request such contribution for the period following 2012.

The Telecommunications Ordinance, as amended in October 2001, defined Universal Service as comprising the following services:

- **basic access**, consisting of a network connection that enables users to make national and international telephone calls in real-time as well as telefax and data connections with data transmission rates appropriate for Internet access, and entry in the public telephone subscriber directory;

additional services, consisting of information concerning unsolicited calls, call forwarding, suppression of caller identification, billing information and blockage of outgoing calls;

emergency call services, including routing to the competent authority, with the ability to determine the caller s location;

directory services, including access to Swiss subscriber directories in electronic form or through voice information in each official Swiss language;

public payphones in sufficient number around the clock for incoming and outgoing national telephone calls and outgoing international telephone calls, each in real time, with access to emergency call services and to telephone directories in each official Swiss language;

transcription services for the hearing-impaired; and

directory and connection services for the blind and seeing-impaired.

The Federal Council is authorized to periodically modify the services included under the Universal Service obligation in accordance with social and economic requirements and technological developments. Since January 1, 2003, Swisscom has been required to provide digital access, in addition to analog access, based on ISDN or its equivalent, capable of supporting two simultaneous connections and three different access numbers. On September 13, 2006, the Federal Council specified that the new Universal Service obligation includes the provision of broadband internet access and additional services for people with disabilities, but omits directory information and call-forwarding services. Providing broadband internet access to the entire Swiss population may require additional capital expenditures, but the requirement is neutral on the technology to be used and some exceptions are allowed. Swisscom s current fixed-line broadband network covers more than 98% of the Swiss population.

Price Ceilings for Universal Service

The Telecommunications Act provides that the Federal Council is to periodically fix upper price limits for services that are within the scope of Universal Service. In periodically determining such tariff ceilings, the Federal Council is to strive to set tariffs that are not dependent on distance.

In the Telecommunications Ordinance, the Federal Council established price ceilings for specified Universal Services, effective January 1, 1998. In amending the Telecommunications Ordinance in October 2001, the Federal Council imposed new price ceilings for the services comprised within Universal Service, which took effect on January 1, 2003, including a price ceiling on ISDN access. In the case of PSTN access, the price ceiling was not changed. The conditions of the current Universal Service license are expected to remain in effect until the end of 2007, when existing price ceilings will be lowered when the new Universal Service license becomes effective in January 2008.

The following table sets forth the price ceilings (excluding VAT) which took effect on January 1, 2003:

Maximum charge activation		CHF 40.00
Basic Access Line Rental Charge	PSTN (per month)	CHF 23.45
Basic Access Line Rental Charge	ISDN (per month)	CHF 40.00
Public Payphone Additional Per Minute Charge		CHF 0.19(1)

	Peak(2)	**Off-peak**(3)	**Night**(4)
National Traffic Tariffs (per minute charge)	CHF 0.11	CHF 0.09	CHF 0.06

(1) Except calls to helplines 143 or 147 and to the transcription service for hearing-impaired persons, for which a per use charge of CHF 0.50 applies. Traffic charges for calls from public payphones must be the same as for calls from private homes.

(2) Monday to Friday from 8:00 a.m. to 5:00 p.m.

(3) Monday to Friday from 6:00 a.m. to 8:00 a.m., 5:00 p.m. to 10:00 p.m., as well as on Saturdays, Sundays and holidays from 6:00 a.m. to 10:00 p.m.

(4)

Daily from
10:00 p.m. to
6:00 a.m.

Separate price ceilings have been established for each Universal Service component. However, the Ordinance does not restrict Swisscom from offering lower prices or selective discounts in connection with tailored service packages or to particular customer segments.

The new Universal Service obligation that will apply starting January 1, 2008 will include broadband internet access, which must be offered together with basic access at a price of no more than CHF 69 (excluding VAT), which corresponds to Swisscom s current prices. The new Universal Service obligation will also include a price ceiling of CHF 0.075 per minute (excluding VAT) for calls within Switzerland in the fixed-line network, which corresponds to Swisscom Fixnet s current peak rates for domestic fixed-fixed calls.

Interconnection by a Market-Dominant Provider

The Telecommunications Act provides that a telecommunications service provider that has a dominant position in a particular market must provide interconnection to other telecommunications service providers on a non-discriminatory basis and in accordance with a transparent and cost-oriented pricing policy, stating the conditions and prices separately for each interconnection service. The Telecommunications Act authorized the Federal Council to determine the principles governing interconnection.

The Telecommunications Act and ordinances do not define what the relevant markets are for purposes of this interconnection requirement. Under the Telecommunications Act, OfCom is required to consult the Swiss Competition Commission (*Wettbewerbskommission*) to determine whether a provider has a dominant position in a market . Under the Swiss Cartel Act, an enterprise is deemed to have a dominant market position if it is able, as regards supply or demand, to behave in a substantially independent manner with regard to the other participants in the market. Market share is only one among several criteria for assessing whether or not an enterprise has a dominant market position.

In the Telecommunications Ordinance, the Federal Council has specified that a market-dominant provider must provide interconnection to the necessary equipment, services and information to other providers on a non-discriminatory basis, in no worse manner than the market-dominant provider supplies internally to its divisions, subsidiaries and partners. Interconnection is to be made through common usage of, for example, telecommunications installations, buildings and land, as necessary. Those entitled to interconnection from a market-dominant provider under the terms of the Telecommunications Ordinance are (1) licensed providers of telecommunications services, (2) providers of telecommunications services that are obligated to make a notification to OfCom under the Telecommunications Act and (3) international telecommunications services providers.

The Telecommunications Ordinance requires that a market-dominant provider must include at least the following in its basic offering of interconnection services: (1) origination, termination and transit of all call services included within Universal Service; (2) call identification services, including identification of incoming connections, completed calls, uncompleted calls and similar services; (3) access to the 08xx value-added (toll-free and shared-toll) and 09xx premium rate value-added services; (4) adequate physical connection to the telecommunications installations of the providers seeking access as necessary to accomplish the services connection; and (5) access to any other services as to which the provider is market-dominant.

Upon request, a market-dominant provider must make known the technical and commercial terms and conditions of its interconnection services, and the basis on which the interconnection service is offered must be disclosed in an understandable and unbundled manner. In addition, the market-dominant provider is required to publish at least once a year the following information: the basic offering; a description of standard interconnection points and access conditions; and a complete description of the applicable interfaces and signal protocols. To satisfy these requirements, Swisscom publishes an interconnection brochure on the Internet and in paper format. A market-dominant provider must further promptly make known any changes in the terms of its interconnection services offering expected in the following twelve months.

The Telecommunications Ordinance requires that prices charged for interconnection services by a market-dominant provider be cost-oriented. Since January 1, 2000, prices have had to be based on the following principles: a component related to the cost of providing interconnection; a component based on the long-run incremental cost (LRIC) of providing the requested services using the required network components; a constant mark-up for joint and common costs; and a return on capital invested at a rate customary for the industry. Costs must assume the expenses and investments of an efficient operator using modern equivalent assets and must be forward-looking. A provider of interconnection services must use accounting principles consistent with cost-oriented, non-discriminatory and transparent pricing.

Following the introduction of LRIC, Swisscom substantially reduced its standard interconnection rates. Swisscom believes that its current interconnection rates are in line with the European average and represent a fair, transparent and consistent implementation of the applicable regulatory requirements. Swisscom expects to continue to reduce its interconnection charges from time to time as it realizes further cost savings through network optimization or improvements in efficiency. For information on legal proceedings relating to interconnection, see *Item 8: Financial Information Legal Proceedings* . In addition to market-dominant telecommunications service providers, providers of universal services are also obligated to make a basic offering of interconnection to other service providers. Swisscom has developed a standard interconnection offer, which it markets to all service providers in the Swiss market eligible for interconnection under the Telecommunications Act. See *Fixnet Wholesale Traffic* . As of December 31, 2006, Swisscom had concluded interconnection agreements with 32 operators. Interconnection agreements, except for confidential portions thereof, can be consulted by the public at the offices of OfCom.

