SWISSCOM AG
Form 20-F
April 24, 2006

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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, 2005

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, 2005: 61,482,761 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, 2005, December 31, 2004 and December 31, 2003, included in this annual report, are prepared in accordance with International Financial Reporting Standards (IFRS), which differ in certain respects from U.S. generally accepted accounting principles (US GAAP). For a reconciliation of the material differences between IFRS and U.S. GAAP as they relate to Swisscom, see Note 44 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.

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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 44 to the consolidated financial statements.

CHF in millions	Year Ended December 31,				
	2001	**2002**	**2003**	**2004**	**2005**
Consolidated Income Statement Data:					
Amounts in accordance with IFRS:					
Net revenue	**10,366**	**10,415**	**10,026**	**10,057**	**9,732**
Other income	193	228	231	195	260
Total	**10,559**	**10,643**	**10,257**	**10,252**	**9,992**
Goods and services purchased	2,056	2,073	1,706	1,847	1,831
Personnel expenses	2,224	2,329	2,266	2,194	2,173
Other operating expenses	2,070	2,004	1,798	1,823	1,817
Depreciation	1,669	1,546	1,537	1,542	1,286
Amortization	62	114	142	151	108
Total operating expenses	**8,081**	**8,066**	**7,449**	**7,557**	**7,215**
Gain on sale of real estate	675(1)				
Gain on partial sale of Swisscom Mobile AG	3,837(2)				
Operating income	**6,990**	**2,577**	**2,808**	**2,695**	**2,777**
Financial expense	(760)	(495)	(226)	(272)	(160)
Financial income	416	197	213	138	242
Equity in net income (loss) of affiliated companies	32	94	(9)	22	13
Income before income taxes, equity in net income of affiliated companies and minority interest	**6,678**	**2,373**	**2,786**	**2,583**	**2,872**
Income tax (expense) benefit(3)	48	(313)	(467)	(392)	(535)
Net income from continuing operations	**6,726**	**2,060**	**2,319**	**2,191**	**2,337**
Discontinued operations(4) (5)	(1,433)	(933)	(408)	(243)	9
Net income	**5,293**	**1,127**	**1,911**	**1,948**	**2,346**
Net income attributable to equity holders of Swisscom AG	5,067	826	1,571	1,596	2,022
Net income attributable to minority interest	226	301	340	352	324

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CHF in millions except per Share and ADS amounts	Year Ended December 31,				
	2001	**2002**	**2003**	**2004**	**2005**
Basic earnings per share(6)					
-from continuing operations	88.38	26.00	29.89	28.42	33.64
-from discontinued operations(5)	(19.48)	(13.79)	(6.16)	(3.76)	0.15
-net income	68.90	12.21	23.73	24.66	33.79
Diluted earnings per share(6)					
-from continuing operations	88.33	25.98	29.88	28.42	33.64
-from discontinued operations(5)	(19.47)	(13.78)	(6.16)	(3.76)	0.15
-net income	68.86	12.20	23.72	24.66	33.79
Basic and diluted earnings per ADS(6)	6.89	1.22	2.37	2.47	3.38
Amounts in accordance with U.S. GAAP:					
Net revenue	**10,384**	**10,424**	**10,057**	**10,113**	**9,767**
Net income from continuing operations	6,070	1,780	2,066	1,968	2,066
Net income (loss) from discontinued operations(5)	(368)	(994)	(8)	145	263
Cumulative effect of a change in accounting policy		(1,649)	38		
Net income (loss)	**5,702**	**(863)**	**2,096**	**2,113**	**2,329**
Basic earnings (loss) per share					
-from continuing operations	82.53	26.31	31.21	30.41	34.52
-from discontinued operations(5)	(5.00)	(14.69)	(0.12)	2.24	4.40
Cumulative effect of a change in accounting policy		(24.38)	0.57		
-net income	77.53	(12.76)	31.66	32.65	38.92
Diluted earnings (loss) per share					
-from continuing operations	82.49	26.29	31.19	30.41	34.52
-from discontinued operations(5)	(5.00)	(14.68)	(0.12)	2.24	4.40
Cumulative effect of a change in accounting policy		(24.35)	0.57		
-net income	77.49	(12.74)	31.64	32.65	38.92
Basic earnings per ADS(6)	7.75	(1.28)	3.17	3.27	3.89
Diluted earnings per ADS(6)	7.75	(1.27)	3.16	3.27	3.89

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CHF in millions	Year Ended December 31,				
	2001	2002	2003	2004	2005
Consolidated Balance Sheet Data:					
(end of period)					
Amounts in accordance with IFRS:					
Cash and cash equivalents	3,565	1,512	3,104	2,387	1,023
Other current assets	5,807	2,871	2,815	3,818	4,226
Property, plant and equipment	7,837	7,274	6,760	6,190	6,000
Investments in affiliated companies	589	682	41	58	191
Other non-current assets	3,017	2,256	1,913	1,779	1,969
Assets from discontinued operations(5)	3,300	2,135	1,685		
Total assets	**24,115**	**16,730**	**16,318**	**14,232**	**13,409**
Short-term debt	1,694	958(7)	514(7)	373	173
Trade accounts payable and other current liabilities	2,569	2,170	2,219	2,314	2,562
Long-term debt and finance lease obligations	3,490	2,451(7)	2,187	1,941	2,130
Accrued pension cost	1,218	1,101	1,113	1,118	805
Accrued liabilities and other long-term liabilities	1,148	979	984	1,033	1,115
Liabilities from discontinued operations(5)	1,055	886	794		
Total liabilities	**11,174**	**8,545**	**7,811**	**6,779**	**6,785**
Minority interest	769	781	731	663	623
Shareholders equity	12,172	7,404	7 776	6,790	6,001
Total equity	**12,941**	**8,185**	**8,507**	**7,453**	**6,624**
Amounts in accordance with U.S. GAAP:					
Assets continuing operations	24,049	18,654	18,360	17,734	17,549
Assets discontinued operations(5)	4,049	1,165	1,012		
Total assets	**28,098**	**19,819**	**19,372**	**17,734**	**17,549**
Long-term debt and finance lease obligations continuing operations	7,255	6,415	5,856	5,394	6,090
Long-term debt and finance lease obligations discontinued operations(5)	28	23	36		
Total long-term debt and finance lease obligations	7,283	6,438	5,892	5,394	6,090
Shareholders equity	12,294	5,587	6,523	5,863	5,191
Consolidated Cash Flow Data:					
Amounts in accordance with IFRS:					

Net cash provided by operating activities	3,208	3,698	4,708	4,066	3,432
Capital expenditures:					
Fixed-line networks	470	479	497	360	353
Mobile networks	258	295	381	434	238
Other intangibles	125	70	98	103	189
Buildings	28	2	6	13	104
Other	287	281	183	226	203
Total capital expenditures	**1,168**	**1,127**	**1,165**	**1,136**	**1,087**
Investments in affiliated companies	2	37	11		101

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	Year Ended December 31,				
	2001	2002	2003	2004	2005
Statistical Data:					
Fixed-line access lines[8]					
(*end of period, in thousands*)					
PSTN lines	3,240	3,163	3,086	3,007	2,922
ISDN lines	857	911	924	924	900
Total fixed-line access lines	**4,097**	**4,074**	**4,010**	**3,931**	**3,822**
Traffic (*in millions of minutes*):					
National fixed-line telephony[9]	14,317	12,316	10,957	10,211	9,483
Outgoing international fixed-line telephony[10]	1,399	1,394	1,341	1,316	1,282
Mobile telephony[11]	3,296	3,331	3,335	3,404	3,688
Retail Internet subscribers (*end of period, in thousands*)[12]	734	860	944	1,013	1,118
Swisscom Mobile subscribers[13]					
(*end of period, in thousands*)	3,373	3,605	3,796	3,908	4,281
Number of full-time equivalent employees					
(*end of period*)	17,784	17,171	16,079	15,477	16,088

Notes to Selected Consolidated Financial and Statistical Data

(1) In 2001, Swisscom entered into two agreements for the sale of real estate and recorded a gain of CHF 675 million.

(2) In 2001, Swisscom sold 25% of the shares of Swisscom Mobile AG to Vodafone and recorded a gain of CHF 3,837 million on disposal.

(3) Prior to 2002, Swisscom was subject to a weighted average statutory income tax rate of 25%. Swisscom s effective tax rate for

the year ended December 31, 2001 was reduced by three one-time effects: (1) the gain on the sale of Swisscom Mobile was, in effect, not subject to tax; (2) the gain on the sale of real estate, which was only partially subject to tax; and (3) the impairment charge of debitel for tax purposes exceeded that recorded in the consolidated financial statements. In 2002, Swisscom transferred its operations from Swisscom AG to newly formed subsidiaries, which are each subject to individual tax rates. This resulted in a decrease in the weighted average statutory tax rate from 25% to 23%. For 2004 and 2005, the weighted average statutory tax rate was further reduced to 22.3%. See Note 14 to the consolidated financial statements.