The Telecommunications Act provides that if a service provider that is required to provide interconnection and an applicant for interconnection cannot reach agreement within three months, ComCom is authorized, on a proposal from OfCom, to set the interconnection conditions. If the interconnection provider cannot demonstrate that its prices are properly related to costs as required, ComCom may determine the interconnection conditions on the basis of market and industry comparisons.

Unbundling of the Local Loop and Other Access Regulation

Until April 1, 2003, under the terms of the Telecommunications Act and the Telecommunications Ordinance, market-dominant service providers were not required to offer unbundled access to the local loop or access to leased lines on a cost-oriented basis. This principle was confirmed by the Federal Supreme Court in October 2001 in the Commcare case, in which the Court ruled that leased lines and transmission media do not fall within the interconnection provisions of the Telecommunications Act and related Ordinance and stated that there is no legal basis for a requirement that Swisscom unbundle the local loop.

In response to this decision, and supported by ComCom, in July 2002, the Federal Council proposed amendments to the Telecommunications Act and the Telecommunications Ordinance that would require Swisscom to offer unbundled access to its local loop and interconnection to leased lines on a cost-oriented basis. The proposal would have provided for all three kinds of unbundling, Full Access , Shared Line Access and Bitstream Access .

In March 2003, the Federal Council adopted significant amendments to the Telecommunications Ordinance which entered into effect on April 1, 2003. Based on a decision issued by the Federal Court in November 2004, however, amendments relating to unbundling the local loop were not applicable at that time, on the grounds that the Telecommunications Act, in the form then in effect, did not provide a sufficient legal basis for such amendments.

In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which entered into effect on April 1, 2007. These amendments were intended to bring the Swiss telecommunications regulatory regime in line with regulatory developments in the EU and reflect some of the amendments to the

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Telecommunications Ordinance. Swisscom is required to offer, among other things, unbundled access to its local loop in the form of full access on a cost-oriented basis as well as access rebilling. Unbundling of the local loop in the form of full access allows competitors to offer access services to customers in Switzerland without having to build local loops of their own, although they still have to make significant investments in their own network infrastructure in order to connect to the local loop. Moreover, with access rebilling, competitors are able to bill customers directly for the access services provided by Swisscom. As a result, Swisscom s competitors are able to offer their customers a full range of fixed-line services, including access, and their customers will receive a single bill covering all these services. Accordingly, competition in the access market is expected to increase and Swisscom may lose market share in the national and international calling markets.

Unbundling of the local loop requires market-dominant providers to also offer bitstream access to other providers for four years on a cost-oriented basis. Such access must be available at the main distributor frame and is limited to the market-dominant provider s copper network. This requires Swisscom s competitors to make significant upfront investments in their own network infrastructure in order to reach Swisscom s main distributor frame for bitstream data traffic and to build their own access lines within four years or switch to full access. In addition, competitors are not entitled to use Swisscom s fiber optic lines. Although Swisscom does not consider itself to be market dominant in the market of broadband access, and has never been found by the authorities to be market dominant in a legally binding proceeding, these amendments are generally expected to lead to significant price pressure.

Mobile Telecommunications

In connection with the opening of the mobile market to competition, ComCom has adopted a national frequency allocation plan under which there were to be a total of three national mobile GSM telephony licenses. One mobile telephony license was automatically granted to Swisscom pursuant to the Telecommunications Act.

ComCom awarded the two additional national mobile telephony licenses through a competitive process based on designated criteria in May 1998 to diAX (now TDC (Sunrise) Switzerland AG or TDC (Sunrise)) and Orange. diAx was granted the right to use frequencies in the 900 MHz and 1800 MHz bands and Orange the right to use frequencies in the 1800 MHz band. The three GSM licenses were initially effective for a ten-year period due to expire on May 31, 2008. As described below, however, ComCom recently decided that these licenses will be renewed.

In October 2000, ComCom put further frequencies (GSM 900 MHz and GSM 1800 MHz) in the extended GSM band up for auction. The auction was ultimately suspended, and the frequencies were allocated by mutual agreement. Pursuant to this agreement, Swisscom received 5 MHz, TDC (Sunrise) received 7 MHz and Orange received 2.2 MHz in the GSM 900 MHz band, including frequencies in the extended GSM band. A concession of seven years was granted on the basis of this agreement, with each contender paying the minimum price. In 2003, a third frequency block of 2x25 MHz on the GSM 1800 MHz band became available for civilian use and a GSM license was awarded to each of In&Phone and Tele2. With the aim to fostering competition in the mobile telecommunication market, Swisscom and the other two GSM operators were not allowed to participate in the bidding process.

In November 2004, ComCom decided to award the remaining frequencies reserved for the GSM standard to the three GSM operators currently active in Switzerland (Swisscom, TDC (Sunrise) and Orange) with the aim of facilitating nationwide coverage in Switzerland for broadband mobile data services.

In March 2007, ComCom decided that the GSM licenses of Swisscom, TDC (Sunrise) and Orange will be renewed for a further five years (*i.e.,* until the end of 2013). In exchange for renewing the licenses, ComCom will require Swisscom and TDC (Sunrise) to concede use of certain 900 MHz frequencies to Orange in exchange for certain 1800 MHz frequencies.

On December 6, 2000, an auction for four UMTS licenses commenced with four operators participating. The UMTS licenses were sold for a total of CHF 205 million to Swisscom, dSpeed (a wholly owned subsidiary of TDC (Sunrise)), and Telefónica, each paying CHF 50 million, and Orange, paying CHF 55 million. Under the original terms of the UMTS license, each licensee was required to build out its network to achieve certain population coverage targets by specified dates that were later amended by ComCom. Swisscom achieved the coverage requirements more than 18 months ahead of the specified deadline.

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While the Telecommunications Act opened the Swiss mobile telephony market to competition, mobile telephony in Switzerland has not yet been the subject of extensive regulation. However, developments in the EU and Switzerland could result in additional regulation in the future.

While Switzerland is not a member state of the EU and therefore is not subject to EU legislation, EU directives and implementing legislation in various EU countries have served as points of reference for the development of the Swiss regulatory regime. On July 12, 2006, the European Commission submitted a proposal for a regulation on public mobile network roaming within the Community that would impose price caps on roaming charges. As Switzerland is not member of the EU, this proposal does not have a direct effect on Swiss legislation and it is unclear if the Swiss Competition Authority or the Swiss Pricing Monitoring Authority (*Preisüberwacher*) intend to take similar measures in this area.

On December 22, 1999, the Federal Council adopted an ordinance relating to protection against non-ionizing radiation (*Verordnung über den Schutz vor nichtionisierender Strahlung*), known as the NIS Ordinance , which came into force on February 1, 2000. The NIS Ordinance is designed to protect the population of Switzerland from non-ionizing radiation emitted by various sources, including mobile antennae, and limits emissions by mobile base stations to specified levels. The Ordinance applies to mobile and any telecommunications services transmitted over radio, such as GSM or UMTS services. For mobile antennae with a minimum power exceeding 6 watts, construction authorizations issued by local authorities are required. Newly-built stations are required to comply with the emissions standards and existing stations have had to be upgraded to bring them into compliance. Swisscom has completed the upgrade of its existing stations for compliance with these standards.

The NIS Ordinance is implemented by the cantons, which in the past have used different methods of measuring radiation emissions to determine compliance with the NIS Ordinance, resulting in significant regional variations in effective emission standards. In July 2002, the Swiss Agency for the Environment, Forests and Landscape (BUWAL) issued final guidelines for enforcement authorities on the appropriate methods by which to measure electromagnetic emissions from base stations and masts in the GSM network, but which did not address emission standards for UMTS networks. Final guidelines relating to emission standards for UMTS networks were adopted in 2005. These guidelines are generally binding on the cantons, but deviations are permitted under certain circumstances.

Carrier Selection and Number Portability

Under the Telecommunications Act and ComCom s ordinance relating to carrier selection and number portability, public fixed-line telephony service providers are required to provide their users the ability to select their desired national and international service providers on both a call-by-call basis (by dialing a five-digit prefix number), known as easy access , and on a pre-selection basis (subject to call-by-call override), known as equal access . Public mobile telephony service providers are also required to provide their users the ability to select their desired international service provider on an easy access basis.

ComCom has provisionally suspended a further requirement that public mobile telephony service providers implement equal access in their mobile networks until technical development and international standards allow implementation thereof.

In addition, public fixed-line telephony service providers, public mobile telephony service providers and non-geographical services, such as providers of toll-free numbers, are required to provide number portability. Number portability means that customers must be given the ability to switch to another service provider within the same category of service (i.e., fixed-line to fixed-line, mobile to mobile) while retaining the same telephone number. The cost of implementing number portability is borne by each service provider. The original service provider may charge a fee to the new service provider to cover the direct administrative costs of connection for a particular customer move.

On March 22, 2007, ComCom adopted improved consumer protection measures that are intended to prevent carrier preselection being activated on a telephone line without the subscriber s explicit consent. Consequently, it introduced stricter requirements for the procedures that need to be followed in order to change a consumer s preselection to a new telephone service provider. For example, preselection applications, whether in writing or by telephone, must now include, among other things, a description of the services offered, confirmation that the applicant is actually the subscriber for the relevant connection and an authorization empowering the provider to arrange preselection on the subscriber s connection.

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Leased Lines

Under the Telecommunications Act and the Telecommunications Ordinance, a licensed telecommunications services provider could be required to provide leased lines at cost-oriented prices in a particular region if it is deemed market dominant in that region. To date, ComCom has not taken any action.

Ownership of Lines and Rights of Way

The Telecommunications Act provides that a licensee who has installed lines for the transmission of information by means of telecommunications techniques, or who has acquired such from third parties, owns the respective transmission lines.

Prior to the enactment of the Telecommunications Act, Swisscom had the right to use public land (roads, footpaths, squares, waterways, lakes, etc.) free of cost to install and operate lines. The Telecommunications Act provides that every holder of a telecommunications service license is to have such a right to use public land free of cost to install and operate lines and public payphones, provided that such use does not interfere with the common use of such public land. The owner of such land (e.g., the Confederation, the cantons or the communities) is to grant the licensee a corresponding approval in a short and simple procedure. Except for the administrative costs for such procedure, no charges may be levied on the licensee. Under the Telecommunications Ordinance, every holder of a telecommunications service license is also entitled to install and operate lines that cross railway lines.

If the holder of a telecommunications service license cannot reach agreement with the owner of private property on the use of such property by the licensee for the installation and operation of lines, UVEK may grant the licensee the right of expropriation if the establishment of a telecommunications installation on private property is in the public interest.

OfCom may, for reasons of public interest, and in particular to protect the national heritage and the environment, also require the holder of a license for telecommunications services to grant other licensees the right to make joint use of its existing installations if they have sufficient capacity and in return for appropriate compensation. With respect to this right to joint use of existing installations, the interconnection provisions are to be applied by analogy.

International Obligations

Over 70 member countries of the World Trade Organization (WTO), representing a substantial majority of the world s basic telecommunications revenue, including Switzerland, the members of the EU and the United States, have entered into the Basic Agreement on Telecommunications (BATS) to provide market access to some or all of their basic telecommunications services. This agreement has been in effect since February 5, 1998. BATS is part of the General Agreement on Trade in Services, which is administered by the WTO. Under BATS, Switzerland and the other signatories have made commitments to provide market access , under which they are to refrain from imposing certain quotas or other quantitative restrictions in specified telecommunications services sectors and to provide national treatment , under which they are to avoid treating foreign telecommunications service suppliers differently than national service suppliers. In addition, a number of signatories, including Switzerland, agreed to the pro-competitive principles set forth in a reference paper relating to anti-competitive behavior, interconnection, universal service, transparency of licensing criteria, independence of the regulator and allocation of scarce resources.

In a decision dated October 3, 2001, (re Commcare AG vs. Swisscom), the Swiss Federal Supreme Court found that even if the WTO/BATS provisions were directly applicable in Switzerland, which is uncertain, they do not grant any right to unbundling or to obtain leased lines or transmission on interconnection terms.

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ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with Swisscom s consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS), which differ in certain significant respects from U.S. GAAP. For a reconciliation of the significant differences between IFRS and U.S. GAAP, see Note 43 to the consolidated financial statements.

Introduction

Swisscom is the principal telecommunications provider in Switzerland, offering a comprehensive range of products and services to residential and business customers. Swisscom s core business is the provision of fixed-line and mobile telephony as well as data services. Fixed-line services are provided through the business segments Fixnet and Solutions, generating 43% and 11% of Swisscom s total revenue in 2006, respectively. Mobile services are provided through the business segment Mobile, generating 37% of Swisscom s total revenue in 2006. For a more detailed description of the services provided by each of these segments, see *Item 4: Information on the Company* .

The principal sources of revenue within each of these segments are:

- ***Fixnet:*** monthly subscription fees for providing telephone and Internet access, charges for making calls from fixed-network access lines, wholesale interconnection charges and fees from providing data services to other telecommunication companies;

- ***Mobile:*** monthly subscription fees, traffic charges for calls made in Switzerland by Mobile s customers, roaming and termination fees paid by other mobile operators, and fees from data services;

- ***Solutions:*** charges for fixed-line voice telephony services to business customers, fees for providing leased lines and Intranet services as well as integrated communications solutions, including outsourcing services.

The principal components of Swisscom s operating expenses include:

- ***Goods and services purchased***, mainly consisting of interconnection fees for national and international voice and data traffic and cost of customer equipment purchased for resale;

- ***Personnel expenses***, consisting of payroll and other employee related cost;

- ***Other operating expenses***, including cost for customer acquisition and retention measures, marketing and selling expenses, information technology cost, and expenses for repairs and maintenance.

Swisscom s revenue and results of operations are and may be affected by a number of important factors, including:

Regulatory environment. Since the entry into force of the Telecommunications Act in 1998, the Swiss telecommunications market has been open to competition. The Telecommunications Act contains numerous provisions designed to facilitate competition, which primarily affect the traditional telecommunications services Swisscom offers. For example, under the Telecommunications Act, Swisscom is required to offer standard interconnection services on a cost-oriented basis. As a result, Swisscom has had to reduce its interconnection rates in recent years by an average of 6% per year over the three year period under review. Swisscom expects further reductions in 2007. With interconnection rates declining, retail tariffs in the fixed-line business have come under pressure, which has negatively affected revenue. Swisscom has also experienced increased price pressure in the business customer segment of its mobile business and competition is expected to further increase after the entry of new mobile virtual network operators (MVNO).