(4) 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 (debitel).

(5) As a result of the sale of debitel in June 2004, Swisscom treats debitel in its consolidated financial statements as a discontinued operation. Prior years have been restated accordingly.

(6) Earnings per ADS are based on the ratio of one-tenth of

one share to one ADS. Basic weighted-average number of shares outstanding in 2001, 2002, 2003, 2004 and 2005 was 73,543,972, 67,647,928, 66,199,789, 64,715,609 and 59,835,529, respectively.

(7) Total debt at December 31, 2001 and 2002 includes debt outstanding to the Swiss Post and the Federal Treasury in the aggregate principal amount of CHF 1.8 billion and CHF 0.8 billion, respectively. In the course of 2003, Swisscom repaid the remaining outstanding loans of CHF 0.8 billion to the Swiss Post.

(8) Based on lines in service, including courtesy and service lines.

(9) Represents total traffic generated by customers of Fixnet and Solutions. Includes traffic on courtesy and service lines. 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.

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

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

(12) Active access subscribers include all paid-access subscribers and those subscribers to Swisscom s free access services who have accessed their accounts at least once in the past 40 days.

(13) Swisscom does not include accounts of any prepaid customer with inactivity of more than twelve months in its subscriber

figures. This resulted in the deactivation of 207,000 inactive prepaid customers in December 2001. As of

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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.

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)**
2001(1)	11	6.78
2002(1)	12	9.15
2003(1)	13	10.01
2004	14	11.77
2005(2)	16	n/a

(1) In each of 2001, 2002 and 2003, shareholders received an additional distribution of CHF 8 per share (equivalent to USD 4.48 per share, 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 16 per share in respect of fiscal year 2005, which is subject to approval by the Annual General Meeting to be held on April 25, 2006. In December 2005, Swisscom completed a share repurchase program, in which it repurchased shares in an aggregate amount of CHF 2 billion. See *Item 8: Financial Information Dividend Policy* .

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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 21, 2006 was CHF 1.2776.

Year Ended December 31,	Average Rate(1)
2001	1.6944
2002	1.5497
2003	1.3374
2004	1.2393
2005	1.2507

(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 2005	1.3022	1.2731
November 2005	1.3255	1.2780
December 2005	1.3210	1.2788
January 2006	1.2938	1.2595
February 2006	1.3201	1.2841
March 2006	1.3201	1.2893

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Risk Factors

Risks Related to Swisscom s Business

Amendments to the Telecommunications Act will 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

Since the entry into force of the Swiss Telecommunications Act on January 1, 1998 (Fernmeldegesetz) (the Telecommunications Act), the Swiss telecommunications market has been open to competition. While the Telecommunications Act contains provisions designed to facilitate competition in the fixed-line telephony market, Swisscom has not yet been required to unbundle its local loop, which means that Swisscom provides access services to the vast majority of customers who use fixed-line telephony services in Switzerland, many of whom continue to use Swisscom as their default provider of national and international calling services. Nonetheless, competition has resulted in loss of market share and margin pressure for such calling services.

In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which are not expected to enter into force prior to January 1, 2007. Swisscom will be 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 will allow competitors to offer access services to customers in Switzerland without having to build local loops of their own, although they will still have to make significant investments in their own network infrastructure in order to connect to the local loop. Moreover, with access rebilling, competitors will be able to bill customers directly for the access services provided by Swisscom. As a result, Swisscom s competitors will be able to offer their customers a full range of fixed-line services, including access, and their customers would receive a single bill covering all these services. Accordingly, the amendments will increase competition in the access market and could cause Swisscom to lose additional market share in the national and international calling markets.

In the form passed by the Swiss Parliament, unbundling of the local loop will also require market-dominant providers to offer bitstream access to other providers on demand for four years on a cost-oriented basis. Currently, Swisscom s competitors provide ADSL services to its customers based on a wholesale contract with Swisscom on commercial terms. Regulated bitstream access may therefore enable Swisscom s competitors to offer ADSL services at lower rates than currently offered. Market-dominant providers will have to make bitstream access available at the main distributor frame and over their copper net in the local loop. This will require 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 will not be entitled to use Swisscom s investments in fiber optic lines. With increased competition, Swisscom s share of the ADSL market is likely to decline and Swisscom could be required to lower its ADSL tariffs to remain competitive. While a loss in retail access revenue would be partially compensated for by additional wholesale revenue for access services provided to Swisscom s competitors, those services will have to be provided on a cost-oriented basis. Accordingly, introduction of bitstream access could have a significant and adverse effect on the growth and profitability of Swisscom s access business.

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 method used to determine 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.

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In March 2006, the European Commission and the European Regulators Group (ERG) held a press conference regarding the Commission s initiative to regulate international mobile roaming charges to prevent mobile service providers from charging higher roaming fees for using the networks of competitors in the European Union than the actual underlying costs. In order to ensure that the benefits of this wholesale regulation are actually passed on to the end-users, the Commission anticipates a need for regulation at the retail level. In particular, the regulation would abolish all roaming charges for receiving a call when traveling abroad and introduce a home pricing principle for calls made abroad. Such a regulation would not be expected to enter into force before summer 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. With respect to roaming charges, which have been the subject of numerous Swiss media reports, EU legislation could lead to intervention by the Swiss Competition Authority or the Swiss Pricing Monitoring Authority (*Preisüberwacher*). EU-wide regulation would likely increase market pressure on mobile network operators in Switzerland, including Swisscom Mobile, even if no additional regulation or regulatory intervention is undertaken in Switzerland.

Swisscom s GSM telephony license expires on May 31, 2008. To renew its GSM license, Swisscom Mobile was required to submit its renewal application at least two years in advance of the license expiration date. Swisscom Mobile submitted its renewal request to ComCom on December 21, 2005. ComCom has yet to issue a decision on Swisscom Mobile s application, and may impose certain conditions on the renewal, such as requiring Swisscom Mobile to pay higher fees or give access to its network to mobile virtual network operators or to sell to its competitors mobile telephony minutes on a cost-oriented basis for resale.

With regard to mobile termination tariffs, the Competition Commission has initiated proceedings against Swisscom alleging that it has a dominant position with respect to terminating traffic on its own mobile network. If Swisscom is found to have a dominant position in this market, it could be required to reduce its mobile termination fees and/or pay large fines.

Regulation of mobile access or call origination, 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 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 provided Swisscom Mobile with its draft decision, according to which it believes that Swisscom Mobile has a market-dominant position which it has supposedly abused by demanding disproportionately high termination fees. The Secretariat has indicated that it intends to propose to the Competition Commission that it impose a fine of at least CHF 489 million and has asked Swisscom Mobile to comment on the draft decision by May 22, 2006. The proposed fines relate to the period from April 1, 2004 (when a new amendment to the Swiss Antitrust Law entered into effect) to May 31, 2005 (when Swisscom Mobile lowered its mobile termination fee from CHF 0.335 to CHF 0.20). Investigations into the mobile termination fees charged by Swisscom Mobile after May 31, 2005 will continue. For more information, see *Item 8: Financial Information Legal Proceedings Other Regulatory Proceedings* .

The proposed minimum fine is based on the maximum legal fine amount (equal to 10% of the revenue realized in Switzerland during the previous three years) and the Secretariat s opinion of: 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. The minimum fine is based on the assumption that prior to June 1, 2005, Swisscom Mobile s mobile termination fees of CHF 0.335 were CHF 0.135 too high. The Secretariat of the Competition Commission has indicated that the fine amount may increase if it determines that Swisscom Mobile s new mobile termination fee of CHF 0.20 is also excessive. The Secretariat s draft decision includes indications that the Competition Commission may consider CHF 0.10 appropriate as a cost-oriented, non-discriminatory price.

The Secretariat s draft decision may be an indication that the competition authorities are willing to strictly enforce the Antitrust Law and to 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-discriminatory price. In addition, the approach indicated by the Secretariat s actions may impact other competition proceedings against Swisscom and require Swisscom to reduce prices for various services. Reducing prices, particularly to cost-oriented levels, may have a significant negative impact on Swisscom s profitability.

Should the Competition Commission issue its decision in the form proposed by its Secretariat, Swisscom Mobile would appeal to the Appeals Commission for Competition Matters and, if necessary, in the final event to the Federal Court. Swisscom is currently in the process of evaluating the impact that this draft decision and the proposed fines will have on the consolidated financial statements, which may result in the recognition of a provision in 2006 and a cash outflow in a later period.

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 almost 92% in Switzerland by the end of 2005 (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 can be compensated 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. 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 basic 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 between personal computers 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 based on ADSL technology 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 high-speed Internet access via cable. Cable currently offers higher bandwidth than ADSL and has certain other advantages over ADSL. Moreover, as a cable network operator, Cablecom is particularly well positioned to combine voice, data and Internet access services with a multimedia content offering. In response to this increased competition, Swisscom is making capital expenditures to upgrade its network 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 these multimedia services for some time, and Swisscom may not be successful in entering this market. Swisscom has experienced delays in introducing its television services, and once Swisscom has introduced these services, they may not be competitive with services offered by cable network operators.