A number of regulatory initiatives, that recently entered into force or are currently pending, are likely to further increase competition and put additional pressure on margins. Under amendments to the Telecommunications Act which entered into force on April 1, 2007, Swisscom is required to offer, among other things, unbundled access to its local loop on a cost-oriented basis in the form of full access as well as bitstream access for a limited period of four years in areas where it is considered to be market dominant. The adoption of these amendments is expected to facilitate competition in the access market and may cause Swisscom to lose additional market share in the national and international calling markets.

Furthermore, Swisscom s mobile termination tariffs and roaming charges may become subject to regulation in the future. Regulation of mobile termination fees or roaming charges would have a significant impact on Swisscom s mobile revenue and reduce margins and profitability.

Competition and pricing. Customer behaviour is influenced by economic development. Despite a moderate growth of the Swiss economy since 2003, the economic slowdown Switzerland experienced several years ago fostered customers price sensitivity making them more conscious of usage levels and tariffs. As a result, many of Swisscom s fixed-line customers have been switching to newly introduced tariff plans, which have led to a decline in average tariffs. In the Mobile segment, the introduction of budget service packages, including those offered by new low-cost competitors, has led to a significant decline in the number of subscribers to higher priced services, effectively resulting in an overall reduction of the average revenue per user (ARPU). As competition in the low-cost market segment has increased, Swisscom Mobile has introduced new services with lower prices and limited features, which has further reduced ARPU. Pressure on prices is expected to remain high due to continuing strong competition, especially from cable network operators in the fixed-line business and from new low-cost network operators in the mobile business. To stimulate demand in its fixed-line and mobile businesses, Swisscom has introduced new services based on broadband technologies, in which Swisscom has made, and continues to make, substantial investments. Should the economy slow down again, however, customers may again become more reluctant to use higher priced services.

Customer needs and industry trends. Customer needs and industry trends are changing. The demand for convergent and interactive services is increasing, and communication has to be guaranteed irrespective of time or place. The importance of content, attractive applications and information management is rising, and technology is migrating to standardized IP platforms. This is opening up opportunities for Swisscom to develop attractive new convergent offerings. Thanks to its strong market position in several markets, Swisscom can create new added value for the customer with bundled offerings and drive forward into fields that are being transformed in related markets under the influence of digitization and broadband penetration. Swisscom is therefore looking to grow in the field of convergence and multimedia, in the Telecommunication, Information, Media and Entertainment (TIME) market. The aim is to offset the decline in the traditional business with revenues from new activities. The future business of successful telecommunications companies looks set to be very different from their current activities: by moving into the TIME market, Swisscom can respond to changing customer needs.

Technological developments. In recent years, the telecommunications industry has seen rapid technological developments that have resulted in a change in user patterns and given rise to new competitive challenges. Traditional telecommunication services, such as fixed-line services, are increasingly being replaced by mobile phones and other communication technologies, such as Voice over IP. The availability of alternative technologies capable of supporting telecommunications services is enabling competitors to provide services that substitute for Swisscom s core services (fixed-line voice and data services and mobile telephony), which creates significant price pressure on Swisscom s core business.

Personnel expenses. Personnel expenses make up a significant portion of Swisscom s cost base. In order to improve productivity and reduce costs, Swisscom has implemented a workforce reduction program. During the three years under review, the program reduced Swisscom s workforce by over 1,100 positions by eliminating positions or transferring them to Swisscom s employment programs. While this program has resulted in a decrease in personnel expenses in Swisscom s declining areas of its core business, the benefit has been muted by the fact that Swisscom has had to incur expenses associated with termination benefits for its outplacement program (PersPec) and incurs salary expenses relating to employees for the period in which they participate in its employment program (Worklink). Swisscom s continued ability to implement staff reductions in the declining areas of its core business and to reduce personnel expenses will have a significant impact on its future profitability. In 2006, personnel expenses increased overall due to several small acquisitions and growth in certain areas of Swisscom s business, which resulted in an increase in the total number of employees.

Capital expenditure and depreciation. Swisscom s results are affected by the level of its depreciation expense, which in turn depends on the timing and level of its capital expenditures. Excluding depreciation expenses from companies acquired in 2006, Swisscom s depreciation expenses declined during the periods under review. This was primarily due to declining depreciation in the Fixnet segment as a result of the increasing number of fully depreciated assets. This effect was only partially offset by minor increases in depreciation in other segments. In the medium term, Swisscom expects depreciation expenses to remain relatively stable, as the effect of an increase in the number of fully depreciated assets is expected to be offset by the results of increased capital expenditures related to new fixed-line and mobile broadband technologies. Nonetheless, the rapid pace of technological change may require Swisscom to reduce its estimates of the useful lives of its equipment, which would cause depreciation expenses to increase.

Summary of Results

For Swisscom, 2006 was a year of change and renewal, a year marked by a new strategy, a new leadership, but also a year in which Swisscom consolidated its position in the Swiss telecommunications market. The financial development in 2006, however, was negatively impacted by certain items in the first half of the year as described below.

Revenue decreased by 0.8% mainly as a result of a significant reduction in the wholesale price for call termination on Swisscom s mobile network in June 2005 and the transfer of the International Carrier Services activities to a joint venture with Belgacom in July 2005. Declining revenues in the traditional fixed-line business, primarily due to a loss of market share to cable network operators as well as the substitution of fixed-line telephony by mobile and internet telephony, were offset by an increase in broadband access revenue reflecting an increase in the number of broadband subscribers and an increase in revenues from system integration and outsourcing services provided to business customers.

Earnings before interest and taxes (EBIT) declined significantly, mainly due to Swisscom s declining revenues and to expenses recorded in 2006 relating to (i) interconnection proceedings in the amount of CHF 180 million; (ii) Swisscom s expansion into new markets; and (iii) a provision in the amount of CHF 49 million relating to long-term IT outsourcing contracts.

Swisscom s cash flows from operating activities decreased in 2006, mainly due to a decrease in EBIT and a first payment relating to a legal proceeding regarding Swisscom s interconnection tariffs, despite a special contribution to Swisscom s pension fund in 2005. Nevertheless, Swisscom has, in accordance with its return policy, returned CHF 3.1 billion to its shareholders through dividends and a share buy back in 2006. Through the entirely debt funded repurchase of 25% in Swisscom Mobile for CHF 4.25 billion in December 2006, Swisscom has at year-end a net debt position for the first time in years, which optimized Swisscom s capital structure.

On April 10, 2007, Swisscom launched an all-cash friendly public tender offer for 98.26% of the shares of Fastweb. For a more detailed description of Fastweb, see *Item 4: Recent Developments* . The offer period will end on May 15, 2007. Swisscom already acquired 1.74% of Fastweb s shares in March 2007. Should Swisscom acquire control over Fastweb, Fastweb will be included in Swisscom s consolidated financial statements from the date on which control is obtained. Should this occur in 2007, Swisscom s results of operations and financial position would be significantly different. Excluding the impact of the potential acquisition of Fastweb, Swisscom expects the following developments in 2007.

Swisscom expects to offset the decline in revenue in its traditional fixed-line business as a result of strong competition and substitution by an increase in revenue from new products and services. Swisscom expects its 2007 EBIT to be higher than in 2006, when its results were negatively impacted by provisions for interconnection proceedings and IT outsourcing projects. Excluding these provisions, EBIT is expected to decrease during 2007 due to the lower margin from new products and services compared to the margin from Swisscom s declining traditional business.

Critical Accounting Policies

Swisscom s financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). In addition, Swisscom reconciles net income and shareholders equity to U.S. GAAP. See Note 43 to the consolidated financial statements. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. Set out below are the details of certain significant estimates made by management in the financial statements where it is possible that the estimate of a condition, situation or set of circumstances that existed at the date of the financial statements will change in the future due to one or more future confirming events and that the effect of the change would be material to the financial statements.

Valuation of Goodwill

On December 31, 2006, the carrying amount of goodwill from acquisitions totalled CHF 4,169 million. Swisscom assesses the carrying value of goodwill annually during the fourth quarter, or more frequently if events or changes in circumstances indicate that such carrying value may not be recoverable. If the carrying value may not be recoverable, impairment is generally measured based on discounted cash flows.

The most significant variables in determining cash flows are discount rates, long-term growth rates, as well as the assumptions and estimates used to determine the cash inflows and outflows. Management determines discount rates to be used based on the risk inherent in the related activity s current business model and industry comparisons. Long-term growth rates are determined based on the long-term average growth rate for the products, industries, or country in which the entity operates, or for the market in which the asset is used. While we believe that our assumptions are appropriate, such amounts estimated could differ from what will actually occur in the future and this could result in an impairment charge.

Pension fund accrual

The determination of the liability and expense for pension benefits is dependent on the selection of assumptions, which attempt to anticipate future events, used by Swisscom s actuary to calculate such amounts. Those assumptions are described in Note 10 to the consolidated financial statements and include the discount rate, expected long-term rate of return on plan assets and rates of increase in future compensation levels. In addition, Swisscom s actuary also uses subjective factors such as withdrawal and mortality rates. The assumptions used for IFRS are consistent with those used for U.S. GAAP. Approximately 25% of the pension plan assets at December 31, 2006 were held in stocks and bonds denominated in foreign currencies, primarily USD, EUR and GBP.

For 2006, the expected rate of return on plan assets was 3.9% or CHF 250 million. Due to the favorable performance of the stock markets, the actual return on assets in 2006 was 5.2% or CHF 322 million, generating an excess return of CHF 72 million. However, from the date of inception of Swisscom s pension plan in January 1999 to December 31, 2006, the cumulative actual return on assets has been lower than the expected return, which resulted in a cumulative loss of CHF 133 million at December 31, 2006. While Swisscom believes that the assumption for the long-term return is appropriate, should the stock markets underperform or exchange rates change, this would affect Swisscom s future expense and could lead Swisscom to increase its contributions.

The discount rate used for the calculation of the pension liability at the end of 2006 was 2.54%. Should the discount rate decrease by 0.5%, the pension liability would increase by approximately CHF 890 million and the annual pension expense would increase by approximately CHF 3 million.

The rate of increase in future compensation levels used in 2006 was 0.5%. Should this rate increase by 0.5%, the pension liability would increase by approximately CHF 90 million and the annual pension expense would increase by approximately CHF 11 million.

In connection with the settlement of its obligation to retired employees in 1998, Swisscom retained a liability for pension indexation based on a contract with the confederation, which up until December 31, 2004, was a guaranteed rate. Effective January 1, 2005, new legislation was introduced to abolish the previously guaranteed pension indexation. As a result of this new legislation, Swisscom reduced its assumption for pension indexation from 1.0% to 0.5%, which resulted in a significant decrease in the liability in 2004. At December 31, 2006, the liability amounted to CHF 177 million. While Swisscom believes that the assumption used to determine this liability is appropriate, should the Government decide to change the indexation, this could affect Swisscom s pension liability and future expense. The PUBLICA legislation has been revised, but Swisscom s liability has not changed. For more information on Swisscom s pension plan, see Note 10 to the consolidated financial statements.

Useful lives of technical equipment

Technical equipment, with a net book value of CHF 3,634 million at December 31, 2006, represents a significant portion of Swisscom s total assets. Swisscom estimates the useful lives based on historical experience as well as taking into account anticipated technological or other changes. Detail of the useful lives is included in Note 2.9 of the consolidated financial statements. Useful lives under U.S. GAAP are consistent with those under IFRS. Changes in technology or in Swisscom s intended use of these assets may cause the estimated period of use or the value of these assets to change, which would result in increased or decreased depreciation

expense. Swisscom performs internal studies annually or when events or circumstances indicate that the useful life may no longer be appropriate. Additionally, technical equipment is reviewed for impairment whenever events indicate that their carrying amounts may not be recoverable. In assessing impairment, Swisscom follows the provisions of IAS 36 Impairment of Assets and SFAS 144 Accounting for the Impairment or disposal of Long-Lived Assets utilizing cash flows which take into account management s estimates of future operations under IFRS and U.S. GAAP, respectively.

Provision for dismantlement and restoration

As detailed in Note 26 to the consolidated financial statements, management has included a provision of CHF 369 million at December 31, 2006 for the dismantlement and restoration of mobile stations and analog transmitter stations. In 2005, Swisscom adjusted primarily the cost of dismantlement and remaining useful lives following a strategic revaluation of the analog transmitter stations. The dismantlement costs are now expected to be incurred mainly after 2020. The present value of the adjustment to the future expected cost was CHF 77 million. The extension of the useful lives resulted in a reduction in the present value of CHF 75 million, of which CHF 50 million was recorded against the corresponding assets and CHF 25 million under financial income. The provision was based on future estimated cost and was discounted using an appropriate discount rate. While management believes that the assumptions used are appropriate, should they not be accurate, the amount required could differ from the amount of the provision.

With the adoption of IFRIC 1 Changes in Decommissioning, Restoration and Similar liabilities effective January 1, 2005 and the adoption of SFAS 143 Accounting for Asset Retirement Obligations effective January 1, 2003 the difference between the asset retirement obligation under IFRS compared to U.S. GAAP is no longer material.

Provisions and contingent liabilities

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

Proceedings before the competition commission (WEKO). WEKO is currently leading various proceedings against Swisscom. The individual proceedings are described in Note 34 to the consolidated financial statements. On February 5, 2007, the Competition Commission issued a decision in connection with the mobile termination proceedings in which Swisscom is involved. See *Item 8: Financial Information Legal Proceedings Other Regulatory Proceedings* . In this decision, the Competition Commission determined that Swisscom Mobile has a market-dominant position which it has abused by demanding disproportionately high termination fees and imposed a fine of CHF 333 million. Swisscom rejects both the charge that it misused its dominant market position and the sanction. Swisscom intends to appeal to the Swiss Federal Administrative Court and, if necessary, in the final event to the Swiss Federal Supreme Court. Based on a legal assessment of the current situation, Swisscom has concluded that the sanction is unlikely to ultimately be upheld. Accordingly, Swisscom did not record a provision in its financial statements as of December 31, 2006.

Accounting developments

The International Accounting Standards Board, or IASB, has and will continue to critically examine current International Financial Reporting Standards, or IFRS. This process resulted in amendments to the existing rules effective from January 1, 2007 and the following year. These are discussed in more detail under New accounting principles, not yet mandatory in Note 2.25 of the consolidated financial statements. There were no material IFRS accounting developments adopted in 2006.