If Swisscom is unable to introduce a competitive television and/or video service in a timely fashion, it may 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.

Demand for broadband mobile services, which Swisscom has identified as a source of future growth in its mobile business, may be lower than expected and Swisscom may not be able to recoup the substantial investment required to build out its networks

The future success of Swisscom s mobile business, which in recent years has been Swisscom s most profitable operating segment, depends on, among other things, the capabilities and widespread market acceptance of broadband mobile technologies such as universal mobile telecommunication system (UMTS), Enhanced Data Rates for GSM Evolution (EDGE) technology and high-speed downlink packet access (HSDPA). 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. EDGE is a further development of the general packet radio service (GPRS) standard that allows considerably higher transmission speeds. Swisscom launched its commercial UMTS services in November 2004 and activated EDGE technology in early 2005. HSDPA is an UMTS enhancement that allows transmission speeds of up to 1.8 Mbit/s, the same speed as customers experience at WLAN hotspots. Swisscom plans to launch HSDPA in 2006.

In connection with the build-out of its UMTS, EDGE and HSDPA networks and the development of related products and services, Swisscom has incurred, and expects to incur in the future, substantial capital expenditures. It is still unclear whether certain of these new services will meet with market acceptance. Market acceptance depends on a number of factors, including the availability of applications which exploit the potential of the technology, as well as on the breadth and quality of available content. Furthermore, the level of demand for mobile broadband services could be lower than expected as a result of increased use of alternative mobile broadband technologies, such as public wireless LAN. If mobile broadband services fail to achieve the expected advantages over other technologies, Swisscom s mobile business will suffer and Swisscom may be unable to recoup a portion of its investment in UMTS, EDGE and HSDPA technology and could be required to write down the value of some of the related assets.

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 almost 92% in Switzerland at the end of 2005 (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, 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

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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 stricter regulation of radiation emissions from mobile base stations and antennae, additional compliance expenditures and decreased mobile communications usage

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.

In December 1999, the Federal Council adopted an ordinance, known as the NIS Ordinance, which establishes emission standards to protect the population of Switzerland from non-ionizing radiation emitted by various sources, including mobile antennae and base stations. 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. In order to comply with the applicable emission standards and to maintain its current level of service, Swisscom could be required to install additional antennae. However, Swisscom does not expect the associated costs to be materially different in 2006 from those incurred in previous years. See *Item 4: Information on the Company Regulation Mobile Telecommunications* .

A 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, are currently being conducted. If these further studies confirm that UMTS radiation may have adverse health effects, regulatory authorities may set stricter emission standards for the UMTS network than currently apply. Any of these regulatory measures would have a severe and adverse effect on Swisscom s mobile business and Swisscom may be unable to recoup its investment in the UMTS network and required to take significant write downs.

Even if stricter regulatory measures are not adopted, perceived health risks of mobile handsets or base stations and related publicity could cause Swisscom s customer base and average usage per customer to decline, which would have a material adverse effect on Swisscom s mobile communications business. Environmental and health concerns are also making it more difficult, and more costly, to find acceptable sites for base stations and could thereby 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 business customers and solutions business would suffer

As the provision of basic telecommunication services to business customers has become a commodity business characterized by low margins, Swisscom believes that future growth in this market will lie in the provision of enhanced business solutions. Accordingly, it has invested in upgrading its data networks, thereby enabling the provision of integrated data and voice services with greater flexibility, scalability and performance. However, demand for such integrated communications solutions has not developed as Swisscom anticipated. The slowdown of the global economy that began in 2001 led to a decline in corporate spending which was particularly pronounced in the IT area. Despite modest improvements in the economy since the beginning of 2004, demand for integrated communication solutions and IT services may decline if the economy slows down again. 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 its outsourcing business exposes Swisscom to the risk that it may not be able to achieve expected cost savings and could be required to perform long term contracts at a loss

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 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, it may be years until 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.

Swisscom may consider making 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, which could potentially include large acquisitions outside its home market. In the last two years, Swisscom has been involved in advanced acquisition discussions and proceedings relating to Telekom Austria, Cesky Telecom a.s. and Eircom Group plc. Although these discussions and proceedings ultimately did not result in an acquisition, and 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 in the future.

Entry into a significant acquisition would entail a variety of important risks. There can be no assurance that Swisscom would be able to successfully execute the business plan it pursued with a specific acquisition, such as leveraging the target s expertise in certain areas, or to realize other anticipated benefits, including synergies, from the transaction. This risk may be compounded in the case of a cross-border transaction, as political and cultural factors may make it more difficult to implement management and other changes. Although Swisscom would seek to conduct due diligence on any potential target, the opportunity to do so may be limited and it is possible that the transaction would entail higher than anticipated costs, that the target would have additional liabilities for which Swisscom would not be entitled to indemnification or that write downs would be required, including of any goodwill arising out of the transaction. Moreover, should Swisscom enter into a large acquisition, 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.

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 Swisscom Eurospot will be unable to repay loans received from Swisscom, or that Swisscom will have to record an impairment charge in connection with its investment in Antenna Hungária.

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.

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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 significantly 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 ADSL and 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 and therefore require that Swisscom make further investments to facilitate the provision of flexible and cost-effective services to its customers and may harm its competitive position. In addition, 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 in 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 also negatively affect Swisscom s profitability and competitiveness. Labor relations could also be negatively impacted in the event of a sale of the Swiss Confederation s controlling interest in Swisscom as part of the Federal Council s current efforts to privatize Swisscom.

Swisscom may be audited by the Swiss tax authorities and, if any deficiencies are uncovered, may be required to make substantial payments

Since Swisscom s incorporation as a Swiss stock corporation, only some of Swisscom s group companies have been subject to a detailed review by the Swiss tax authorities. Based on the experience of other Swiss companies, Swisscom believes that a review of the direct and indirect taxes of other Swisscom group companies or of the whole group may occur in the near future. Past audits by the Swiss tax authorities of other Swiss companies have in some cases resulted in substantial additional payments being required of the affected companies. While Swisscom was not required to pay any substantial additional payments as a result of past tax reviews of its group companies, it cannot be excluded that, if Swisscom is audited by the Swiss tax authorities in the future and any deficiencies are uncovered, Swisscom may have to make substantial payments for which it has not made provisions.

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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 is currently involved in a legal proceeding with respect to fixed-fixed interconnection fees, in which it may be required to lower interconnection prices by approximately 30%. Swisscom has recorded a provision relating to these proceedings based on management s best estimate of the outcome. When these proceedings conclude in the second half of 2006 or in 2007, Swisscom will be required to settle the disputed amounts, which could result in a significant cash outflow. If the Federal Court s decision differs from Swisscom s estimate, *e.g.,* by requiring Swisscom to retroactively offer discounted prices to all of its customers rather than just to the parties to the proceedings, such settlement may exceed the amount provided for in the financial statements as of December 31, 2005, thereby affecting Swisscom s income.

Although Swisscom believes that most of these proceedings 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.

The inclusion of new services in the Universal Service Obligation could require Swisscom to make investments that are disproportionate to anticipated revenues.

In fall 2006, the Federal Communications Commission (ComCom) will open a tender for the new Universal Service license, which will apply after Swisscom s current Universal Service license expires at the end of 2007. The Federal Council recently published a proposal to amend the Telecommunications Ordinance to extend the Universal Service Obligation in line with technological developments and current social and economic requirements.

If Swisscom is the winning bidder in the tender and the Universal Service Obligation is expanded to include the provision of broadband services (as currently proposed by the Federal Council), Swisscom could be required to make investments that it will not be able to recoup due to price ceilings for products included in the Universal Service Obligation.

If Swisscom fails to maintain an effective system of internal controls, it may not be able to accurately report its financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in Swisscom s financial reporting, which would harm its business and the trading price of its shares and ADSs.

Effective internal controls are necessary for Swisscom to provide reliable financial reports and effectively prevent fraud. If Swisscom cannot provide reliable financial reports or prevent fraud, its financial results could be harmed. Swisscom devotes significant attention to establishing and maintaining effective internal controls. Swisscom is in the process of documenting, reviewing and, if appropriate, improving its internal controls and procedures in connection with Section 404 of the Sarbanes Oxley Act of 2002, which requires annual management assessments of the effectiveness of Swisscom s internal controls over financial reporting and a report by Swisscom s independent auditors addressing these assessments. Both Swisscom and its independent auditors are in the process of testing Swisscom s internal controls in connection with the Section 404 requirements. As part of this documentation and testing process, Swisscom and its independent auditors have identified problematic areas for further attention or remediation. Implementing appropriate changes to Swisscom s internal controls may require specific compliance training of Swisscom s directors, officers and employees, entail substantial costs in order to modify the deficient elements of Swisscom s existing accounting systems, and take a significant period of time to complete.