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RESULTS OF GROUP OPERATIONS

CHF in millions (except percentages)	Year Ended December 31,			Year Ended December 31,	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
				(% change)	
Net revenue	9,653	9,732	10,057	(0.8)	(3.2)
Capitalized costs and other income	296	260	195	13.8	33.3
Total	**9,949**	**9,992**	**10,252**	**(0.4)**	**(2.5)**
Goods and services purchased	1,840	1,831	1,847	0.5	(0.9)
Personnel expenses	2,278	2,173	2,194	4.8	(1.0)
Other operating expenses	2,044	1,817	1,823	12.5	(0.3)
Depreciation	1,280	1,286	1,542	(0.5)	(16.6)
Amortization	155	108	151	43.5	(28.5)
Total operating expenses	**7,597**	**7,215**	**7,557**	**5.3**	**(4.5)**
Earnings before interest and taxes	**2,352**	**2,777**	**2,695**	**(15.3)**	**3.0**
Financial result	(51)	82	(134)	n.a.	n.a.
Income tax expense	(462)	(535)	(392)	(13.6)	36.5
Share of profit of affiliated companies	30	13	22	130.8	(40.9)
Net income from continuing operations	**1,869**	**2,337**	**2,191**	**(20.0)**	**6.7**
Discontinued operations[1]	36	9	(243)	n.a.	n.a.
Net income	**1,905**	**2,346**	**1,948**	**(18.8)**	**20.4**
Net income attributable to equity holders of Swisscom AG	1,599	2,022	1,596	(20.9)	26.7
Net income attributable to minority interests	306	324	352	(5.6)	(8.0)

(1) On June 8, 2004 Swisscom completed the sale of its stake in debitel. As a result, debitel is reported separately as a discontinued operation in the consolidated financial statements.

Net Revenue

Revenue decreased from CHF 10,057 million in 2004 to CHF 9,732 million in 2005 and to CHF 9,653 million in 2006, mainly reflecting a decrease in revenue from the fixed-line segments Fixnet and Solutions. Fixnet s revenue decreased as a result of the Belgacom transaction. (for details, see *Item 4: Information on the Company Fixnet Wholesale Traffic*), as well as a decrease in traffic revenue reflecting primarily a decline in volumes as a result of a loss in market share to cable network operators and substitution by mobile and IP telephony as well as lower average tariffs. This decrease was partially offset by an increase in access revenue as a result of an increase in the number of ADSL subscribers. The decrease in revenue from Solutions was mainly due to a decrease in revenue from traffic and leased lines as a result of a decrease in traffic volumes and price pressure due to fierce competition and substitution of older technologies through IP based services. Mobile revenue decreased due to a reduction of termination and inbound roaming tariffs and an introduction of new tariff models, which could not be offset by a continuing growth of the subscriber base as well as an increase in the usage of new data services. These decreases in the fixed-line and mobile segments were partially offset by acquisitions, especially Antenna Hungária in October 2005, and other businesses such as Swisscom IT Services through the acquisition of Comit in January 2006 as well as an increase in revenue from outsourcing services and Hospitality Services (formerly known as Swisscom Eurospot).

Capitalized costs and other income

Capitalized costs and other income increased from CHF 260 million in 2005 to CHF 296 million in 2006, mainly due to an increase in capitalized costs as a result of further developments in network infrastructure, especially the introduction of the new VDSL broadband technology at Fixnet. This effect was partially offset by a decrease in gains from the sale of real estate property.

Capitalized costs and other income increased from CHF 195 million in 2004 to CHF 260 million in 2005, primarily due to an increase in gains from the sale of real estate property and an increase in capitalized cost.

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Goods and services purchased

Expenditure on goods and services purchased slightly increased from CHF 1,831 million in 2005 to CHF 1,840 million in 2006. A decline due to the Belgacom transaction and the conclusion of new roaming agreements with lower international outbound roaming tariffs by Swisscom Mobile was more than offset by an increase in expenses for customer equipment and services purchased relating to outsourcing and system integration services and increased sales of mobile handsets as well as an increase in mobile termination costs due to an increase in mobile telephony usage.

Goods and services purchased decreased from CHF 1,847 million in 2004 to CHF 1,831 million in 2005, primarily due to a decrease in expenses as a result of the Belgacom transaction. The decrease was partially offset by an increase in expenses for customer equipment and services purchased relating to outsourcing and system integration services at Swisscom Solutions and Swisscom IT Services.

Personnel expenses

Personnel expenses increased from CHF 2,173 million in 2005 to CHF 2,278 million in 2006, mainly as a result of an increase in the average number of employees. The year-end headcount increased by 980 full-time equivalent employees or 6.1% to 17,068, primarily as a result of several small acquisitions such as Comit and parts of Siemens Switzerland as well as an increase in the number of employees in growing business areas like Swisscom IT Services. This increase as well as an overall salary increase could not be compensated for by a decrease in costs for social plan measures.

Personnel expenses decreased from CHF 2,194 million in 2004 to CHF 2,173 million in 2005 due to a decrease in pension expenses of CHF 34 million, reflecting a decrease in total interest cost on the pension liability due to a reduction in the interest rate by 0.6% in 2005, and a decrease in cost for social plan measures. A decrease in personnel expenses reflecting headcount reductions mainly at Fixnet was offset by an increase in the average number of employees in the segment Other, an overall salary increase and an increase due to the consolidation of Antenna Hungária as of October 25, 2005.

Other operating expenses

Other operating expenses increased from CHF 1,817 million in 2005 to CHF 2,044 million in 2006. The increase is mainly a result of an increase of CHF 180 million in the provision recorded for the case against Swisscom by two of its competitors relating to Swisscom s interconnection prices. See *Item 8: Financial Information Legal Proceedings* . In addition, expenses increased due to several acquisitions and the expansion into new markets. In 2006, other operating expenses also include a provision in the amount of CHF 49 million relating to long-term IT outsourcing contracts.

Other operating expenses remained relatively stable at CHF 1,817 million in 2005 (CHF 1,823 million in 2004). A decrease in expenses for repair and maintenance, rental of infrastructure and information technology was partially offset by an increase in expenses for consultancy and temporary personnel due to Swisscom IT Services growing outsourcing business and costs relating to Swisscom s triple play strategy.

Depreciation

Depreciation remained relatively stable at CHF 1,280 million in 2006 (CHF 1,286 million in 2005). A decrease in the Fixnet segment mainly as a result of an increase in the number of fully depreciated assets was offset by an increase in depreciation expenses due to several acquisitions, mainly Antenna Hungária.

Depreciation decreased from CHF 1,542 million in 2004 to CHF 1,286 million in 2005 mainly due to the impairment in 2004 of CHF 155 million relating to sea cable owned by Fixnet as described below and due to lower depreciation in the Fixnet segment mainly as a result of an increase in the number of fully depreciated assets.

Amortization

Amortization increased from CHF 108 million in 2005 to CHF 155 million in 2006 due to an increase in investments in intangible assets (mainly Software) related to the development of new products and services mainly at Fixnet and Mobile.

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Amortization decreased from CHF 151 million in 2004 to CHF 108 million in 2005, principally due to goodwill no longer being amortized as of 2005 in accordance with IFRS 3. For further information, see Note 23 to the consolidated financial statements.

Financial result

Financial result changed from net income of CHF 82 million in 2005 to net expense of CHF 51 million in 2006, mainly due to interest expense of CHF 75 million that was recorded in 2006 relating to the case against Swisscom by two of its competitors relating to interconnection prices (See *Item 8: Financial Information Legal Proceedings*), a decrease of CHF 21 million in the net interest result and a decrease of foreign exchange result by CHF 28 million. This effect was partially offset by gains of CHF 63 million from the sale of financial assets in 2006. Net income of 2005 also included CHF 49 million from the reversal of two provisions, one relating to cross-border tax lease agreements and the other to dismantlement and restoration costs as described below.

Financial result changed from net expense of CHF 134 million in 2004 to net income of CHF 82 million in 2005, mainly as a result of the recognition of a provision in 2004 relating to cross-border tax lease agreements, of which CHF 24 million was reversed in 2005. Further, the increase was due to a reversal of CHF 25 million of a provision for dismantlement and restoration in 2005, due to a strategic revaluation of cost and the remaining useful lives of the analog transmitter stations and a write-down of the participation in Infonet Service Corporation in 2004 before it was sold at the beginning of 2005. See Note 13 to the consolidated financial statements.