Swisscom cannot be certain that these measures will ensure that it implements and maintains adequate controls over its financial reporting processes and related Section 404 reporting requirements. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm Swisscom s financial results or cause it to fail to meet its reporting obligations. Any such failure could also adversely affect Swisscom s assessment of the effectiveness of its internal control over financial reporting that will be required when the Section 404 requirements become applicable to it. Inferior internal controls could also cause investors to lose confidence in Swisscom s reported financial information, which could have a negative effect on the market price of Swisscom s shares and ADSs.

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 continue to be able to influence Swisscom s strategy. For example, in 2005 Swisscom was involved in advanced negotiations to acquire Eircom Group plc of Ireland. At the end of November, after the Swiss Federal Council instructed its representative on the Swisscom Board of Directors to vote against such an acquisition and, instead, to support the distribution of free capital to shareholders, talks on a takeover of Eircom were broken off. 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). As a result of the Federal Council s position, Swisscom could be limited in its ability to undertake 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 December 31, 2005, the Swiss Confederation held a 62.45% stake in Swisscom. The stake will increase after the planned share capital reduction following the share buyback completed in December 2005. 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 subject of the proposal is an amendment to the Telecommunications Enterprise Act of 1997 (the TUG), which would transfer power to the Federal Council to sell the government s controlling interest in Swisscom. Future sales by the Swiss Confederation may occur, whether as a result of this initative or as part of a reduction 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 Swisscom s 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.

If another party acquires control of Swisscom as a result of the Swiss Confederation reducing its stake in Swisscom below 50%, Vodafone plc may exercise its conditional pre-emption rights to sell its 25% stake in Swisscom Mobile to Swisscom, and Swisscom s counterparties in significant contracts may be able to terminate such contracts or demand additional security.

Swisscom is a party to several significant contracts, including a Shareholder s Agreement with Vodafone plc and various cross-border lease agreements, which contain provisions related to a potential change of control of Swisscom. Vodafone plc holds conditional pre-emption rights which would permit it to sell its 25% stake in Swisscom Mobile to Swisscom at fair market value if a party other than the Swiss Confederation is able to exert a controlling influence over Swisscom. Under current law, the Swiss Confederation may not sell its controlling interest in Swisscom, and therefore Vodafone s right to sell its shares in Swisscom Mobile cannot be exercised. In accordance with International Financial Reporting Standards (IFRS), Swisscom therefore has not recorded a liability related to such rights. On January 25, 2006, however, the Swiss Federal Council published a consultation document containing a proposal for a change in law that would permit the Swiss Confederation to sell its controlling interest. If the law is changed, it would be possible for the government to dispose of its shares in Swisscom and a new shareholder could potentially obtain control of Swisscom. If such a change in the law occurs, Vodafone s conditional sale right would have to be recorded at fair value as a financial liability.

If Vodafone s conditional sale right becomes exercisable, the existence of such rights may reduce Swisscom s attractiveness to potential acquirors. In addition, if a change of law occurred, a new shareholder obtained control of Swisscom and Vodafone were to exercise its conditional pre-emption rights, Swisscom would have to use a significant amount of cash, or incur a significant amount of debt, to pay the purchase price, which is defined as the fair market value of Vodafone s 25% interest in Swisscom Mobile. This could negatively affect Swisscom s liquidity, credit rating and financial flexibility.

In addition, Swisscom Mobile is a party to a related Service Agreement with Vodafone plc. Under this agreement, each of Swisscom Mobile and Vodafone has agreed to provide the other with access to its products and services, global best practice guidelines, as well as to provide certain consultancy and supporting services. In addition, the parties have agreed upon reciprocal roaming arrangements. The Service Agreement is terminable if an entity other than Swisscom AG acquires more than half of the voting rights and equity capital of Swisscom Mobile or the above-mentioned Shareholders Agreement is terminated. If the Service Agreement were to be terminated, Swisscom Mobile could face higher costs for certain products and services, lose access to services and content that Vodafone makes available to Swisscom customers, lose access to the newest mobile handset models and/or be required to pay higher prices for mobile handsets in general.

Between 1996 and 2002, Swisscom entered into cross-border tax lease arrangements under the terms of which parts of its fixed and mobile networks were sold or leased long-term to US American Trusts and leased back with terms of up to 30 years. In the transaction concluded in 2002, Swisscom was required to provide a letter-of-credit to secure a part of its obligations to the equity investors. Swisscom is obliged to issue further letters-of-credit if the Swiss Confederation gives up its majority shareholding in Swisscom. Issuing additional letters-of-credit may limit Swisscom s financial flexibility.

In addition, a change of control of Swisscom may induce certain of Swisscom s contractual counterparties to attempt to renegotiate contracts, even where they do not directly benefit from a contract termination right.

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.

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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

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 using a technology commonly referred to as ADSL. As of December 31, 2005, Swisscom provided 3.8 million fixed-line telephone access lines in Switzerland, of which 0.9 million were digital or ISDN lines and 1.1 million were being used for ADSL access. In 2005, Swisscom billed an aggregate of 15.9 billion minutes of national transit and interconnection traffic and terminated over 1.6 billion minutes of incoming international traffic on behalf of other telecommunication service providers. Through Swisscom Mobile AG, in which Vodafone holds a 25% stake, Swisscom is the leading mobile telecommunications service provider in Switzerland, with over 4.3 million subscribers to its mobile service as of December 31, 2005. Swisscom also offers a full range of state-of-the-art data services, from leased lines to integrated solutions for its business customers. In 2005, Swisscom s net revenue amounted to CHF 9.7 billion.

On June 8, 2004, Swisscom sold its 95% stake in debitel AG, the largest network independent telecommunications provider in Europe, 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). As a result of the sale, debitel is treated in the consolidated financial statements as a discontinued operation. Prior years have been restated accordingly. See *Divestments/Discontinued Operations debitel* .

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 via ADSL technology in the local loop. ADSL technologies operate, like ISDN, over existing copper lines, but offer higher speed and volume for data transmission. Swisscom s ADSL service is available to approximately 98% of the population of Switzerland, and its fastest offering provides download speeds of up to 6 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. 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 following table sets forth Swisscom s capital expenditures for the periods indicated.

CHF in millions	**Year Ended December 31,**		
	2005	**2004**	**2003**
Fixed-line network	353	360	497
Mobile network	238	434	381
Other	496	342	287
Total	**1,087**	**1,136**	**1,165**

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 are not expected to enter into force prior to January 1, 2007. Swisscom will be 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. See *Regulation Unbundling of the Local Loop and Other Access Regulation* .

Under the Telecommunications Act, Swisscom was required to continue 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 another five-year term and ISDN access became part of Universal Service subject to a price ceiling.

On December 19, 2005, Swisscom completed a share repurchase program in which it repurchased shares in an aggregate amount of CHF 2 billion, representing 7.75% of its share capital. The Annual General Meeting to be held on April 25, 2006 will vote on a resolution to reduce Swisscom s share capital accordingly. See *Item 8: Financial Information Dividend Policy* .

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 December 31, 2005, the Swiss Confederation held a 62.45% stake in Swisscom. This stake will increase following effectiveness of the planned share capital reduction mentioned above.

On January 25, 2006, the Swiss Federal Council published a consultation document containing a proposal to change the law that prohibits the Swiss Confederation from selling its controlling interest in Swisscom. As long as the Swiss Confederation maintains a controlling interest in Swisscom, it will continue to be able to influence Swisscom s business and strategy. For example, in 2005 Swisscom was involved in advanced negotiations to acquire Eircom Group plc of Ireland. At the end of November, after the Swiss Federal Council instructed its representative on the Swisscom Board of Directors to vote against such an acquisition and, instead, to support the distribution of free capital to shareholders, talks on a takeover of Eircom were broken off. Swisscom views the Swiss Federal Council s proposal to implement a change of law and sell the government s controlling interest in Swisscom as positive overall. The sale of the government s controlling interest will increase Swisscom s corporate strategic flexibility in a rapidly evolving international environment.

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 39 to the consolidated financial statements.

Strategy

The key challenge Swisscom faces is finding profitable new sources of revenue to offset the decline in traditional activities. Swisscom s new strategy is based on three pillars:

Strengthening its core business with convergent offerings and maximizing efficiency by exploiting functional overlaps in technology. The most important pillar of the strategy is the strengthening of Swisscom s core business by offering a comprehensive portfolio of multimedia services and first-class customer service. Swisscom aims to provide customers with highly attractive offerings from a comprehensive range of products, services and network access options. Individual products are increasingly expected to be bundled into all-round packages. Swisscom expects to win customers trust with improved, rapid and competent customer care with simplified access to customer contact points. Swisscom is looking to position itself as a Swiss role model in the field of customer service.