Income tax

Income tax expense decreased from CHF 535 million in 2005 to CHF 462 million in 2006, mainly reflecting a decrease in earnings before interest and taxes (EBIT). The effective tax rate was 19.8% in 2006.

Income tax expense increased from CHF 392 million in 2004 to CHF 535 million in 2005, mainly reflecting an increase in EBIT as well as a capitalization of deferred tax assets of CHF 113 million in 2004. In prior years, a valuation allowance was recorded on certain deferred tax assets as it was considered improbable that benefits would be realized in the future. In 2004, this assessment changed as a result of organizational changes and deferred tax assets of CHF 113 million were capitalized against expenses. The effective tax rate was 18.6% in 2005.

For further information relating to income tax expense, see Note 14 to the consolidated financial statements.

Share of profit of affiliated companies

Swisscom s equity in net income of affiliated companies increased from CHF 13 million in 2005 to CHF 30 million in 2006. The increase was mainly due to the full-year effects of Swisscom s investments in Cinetrade and Belgacom International Carrier Services in April and July of 2005, respectively. For details on these new investments in affiliated companies, see *Item 4: Information on the Company Other Participations* .

Equity in net income of affiliated companies declined from CHF 22 million in 2004 to CHF 13 million in 2005, mainly due to a reversal of a provision for liquidation cost of Swisscom s investment in AUCS in 2004.

Discontinued operations

On June 8, 2004, Swisscom sold its stake in debitel to Telco Holding S.à r.l. Luxembourg. As a result, debitel is reported separately in the consolidated financial statements as a discontinued operation. For details on this transaction, see Note 37 to the consolidated financial statements.

In 2006, following a tax audit of debitel, CHF 36 million of the provision recorded in 2005, as described in Note 37 to the consolidated financial statements, was reversed. In 2005, income from discontinued operations amounted to CHF 9 million and consists of a gain of CHF 59 million from early repayment of the vendor loans granted to the buyers of debitel in 2004, which was partially offset by recognition of a provision of CHF 50 million for risks relating to representations and warranties in connection with the sale.

Revenue and net income of debitel up to the date of completion of the sale in 2004 amounted to CHF 1,917 million and CHF 5 million, respectively, including goodwill amortization of CHF 57 million. A loss on the sale

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of CHF 248 million was recorded in 2004 reflecting primarily the removal of the cumulative currency translation loss of CHF 238 million from equity into the income statement.

Outlook

For 2007, Swisscom expects to offset the decline in revenue in its traditional fixed-line business as a result of strong competition and substitution by an increase in revenue from new products and services. Swisscom expects its 2007 earnings before interest and taxes (EBIT) to be higher than in 2006, when its results were negatively impacted by provisions for interconnection proceedings and IT outsourcing projects. Excluding these provisions, EBIT is expected to decrease in 2007 due to the lower margin from new products and services compared to the margin from Swisscom s declining traditional business.

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Results of Operations by Segment

The reporting segments for 2006 were defined as follows:

Fixnet provides fixed-line voice, Internet and a comprehensive range of other fixed network telecommunication services to residential and business customers. In addition, Fixnet provides wholesale services and also offers a variety of other services, including the sale of customer equipment, the provision of leased lines and the operation of a directories database.

Mobile provides mobile telephony, data and value-added services in Switzerland and sells mobile handsets.

Solutions provides national and international fixed-line voice telephony services to business customers and offers leased lines, Intranet and other data services as well as integrated communication technology solutions, including outsourcing services, to business customers.

Other covers mainly the provision of IT services through Swisscom IT Services, the broadcasting businesses of Swisscom Broadcast and Antenna Hungária in Switzerland and Hungary, the business with billing services and customer cards of Accarda and the operation of a pan-European network for broadband Internet connectivity through Hospitality Services (formerly Swisscom Eurospot).

Corporate includes Swisscom s headquarter divisions, group-company shared services, property rentals through the real estate company Swisscom Immobilien and Swisscom s programs under its social plan.

The following table sets forth net revenue and earnings before interest and taxes (EBIT) for the segments in place in 2006 for the periods indicated.

Segment results

CHF in millions	Net revenue			EBIT		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Fixnet	4,969	5,308	5,715	1,049	1,294	1,098
Mobile	4,022	4,168	4,356	1,417	1,477	1,617
Solutions	1,220	1,268	1,437	32	35	87
Other	1,334	1,059	979	(90)	2	(12)
Corporate	637	690	608	(35)	(31)	(101)
Intersegment elimination	(2,529)	(2,761)	(3,038)	(21)[(1)]	[(1)]	6[(1)]
Total	**9,653**	**9,732**	**10,057**	**2,352**	**2,777**	**2,695**

(1) Intersegment profits and losses occur as a result of offsetting intersegment services and sales of assets. These are eliminated in the consolidated

financial statements and disclosed in segment reporting in the column Intersegment elimination .

Effective January 1, 2007, Swisscom reallocated certain responsibilities within the group in order to refine and enhance the customer focus of each segment. As a result, responsibility for Swisscom shops was transferred from Fixnet to Mobile, reflecting the fact that most of the products and services offered in Swisscom shops are related to mobile communications. This effect has not been reflected in the figures presented but will be reported in 2007, with a restatement of prior year numbers.

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Fixnet

Revenue from Fixnet comprises primarily revenue from access services and fixed retail telephony traffic from residential and business customers, revenue from wholesale traffic services offered to national and international telecommunication providers and revenue from payphone services, operator services and prepaid calling cards. Fixnet also provides leased lines, sells customer equipment and operates a directories database. See *Item 4: Information on the Company Fixnet* .

The following table sets forth the segment results for Fixnet and the percentage changes therein for the periods presented:

CHF in millions (except percentages)		**Year Ended December 31,**		**Year Ended December 31,**	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
				(% change)	
Net revenue from external customers	4,130	4,319	4,555	(4.4)	(5.2)
Intersegment net revenue	839	989	1,160	(15.2)	(14.7)
Net revenue	**4,969**	**5,308**	**5,715**	**(6.4)**	**(7.1)**
Segment expenses	3,920	4,014	4,617	(2.3)	(13.1)
Segment EBIT	**1,049**	**1,294**	**1,098**	**(18.9)**	**17.9**
Segment margin	***21.1%***	***24.4%***	***19.2%***		

The following table sets forth net revenue from external customers generated by Fixnet for the periods indicated:

Net revenue from external customers

CHF in millions (except percentages)		**Year Ended December 31,**		**Year Ended December 31,**	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
				(% change)	
Access	2,081	1,992	1,876	4.5	6.2
Retail traffic	974	1,082	1,240	(10.0)	(12.7)
Wholesale traffic	351	483	691	(27.3)	(30.1)
Other traffic	105	130	158	(19.2)	(17.7)
Other revenue	619	632	590	(2.1)	7.2
Total Fixnet external revenue	**4,130**	**4,319**	**4,555**	**(4.4)**	**(5.2)**

Fixnet s total external revenue decreased by 4.4% in 2006 and 5.2% in 2005, mainly due to a decrease in wholesale traffic revenue due to the Belgacom transaction as described below and a decrease in retail traffic revenue reflecting a decline in traffic volumes as a result of a loss of market share to cable network operators and substitution by mobile and IP telephony as well as lower average tariffs through the introduction of flat rates and a reduction of mobile termination rates. These effects were partially offset by higher access revenue reflecting an increase in the number of broadband access subscribers.

On February 23, 2005, Swisscom and Belgacom, signed an agreement to combine their international wholesale activities by forming a new joint venture company, named Belgacom International Carrier Services (BICS, the Belgacom transaction). The transaction, in which Swisscom received a 28% interest in the joint venture in exchange for its international wholesale business and international network, was effective as of July 1, 2005. After the completion, a large portion of Swisscom s wholesale international traffic is no longer routed through Swisscom Fixnet, but directly through BICS and as Fixnet only has a minority stake in the joint venture, associated revenue (and cost) are no longer recorded by Fixnet. However, international incoming traffic to be routed through BICS to Swisscom Mobile s network continued to be routed through Fixnet s network until June 2006. Incoming traffic to domestic third party networks will continue to be routed through Fixnet s network in the future, associated revenues and costs will therefore continue to be recognized by Fixnet. For details see *Item 4: Information on the Company Fixnet Wholesale Traffic* .

Excluding the effect of the transfer of the Swisscom shops to Swisscom Mobile, Fixnet expects total revenue from external customers to further decrease in 2007, mainly due to a decrease in average tariffs and traffic volumes as well as in the number of PSTN and ISDN lines due to continuing strong competition from cable network operators and substitution by mobile telephony. Furthermore, wholesale revenues are expected to

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decline due to a decrease in carrier selection and termination volumes as a result of the introduction of unbundled products like full access following the revision of the Telecommunications Act in 2006 which entered into force April 1, 2007. On the other hand, the introduction of TV services and the further increasing number of broadband access subscriber lines are expected to partially compensate for these declines in revenue.

Access. Revenue from access services consists principally of monthly subscription fees charged to customers for providing analog (PSTN) and digital (ISDN) telephone access lines to residences and businesses in Switzerland, broadband (xDSL) and narrowband Internet access as well as access line activation fees.

The following table sets forth certain data relating to Swisscom s access services:

CHF in millions (except percentages)	**Year Ended December 31,**			**Year Ended December 31,**	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
				(% change)	
PSTN access revenue	808	824	851	(1.9)	(3.1)
ISDN access revenue	496	512	514	(3.1)	(0.3)
Total PSTN/ISDN access revenue	**1,304**	**1,336**	**1,365**	**(2.4)**	**(2.1)**
xDSL retail revenue	467	345	228	35.4	51.7
xDSL wholesale revenue	204	185	138	10.3	34.2
Total xDSL revenue	**671**	**530**	**366**	**26.6**	**45.1**
Other access revenue	106	125	146	(15.2)	(14.2)
Total access revenue	**2,081**	**1,992**	**1,876**	**4.5**	**6.2**
Access lines (at period end, in thousands)(1):					
PSTN lines(2)	2,891	2,922	3,007	(1.1)	(2.8)
ISDN lines(3)	856	900	924	(4.9)	(2.6)
Total access lines	**3,747**	**3,822**	**3,931**	**(2.0)**	**(2.8)**
xDSL subscriber lines (at period end, in thousands of lines):					
Retail subscriber lines	936	708	490	32.2	44.5
Wholesale subscriber lines	432	390	312	10.8	25.0
Total xDSL subscriber lines	**1,368**	**1,098**	**802**	**24.6**	**36.9**

(1) Based on lines in service.

(2)

Each PSTN line provides one access channel.

(3) ISDN lines consist of basic ISDN lines and primary ISDN lines. A basic ISDN line provides two access channels and a primary ISDN line provides 30 access channels.

Total access revenue increased year over year by 4.5 % and 6.2 % in 2006 and 2005, respectively, mainly driven by an increase in revenue from broadband access (xDSL) lines. The number of broadband subscriber lines continued to increase substantially in 2006, but at a declining growth rate.

PSTN/ISDN revenue continued to decrease in 2006 due to strong competition from cable network operators and the continuing substitution, mainly by mobile phones.

Retail traffic. Retail traffic revenue consists of charges to customers for making national and international calls from a fixed-network access line, including calls made from the fixed network to mobile operators networks (fixed-to-mobile), as well as charges to customers for accessing the Internet through narrowband access.

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The following table sets forth certain information relating to Swisscom s retail traffic:

CHF in millions (except percentages) [1]	2006	Year Ended December 31, 2005	2004	Year Ended December 31, 2006/2005	2005/2004
				(% change)	
Local and long distance traffic revenue	371	391	435	(5.1)	(10.3)
Fixed-to-mobile traffic revenue	355	407	466	(12.8)	(12.8)
Internet traffic revenue	48	74	109	(35.1)	(31.8)
International traffic revenue	200	210	230	(4.8)	(8.5)
Total retail traffic revenue	**974**	**1,082**	**1,240**	**(10.0)**	**(12.7)**
Traffic (in millions of minutes):					
Local and long distance traffic	6,312	6,628	7,205	(4.8)	(8.0)
Fixed-to-mobile traffic	926	925	949	0.1	(2.5)
Internet traffic	1,487	2,252	3,323	(34.0)	(32.2)
International traffic[2]	903	926	955	(2.5)	(3.0)
Total retail traffic	**9,628**	**10,731**	**12,432**	**(10.3)**	**(13.7)**

(1) Figures do not include traffic or revenue, as appropriate, generated from Swisscom-operated public payphones or from calling cards.

(2) Based on minutes of outgoing international traffic as determined for retail customer billing purposes. Does not include international wholesale traffic originating outside Switzerland.

Total retail traffic revenue declined by 10.0% in 2006 and 12.7% in 2005, primarily due to a decrease in local and long distance traffic revenue and Internet traffic revenue. In addition, revenue from fixed-to-mobile traffic decreased mainly as a result of a reduction in termination rates by Swisscom Mobile which was introduced on June 1, 2005 and passed on to Fixnet s customers on July 1, 2005.

In both 2006 and 2005, the decrease in local and long distance as well as International traffic revenue is mainly due to an increase in competition from cable network operators which resulted in a loss of market share, a substitution effect from an increased use of mobile phones and other new communication technologies and the migration of local Internet dial-up traffic to broadband access. In 2005, the introduction of new price models introduced at the end of 2004 had a further decreasing effect on local and long distance as well as International traffic revenue.

The decrease in revenue from Internet traffic over the three year period under review is a result of the migration of Internet dial-up traffic to broadband access. Broadband access subscribers generally pay a fixed monthly fee, irrespective of the amount of usage, which is recorded under access revenue.

Wholesale traffic. Swisscom recognizes revenue in the Swiss market from providing network services to other telecommunication companies. Such services include primarily the standard interconnection services Swisscom is required to provide to other telecommunication service providers eligible for interconnection under the Telecommunications Act. Before the Belgacom transaction (see description below), Wholesale international revenue comprised primarily revenue from international termination traffic and revenue for international incoming traffic.

On February 23, 2005, Swisscom and Belgacom, signed an agreement to combine their international wholesale activities as of July 1, 2005 by forming a new joint venture company, named Belgacom International Carrier Services (Belgacom transaction). For details on this transaction see *Net revenue from external customers* above.

As a result of the Belgacom transaction effective in July 2005, traffic formerly recorded as wholesale international incoming traffic is now billed to BICS on the basis of domestic interconnection tariffs. Accordingly, the corresponding volumes and revenues are recorded as wholesale national traffic.

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The following table sets forth certain information relating to Swisscom s wholesale traffic:

CHF in millions (except percentages)	Year Ended December 31,			Year Ended December 31,	
	2006	**2005**	**2004**	**2006/2005**	**2005/2004**
				(% change)	
Wholesale national traffic revenue	351	373	446	(5.9)	(16.4)
International termination traffic revenue		110	245	(100.0)	(55.3)
Total wholesale traffic revenue	**351**	**483**	**691**	**(27.3)**	**(30.1)**
Total wholesale telephony traffic (millions of minutes):					
Wholesale national traffic[1]	16,160				