By exploiting functional overlaps in technology, Swisscom also intends to simplify its technological infrastructure and to combine functions where sensible. Introducing a common architecture and design across platforms will reduce operating costs and improve performance. Moreover, Swisscom will seek to implement new organizational structures to establish shared services for support functions and eliminate what is not necessary to support its core business.

Promoting growth in business customers solutions. The second pillar of the strategy consists of extending Swisscom s activities in the business customer market by offering a wider range of IT and communications solutions. Swisscom plans to offer international companies with a decision-making center located in Switzerland a one-stop shop for international services, *e.g.,* with the help of cross-border alliances.

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Swisscom s existing competence in providing solutions for the banking and healthcare industries is to be further expanded. In addition, Swisscom is looking to achieve substantial growth in the outsourcing market.

Expanding through targeted projects. The third pillar covers expansion projects in areas where Swisscom has proven core competences. Firstly, Swisscom has identified opportunities to add value by incorporating its specialized know-how into projects targeting specific customer segments in other countries. Swisscom expects additional opportunities to emerge in countries with pent-up demand for the technologies Swisscom can provide, *e.g.,* broadband telecommunications and digital television. Within Switzerland there may also be expansion potential in areas where Swisscom is active, but not the market leader. Secondly, Swisscom plans to enter markets related to its current core business that are undergoing major changes under the influence of digitalization and broadband penetration (*e.g.,* telemedicine).

Implementing this strategy may also involve the acquisition of companies, where appropriate. However, Swisscom will apply rigorous investment criteria and synergies or business logic must justify the price of any acquisition.

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 telecommuncations company with a universal service obligation (USO) mandate and to limit net debt 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 Coucil s strategic goals for 2006 to 2009 and believes they provide sufficient leeway for the company s further value-adding development. 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. See *Item 8: Financial Information Dividend Policy* .

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Overview of Revenue by Business Segment

In 2005, 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 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 services and integrated communication technology solutions, including outsourcing services, to business customers.

The Solutions business segment was formed on January 1, 2005, when Swisscom Enterprise Solutions was merged with Swisscom Systems, formerly accounted for in the segment Other , to form a new business segment named Swisscom Solutions.

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 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,		
	2005	**2004**	**2003**
Fixnet	4,319	4,555	4,601
Mobile	3,651	3,679	3,511
Solutions(1)	1,123	1,279	1,426
Other(1)	571	476	416
Corporate	68	68	72
Total	**9,732**	**10,057**	**10,026**

(1) Effective January 1, 2005, Swisscom Enterprise Solutions was merged with Swisscom Systems, formerly

accounted for in the segment "Other", into a new business segment named Solutions. Prior years' numbers for the segments "Other" and Solutions were restated accordingly.

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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 2005, Fixnet generated total revenue of CHF 5.3 billion, including sales of CHF 1.0 billion to other Swisscom business segments. With external revenues of CHF 4.3 billion, Fixnet accounted for 44% of Swisscom s consolidated net revenue in 2005.

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, 2005, Fixnet provided 3.8 million fixed-line telephone access lines, including 0.9 million ISDN lines, and offered ADSL access to approximately 1.1 million subscriber lines.

Retail Traffic. Fixnet provides national and international fixed-line voice telephony services to residential and business customers. In 2005, Fixnet carried an aggregate of 9.8 billion minutes of national telephony and dial-up Internet traffic and 0.9 billion minutes of outgoing international traffic generated by residential customers.

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 2005, Fixnet billed a total of 15.9 billion minutes of national interconnection and transit traffic, carried 0.8 billion minutes of outgoing international traffic and terminated 1.6 billion minutes of incoming international 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 sale of customer equipment, the provision of leased lines and the operation of a directories database.

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

CHF in millions	**Year Ended December 31,**

(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. Swisscom carried out a 3-month field trial ending February 2005 of providing television to 600 of its users and installed the technology for employees of the Swisscom Group and Microsoft at the end of 2005 as a second test launch. Swisscom plans to introduce the new multimedia services on a commercial basis during 2006. In addition, Swisscom seeks to optimize product distribution and to promote customer care through direct and indirect sales channels, such as Swisscom shops and specialized outlets. Swisscom also operates a direct marketing center.

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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 2005, external revenue from access services amounted to CHF 1,992 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 2005, PSTN services comprised 41% 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(1)	As of December 31,		
	2005	2004	2003
PSTN(2)	2,922	3,007	3,086
ISDN(3)	900	924	924
Total access lines	**3,822**	**3,931**	**4,010**
Total access channels	5,043	5,175	5,261

(1) Based on lines in service, including courtesy lines and service lines.

(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.

ISDN growth has stagnated in recent years and even declined in 2005 because of the increasing use of ADSL 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. In addition, the total number of access lines declined primarily due to the increase in market share of Cablecom, Switzerland s major cable network operator, which offers voice and Internet access over its own infrastructure. Swisscom expects this trend to continue.

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.

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The following table sets forth information relating to Swisscom s charges in effect in 2005 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 primary	914.60	538.00

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 are not expected to enter into force prior to January 1, 2007. Swisscom will be 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. 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 asynchronous digital subscriber lines (ADSL) 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, 2005	2004	2003
Retail ADSL lines	708	490	274
Wholesale ADSL lines	390	312	213
Total ADSL lines	**1,098**	**802**	**487**
Retail narrowband subscribers[1]	410	523	670

(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 ADSL technology, which offers significantly higher transmission speeds compared to ISDN. Because ADSL may be offered over a traditional PSTN line, ADSL 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 ADSL is offered on a flat-fee basis for high bandwidth users, and on a minutes-of-use basis for 150kbit/s low bandwidth users. In 2005, Swisscom strengthened its position in this market by acquiring Cybernet (Schweiz) AG from the Viatel Group. Cybernet focuses its activities on the small and medium-sized business market, where its core businesses include connectivity, data centers and e-business.

Swisscom seeks to increase the number of subscribers to ADSL access services by offering new ADSL services and significantly increasing the capacity of its ADSL lines and adding very high bit-rate digital subscriber lines (VDSL) that will allow downstream speeds well above 10 Mbit/s.

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The following table sets forth information relating to Swisscom s charges in effect in 2005 for the provision of ADSL services.

CHF (including VAT)	Downstream / upstream bandwidth (kbit/s)(2)	Monthly Fee	Hourly rate
ADSL 150 PAYG(1)	150/50	9.00	2.40
ADSL 600	600/100	49.00	
ADSL 1200	1200/200	69.00	
ADSL 2400	2400/200	99.00	

(1) Pay-as-you-go service introduced in the third quarter of 2005.

(2) Effective mid-March 2006, the downstream/upstream bandwidth offering for new ADSL 600 customers was increased to 2000 / 100, for ADSL 1200 to 3500 / 300, and for ADSL 2400 to 5000 / 300. The monthly fees remained unchanged. The downstream/upstream bandwidth provided to existing customers will be upgraded until the end of the second quarter of 2006.

In a letter dated October 20, 2005, the Competition Commission announced that it was opening an 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 intends to investigate whether prices for certain of Swisscom s ADSL services are excessive and unreasonable. See *Item 8: Financial Information Legal Proceedings Other Regulatory Proceedings* .

In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which are not expected to enter into force prior to January 1, 2007. Market-dominant providers will be 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* .

Television and Multimedia Entertainment

As Swisscom continues to upgrade the capacity of its networks, the increased bandwidth will allow Swisscom to pursue its so-called triple play strategy of combining its core activities with multimedia services. Swisscom plans to offer television and video on demand services during 2006. Rather than sending television and video signals by broadcasting or transmitting them via cable connections, consumers will be able to use their high-speed Internet connections to seamlessly stream video to their computers and televisions. In order to evaluate the technological feasibility and market appeal of offering television over its broadband infrastructure, Swisscom started a trial at the end of 2005 in which it installed the technology for employees of Swisscom Fixnet and Microsoft. In addition, to further this triple play strategy, Swisscom has acquired 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. In preparing the market for Swisscom s entry into the TV business, in March 2005 Swisscom launched an interactive television product which can be used with cable, satellite and terrestrial broadcast systems in order to compete with cable network operators, which 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* .

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 1,082 million in 2005.

Retail traffic has declined in recent years, mainly due to a significant decline in local area traffic and Internet traffic. In 2004, the decline in local area traffic was a result of the fact that Internet is increasingly accessed via Internet dial-up numbers, offered by Internet service providers, and ADSL lines, with the result that the associated traffic is no longer included in Swisscom s local area traffic statistics. In 2005, the continued migration to ADSL lines contributed to the decline in Internet traffic, while increased competition reduced voice traffic. Swisscom expects retail traffic to 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. In 2005, Swisscom intensified its efforts to retain and win back customers through direct marketing campaigns and new pricing models.

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)(2)	Year Ended December 31,		
	2005	**2004**	**2003**
Local and long distance traffic	6,628	7,205	7,732
Fixed-to-mobile traffic	925	949	950
Internet traffic	2,252	3,323	4,842
Total national retail traffic	**9,805**	**11,477**	**13,524**
International retail traffic(3)	926	955	968
Total retail traffic	**10,731**	**12,432**	**14,492**

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

(2) Includes traffic on courtesy and service lines.

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

In 2005, 55.2% 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 both national and international calls at reduced rates or even for free at certain off-peak times. These new pricing models have effectively resulted in an overall tariff reduction.

Local and long-distance fixed-fixed calls within Switzerland that are billed on a per-minute basis are billed 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)**
Generally applicable tariff	0.55	0.45
New tariffs applicable to calls terminating on:		
Swisscom Mobile (as of July 1, 2005)	0.41	0.31
TDC (Sunrise) Mobile (as of October 1, 2005)	0.49	0.39

(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.

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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.

The following table sets forth information relating to Swisscom s international tariffs in effect at the end of December 2005 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	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* .

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Wholesale Traffic

Swisscom provides various national wholesale services to other telecommunications providers, including network operators, service providers and resellers. Swisscom s portfolio of national 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* .

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. 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. The full-year effect of the transaction will be a significant decrease in revenues and expenses in 2006.

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 normally would no longer be recorded by Fixnet. For technical reasons, however, international incoming traffic to be routed through BICS in Switzerland to either domestic third party networks or to Swisscom s Mobile network will continue to be routed through Fixnet s network until 2007. Accordingly, associated revenues and costs are still being recognized by Fixnet. These revenues and costs, which were recorded under international incoming traffic until December 31, 2005, are now recorded under wholesale national traffic. After 2007, BICS traffic will no longer be routed through Fixnet under this arrangement.

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. Traffic between networks, which had previously been routed via Fixnet Wholesale s networks, is now routed directly. Since the introduction of direct mobile interconnection, Swisscom s competitors have been able to offer their customers direct mobile interconnection, which resulted in a decrease in traffic over Swisscom s network.

Wholesale National

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 2005, external revenue from national wholesale services amounted to CHF 227 million.

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,		
	2005	**2004**	**2003**
Wholesale national traffic[(1)]	15,947	17,055	17,871

(1) Based on minutes as determined for customer billing purposes. Includes traffic related to third party revenues

for access,
termination and
transit services.

Until 2007, international incoming traffic routed through BICS in Switzerland will continue to be terminated by Fixnet for technical reasons. Until December 31, 2005, Fixnet recognized this traffic as incoming international traffic. Since January 1, 2006, Fixnet has been recognizing this traffic as wholesale national traffic.

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, but may include an appropriate return on capital. 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,		
	2005	**2004**	**2003**
Regional termination	0.0112	0.0114	0.0130
National termination	0.0175	0.0186	0.0203
Regional carrier selection	0.0113	0.0115	0.0130
National carrier selection	0.0176	0.0187	0.0203

(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 2005, Swisscom reduced its standard interconnection rates by up to 7%. For 2006, Swisscom has announced further interconnection rate reductions averaging 5%. Swisscom believes that its 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 adapt its interconnection charges from time to time as it realizes further cost savings through network optimization or improvements in efficiency.

Swisscom has regularly been involved in legal proceedings relating to its interconnection obligations. In November 2003, ComCom issued decisions requiring Swisscom to lower interconnection prices with retroactive effect for the years 2000 to 2003 by 25-35%. Swisscom lodged an appeal against this decision with the Federal Court. Swisscom s competitors, TDC (Sunrise) and WorldCom also filed an appeal demanding further reductions than decided by ComCom. In October 2004, the Federal Court overturned the ComCom decision on procedural grounds and remanded the petitions for re-hearing before ComCom. On June 10, 2005, ComCom confirmed its November 2003 decision, requiring Swisscom and Fixnet to retroactively reduce the interconnection rates charged TDC (Sunrise) and WorldCom between 2000 and 2003 by approximately 30%. ComCom required TDC (Sunrise) and WorldCom to reduce their own prices on a reciprocal basis. On July 13, 2005, Fixnet and TDC (Sunrise) both lodged an appeal against this decision with the Federal Court. For further information on legal proceedings relating to interconnection, see *Item 8: Financial Information Legal Proceedings* .

Incoming International Traffic

Swisscom s agreement with Belgacom to combine their international wholesale activities by forming a new joint venture company included the transfer of Fixnet s wholesale international incoming traffic business. Until 2007, however, international incoming traffic will continue to be routed through Fixnet for technical reasons. As a result, corresponding revenues and expenses are still being recorded by Fixnet. Until December 31, 2005, Fixnet recognized this traffic as incoming international traffic. Since January 1, 2006, Fixnet has been recognizing this traffic as wholesale national traffic. In 2005, external revenue from incoming international traffic amounted to CHF 146 million.

The following table sets forth information relating to Fixnet s incoming international traffic in minutes for the periods indicated.

In millions of minutes	Year Ended December 31,		
	2005	**2004**	**2003**
Incoming international traffic	1,577	1,521	1,607

International Termination Traffic

Swisscom s agreement with Belgacom to combine their international wholesale activities by forming a new joint venture company included the transfer of Fixnet s wholesale international termination traffic business. External revenue from international termination traffic amounted to CHF 245 million in 2004, and CHF 110 million in 2005 (prior to the July 2005 transfer to Belgacom).

The following table sets forth Swisscom s international termination traffic in minutes for each of the periods indicated.

In million of minutes	Year Ended December 31,		
	2005	**2004**	**2003**
International termination traffic(1)	755(2)	1,508	1,188

(1) Minutes of outgoing traffic terminated outside of Switzerland.

(2) Prior to the July 2005 transfer to Belgacom.

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 2005, Swisscom realized external revenue of CHF 130 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 from third-party suppliers all of the telecommunications equipment that it sells or rents under the Swisscom brand name. In addition, Swisscom sells telecommunications equipment under third-party brand names. Swisscom offers residential customers primarily 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 2005, sales of customer equipment generated external revenue of CHF 253 million.

The most important distribution channel for Swisscom s customer equipment is its Swisscom shops. In addition, Swisscom uses third-party distribution channels.

Leased Lines

Swisscom offers 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 80 wholesale customers in Switzerland. Business 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 are not expected to enter into force prior to January 1, 2007. Swisscom will be required to offer, among other things, access to leased lines on a cost-oriented basis. See *Regulation Unbundling of the Local Loop and Other Access Regulation* and *Item 8: Financial Information Legal Proceedings* . In 2005, the provision of leased lines generated external revenue of CHF 158 million.

Directories

Swisscom Directories operates, maintains and sells Switzerland s most comprehensive directories database, the electronic phonebook (*Elektronisches Telefonbuch ETV* ® or ETV). ETV 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 and the online yellow pages. In 2005, Swisscom Directories generated external revenue of CHF 120 million.

The directories business is regulated under the Telecommunications Act. Since 2001, every telecommunication service provider is required to provide its regulated data, including daily data updates, not only to directories publishers, as was the case in the past, but to any interested party and for any use. 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. In connection with an investigation to determine whether Swisscom Directories offered its directories database to third parties at prices and on conditions that prevent them from effectively using the data, the Competition Commission determined that Swisscom Directories has a market-dominant position, but decided not to pursue the matter. Swisscom appealed the finding that it has a market-dominant position. The appeal is still pending. See *Item 8: Financial Information Legal Proceedings* .

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 2005, external revenue from these services amounted to CHF 101 million.

Competition

In the area of fixed network telephony and related services, Swisscom faces intense competition, particularly in the national and international calling markets. In 2005, price competition 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 intensify in 2006.

Access. As recently as two years ago, Swisscom did not face significant competition in the residential access market, mainly due to the fact that Swisscom has 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 is thereby directly competing with Swisscom s PSTN and ISDN access services. In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which are not expected to enter into force prior to January 1, 2007. Swisscom will be 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 bistream access for a limited period of four years. See *Regulation Unbundling of the Local Loop and Other Access Regulation* and *Item 8: Financial Information Legal Proceedings Proceedings Relating to Unbundling of the Local Loop* . Unbundling of the local loop will give 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 loss of 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 are able to offer high-speed Internet access via cable. Cable currently offers higher bandwidth than ADSL and has certain other advantages over ADSL. 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 upgrade its network to combine its core activities in voice and Internet services with multimedia services such as TV and video on demand. However, cable network operators have been offering these multimedia services for some time and Swisscom may not be successful in entering this market. With the rollout of broadband mobile services based on UMTS and other wireless broadband access technologies, Swisscom may face additional competition from broadband mobile service providers.

In order to compete with other broadband access operators more effectively, Swisscom has increased the capacity of its ADSL services by more than 400% since 2003. The most recent upgrade started in March 2006 and will double ADSL bandwidth for most service plans by mid-2006.

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 intends to investigate whether prices for certain of Swisscom s ADSL services are excessive and unreasonable. 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 2006, 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 come under particular pressure due to regulatory initiatives in the European Union regarding mobile termination and two proceedings in which Swisscom is involved. See *Regulation Mobile Telecommunications* . Effective June 1, 2005 Swisscom reduced its mobile termination rates by more than 40% from CHF 0.335 to CHF 0.200 per minute in order to compete more effectively with other mobile network operators. In response, TDC (Sunrise) reduced its mobile termination rates from CHF 0.3685 to CHF 0.2995, effective August 1, 2005, and Orange reduced its rates from CHF 0.3695 to CHF 0.3295, effective January 1, 2006. The reductions in mobile termination rates by TDC (Sunrise) and Orange were less than Swisscom had expected, based on ComCom s decision to require reciprocal reductions from the two operators, and based on conditions prevailing in the European market and in the sector, *i.e.,* CHF 0.200/minute.

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* . In November 2003, based on complaints by TDC (Sunrise) and WorldCom, ComCom issued decisions requiring Swisscom to lower interconnection prices with retroactive effect for the years 2000 to 2003 by 25-35%. Swisscom lodged an appeal against this decision with the Federal Court. In October 2004, the Federal Court issued a decision overturning the ComCom decisions on procedural grounds and remanding the petitions for re-hearing before

ComCom. On June 10, 2005, the ComCom confirmed its November 2003 decision, requiring Swisscom and Fixnet to retroactively reduce the interconnection charges charged TDC (Sunrise) and WorldCom between 2000 and 2003 by approximately 30%. ComCom required TDC

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(Sunrise) and WorldCom to reduce their own prices on a reciprocal basis. On July 13, 2005, Fixnet and TDC (Sunrise) both lodged an appeal against this decision with the Federal Court, which has yet to issue a decision. See *Item 8: Financial Information Legal Proceedings*.

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.

Wholesale Traffic. In 2005, Swisscom continued to face increasing competition in the national wholesale market from various network providers such as Colt and TDC (Sunrise), 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 2005. Swisscom is allowed to use the well-known access number 111 until the end of 2006. Thereafter, Swisscom will have to switch to the new service number 1811, which is expected to result in a significant reduction in traffic volume for its 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 2005, Swisscom continued to face intense competition in the market for national leased lines, in particular in areas with high data volume. 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 are not expected to enter into force prior to January 1, 2007. Swisscom will be 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. 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 4.3 million mobile subscribers as of December 31, 2005. In 2005, Swisscom s mobile activities generated total revenue of CHF 4.2 billion, including sales of CHF 0.5 billion to other Swisscom business segments. With external revenues of CHF 3.7 billion in 2005, Swisscom Mobile accounted for 38% 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,		
	2005	**2004**	**2003**
Base fees	677	691	685
Connectivity voice	2,203	2,286	2,221
Connectivity data and value-added services	604	521	454
Other mobile revenue(1)	167	181	151
Total Mobile	**3,651**	**3,679**	**3,511**

(1) Includes revenue from the sale of handsets sold through sales channels other than Swisscom shops and from SICAP, a prepaid billing platform.

Most of Swisscom s mobile telephony revenue is generated from monthly subscription fees and traffic charges for mobile voice telephony, which accounted for 79% of its external revenues in the mobile segment in 2005.

With the successful implementation of services enabled by high speed GPRS, PWLAN, EDGE and UMTS 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 live television and music downloads) to these services since then. Swisscom believes that these services will contribute in the future to the generation of m-commerce revenue and enhance customer retention. In July 2005, Swisscom upgraded its Mobile Unlimited service, which enables seamless data download/synchronization via a PC card, by adding EDGE to the existing list of supported mobile broadband technologies (GPRS, PWLAN, UMTS) which Swisscom believes will contribute in the future to the generation of data revenues.

Since February 2003, direct mobile interconnection has been available, and Swisscom Mobile and other mobile network operators are able to terminate their traffic directly on each other s networks rather than through Swisscom Fixnet, which had been the intermediary for such traffic.

During 2005, Swisscom Mobile capitalized on efficiency efforts initiated in recent years and was able to show a modest reduction in the average number of employees (full time equivalents) from 2,491 at year-end 2004 to 2,412 at year-end 2005, in part by transferring employees to Swisscom s social plan programs. By reducing its workforce, Swisscom Mobile reversed the trend of the last seven years while still showing strong subscriber growth.

On April 7, 2006, the Secretariat of the Competition Commission issued a draft decision in its proceedings against Swisscom Mobile in connection with mobile termination fees. The Secretariat believes that Swisscom Mobile has abused its market-dominant position and has indicated that it intends to impose a fine of at least CHF 489 million. 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* .

Alliance with Vodafone

In connection with the acquisition of a 25% shareholding in Swisscom Mobile AG by Vodafone Group Plc (Vodafone) effective April 1, 2001, Swisscom Mobile and Vodafone entered into a shareholders agreement and a service agreement, which set out the terms on which Swisscom Mobile and Vodafone would cooperate in certain areas.

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Under the terms of the shareholders agreement, the Board of Directors of Swisscom Mobile consists of up to seven members, of which up to two may be Vodafone appointees, one may be an independent director, and up to four may be Swisscom appointees. Currently, the Swisscom Mobile Board of Directors consists of two Vodafone appointees and three Swisscom appointees. Resolutions of the Board, including approval of the annual budget, require the affirmative vote of the majority of the directors. Certain significant transactions are subject to unanimous Board approval, including decisions regarding specific investments, purchases or disposals of assets in excess of certain thresholds and material modification or termination of such agreements. The listing of Swisscom Mobile shares on any exchange is also subject to unanimous Board approval. Any change in share capital of Swisscom Mobile is subject to approval by both Swisscom and Vodafone.

Subject to certain exceptions, Swisscom and Vodafone have also agreed in the shareholders agreement that Vodafone is not to engage in the mobile business in Switzerland, or to have any controlling stake in a mobile business operating in Switzerland, other than pursuant to the terms of the shareholders agreement and the related service agreement. The shareholders agreement may be terminated without notice if Swisscom holds less than 41% or if Vodafone holds less than 10% of Swisscom Mobile. In addition, Vodafone holds a conditional pre-emption right that would permit it to sell its 25% stake in Swisscom Mobile to Swisscom at fair market value if a party other than the Swiss Confederation is able to exert a controlling influence over Swisscom. For more information, see *Item 3: Key Information Risk Factors Risks Related to Ownership by the Swiss Confederation If another party acquires control of Swisscom as a result of the Swiss Confederation reducing its stake in Swisscom below 50%, Vodafone plc may exercise its conditional pre-emption rights to sell its 25% stake in Swisscom Mobile to Swisscom, and Swisscom s counterparties in significant contracts may be able to terminate such contracts or demand additional security* .

In November 2003, the original service agreement entered into as part of the cooperation with Vodafone was replaced by a new service agreement between Swisscom Mobile, Vodafone and Vodafone Marketing Sarl, to reflect the continued and deepening co-operation between Swisscom Mobile and Vodafone and the development of new technologies in recent years.

Under the service agreement, each of Swisscom Mobile and Vodafone agreed to provide the other with access to its products and services, and to provide certain consultancy and supporting services in agreed circumstances. The service agreement also provides for a framework for co-managing international corporate accounts and co-operation in the area of product development, and gives Swisscom Mobile the right to use future upgrades of certain services and enabling platforms developed by the Vodafone group on normal commercial terms even if the service agreement is terminated. Swisscom Mobile pays an overall fee for all services and products provided by the Vodafone group companies.

In general, all services provided by Swisscom Mobile under the service agreement are to be offered to Vodafone on terms and conditions equivalent to those offered to other members of the Swisscom group, while Vodafone is required to offer its services to Swisscom Mobile on terms and conditions equivalent to those offered to other members of the Vodafone Group of a size similar to Swisscom Mobile. Furthermore, each of Swisscom Mobile and Vodafone has agreed, subject to certain exceptions, not to offer the services provided under the service agreement to any other mobile telecommunications business in any of the Vodafone territories, in respect of Swisscom Mobile, and any of Switzerland and Liechtenstein, in the case of Vodafone.

Swisscom Mobile and Vodafone have also entered into a branding agreement, which sets forth the terms for mutual use of their trade names and marks.

Swisscom believes this strategic alliance enhances its competitive position in the mobile market. Through this alliance, Swisscom Mobile has access to Vodafone products, services and know-how and to other relevant global activities in mobile telecommunications. 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 2005, Swisscom generated service revenue from the co-operation with Vodafone in the amount of CHF 88 million and paid an amount of CHF 103 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.

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GSM and the Introduction of Next Generation Mobile Services

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.

In 2001, Swisscom completed the 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. In February 2002, Swisscom launched its first commercial GPRS service with a transmission rate of up to 50 kbit/s.

In December 2000, Swisscom was awarded one of four UMTS licenses auctioned in Switzerland, for which it paid CHF 50 million. Universal mobile telecommunication system (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 has achieved all milestones stipulated in the UMTS licence and successfully launched its commercial UMTS services in September 2004.

In December 2002, Swisscom introduced a public wireless LAN (PWLAN) service. Swisscom Mobile is the leading PWLAN network operator in Switzerland, currently operating approximately 900 hotspots in Switzerland. In addition, Swisscom Mobile offers access to additional hotspots through roaming agreements mainly with Swisscom Eurospot. For more information on these networks and Swisscom s PWLAN services, see *Networks and Technology Mobile Telecommunications Network* and *Other Swisscom Eurospot* .

Swisscom continues to build out its broadband networks, such as UMTS. At the same time, Swisscom also invests in capacity enhancements and functional upgrades of its existing GSM network. For example, in order to further improve its GPRS services, Swisscom has activated Enhanced Data Rates for GSM Evolution (EDGE) technology in all active GSM locations in early 2005. Other projects include building additional base stations in tunnels and along train routes and extending the reach of the network s dual-band capability. To further enhance the customer experience, Swisscom will enable high-speed downlink packet access (HSDPA) in selected dense urban areas in the course of 2006. 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 and WLAN. For further information on Swisscom s mobile network, see *Networks and Technology Mobile Telecommunications Network* .

In December 1999, the Federal Council adopted an ordinance, known as the NIS Ordinance, which establishes emission standards to protect the population of Switzerland from non-ionizing radiation emitted by various sources, including mobile antennae and base stations.

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. In order to comply with the applicable emission standards and to maintain its current level of service, Swisscom could be required to, install additional antennae. However, Swisscom does not expect the associated costs in 2006 to be materially different from those incurred in previous years. See *Regulation Mobile Telecommunications* .

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.

Connectivity Voice

As the leading provider of mobile telephony services in Switzerland, Swisscom offers its customers mobile telephony service in Switzerland as well as abroad. Swisscom has roaming agreements with 425 mobile network operators worldwide covering 179 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,		
	2005	**2004**	**2003**
Connectivity Voice [1]	3,688	3,404	3,335

(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 either a per minute 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 June 2005, Swisscom launched a new range of products designated as liberty products. Subscribers to these products are charged on a per call basis, rather than on a per-minute basis, when calling numbers in the national fixed-line network or when calling other subscribers within Swisscom s mobile network. All other calls are charged per minute. Swisscom also introduced its M-Budget mobile product in September 2005, which addresses the no frills, low cost segment. The offer only includes voice, roaming and SMS services, with all other services (e.g. MMS, GPRS, etc.) disabled.

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,		
	2005	**2004**	**2003**
Postpaid	2,640	2,518	2,387
Of which subscribers to liberty products	*570*		
Prepaid[2]	1,641	1,390	1,409
Of which subscribers to liberty products	*65*		
Total Subscribers	**4,281**	**3,908**	**3,796**

(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. As of December 31, 2004, approximately 124,000 prepaid customers, which had not registered with Swisscom on a timely basis as required by law since July 2004, were deactivated.

Since 1995, the number of mobile customers in the Swiss marketplace has grown annually, with overall market penetration reaching almost 92% at the end of 2005, 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 has implemented customer loyalty and win-back programs, including incentives for twelve and twenty-four month contract commitments, handset subsidies and handset renewal possibilities, which resulted in a further decline of customer churn. 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, 2005, 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	15-75	0.18-0.70	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 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. Additional price reductions occurred as a result of Swisscom

Mobile s reduction of its termination rate from CHF 0.335 to CHF 0.20 in June 2005. 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. Certain 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,		
	2005	2004	2003
Number of SMS messages (in millions)(1)	1,991	1,986	1,847

(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 polyphonic ringtones and to access information and entertainment services, such as live television, which now includes 22 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.

In addition to Vodafone live!, Swisscom Mobile opened standardized interfaces to enable platforms which are 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. Revenue from sales of mobile handsets through Swisscom shops is accounted for in Swisscom s Fixnet segment. All other revenue from the sale of mobile handsets is allocated to Mobile.

SICAP. SICAP, a wholly owned subsidiary of Swisscom Mobile AG provides prepaid billing services to mobile network operators worldwide, including so-called over-the-air solutions, through which prepaid GSM SIM-card settings can be modified.

Competition

In its mobile business, Swisscom faces competition primarily from the two other original mobile licensees in Switzerland, Orange and TDC (Sunrise). 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 either by building out its own network or by entering into national roaming agreements with the other mobile network operators. In&Phone has launched campus networks throughout Switzerland and is expected to enter into a national roaming agreement with TDC (Sunrise) in early 2006.

Swisscom expects competition, especially for business customers, to remain strong in 2006 due to increased tariff pressure and competing enhanced data solutions. Competition in the residential segment is expected to be driven by handset subsidies as well as by new competitive price plans.

In the future, Swisscom expects to face competition in the provision of GPRS, EDGE and UMTS services from TDC (Sunrise) and Orange, both of which hold Swiss UMTS licenses.

As in the case of fixed-line voice telephony, competition in the mobile market has been facilitated by provisions of the Telecommunication Act and related ordinances requiring that Swisscom offer easy access and number portability. Although equal access is also mandated under the applicable regulations, ComCom has provisionally suspended the implementation of equal access in the mobile network until technical developments and international standards allow its implementation.

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Solutions

Overview

Effective January 1, 2005, Enterprise Solutions merged with Swisscom Systems, formerly accounted for under the segment Other , to form a new business segment named Swisscom Solutions.

Solutions is the leading provider of telecommunication services to business customers in Switzerland with complex needs. In 2005, Solutions generated total revenue of CHF 1.3 billion. With external revenues of CHF 1.1 billion in 2005, Solutions accounted for 11 % of Swisscom s consolidated net revenue in 2005.

National and International Traffic. Solutions offers national and international fixed-line voice telephony services to business customers. In 2005, Solutions carried an aggregate of 1.9 billion minutes of national telephony traffic and 0.4 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, such as 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 ICT outsourcing.

Other. Solutions offers rental agreements or 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, 2005	2004	2003
National and International Traffic	239	297	344
Leased Lines National	147	184	216
Intranet Services	152	173	179
Other Service Business	247	272	299
Solution Business	283	277	291
Other	55	76	96
Total Solutions external revenue	**1,123**	**1,279**	**1,426**

Solutions has increased its focus on large business customers with complex, solution-oriented telecommunication needs. 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 general overcapacity in the telecommunications market, Solutions has experienced a general decrease in revenues in most of its customer segments. 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)[1]:	Year Ended December 31, 2005	2004	2003
Local and long-distance traffic	1,672	1,779	1,972
Fixed-to-mobile traffic	258	278	303
Total national traffic	**1,930**	**2,057**	**2,275**
International traffic[2]	356	361	373
Total traffic	**2,286**	**2,418**	**2,648**

(1) Includes traffic on courtesy and service lines.

(2) Based on minutes of outgoing international

traffic as determined for retail customer billing purposes. Does not include international wholesale traffic originating outside Switzerland.

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

In the future, Solutions expects traditional voice traffic to decline due to the introduction of Voice over Internet Protocol (VoIP) services by Solutions and its competitors. VoIP makes it possible to place phone calls through data connections using Internet Protocol (IP), making a separate telephone line unnecessary. To use VoIP, consumers require a fairly fast data connection, which can be provided via a DSL line (which still requires access to a phone line), cable or through a broadband wireless connection. VoIP has the potential to offer greater functionality compared to traditional phone lines at minimal cost. When VoIP was first introduced, consumers had to use a computer to place calls, and their counterparties required a computer to receive them. Today, it is possible to make calls via VoIP using phones that look and function like conventional phones. 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.

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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 services, based on multiprotocol label switching (MPLS) technology. As of December 31, 2005, Solutions managed approximately 23,000 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. In 2006, Solutions will launch a VoIP service, whereby customers will have access to different services, such as voice, data and the Internet over a single corporate network.

Other Service Business

Solutions offers customers private networks for data transmission based on a variety of technological platforms, including frame relay and asynchronous transfer mode (ATM) services. 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. In 2005, however, Solutions launched an Ethernet service to provide its customers wide-area LAN services with high bandwidths.

Solutions business Internet service portfolio includes a full range of Internet access services for customers with high bandwidth requirements (up to 155 Mbits/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.

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 a 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 offers international leased lines to its business customers with cross-border requirements. Such services were previously offered through Swisscom s EOSNET Network. Following the transfer of Swisscom Fixnet s international wholesale business and international network (including the EOSNET Network) to a joint venture formed with Belgacom (BICS), Solutions now offers these services through partnerships. For more information on the sale of leased lines activities, including the EOSNET Network, see *Network and technology-Fixed Line Networks* and *Divestments/Discontinued Operations*.

Effective September 12, 2005, Swisscom Solutions AG entered into a commercial partnership agreement with UK-based Vanco plc. for a minimum term of ten years, with a view to offering its multinational and international customers services outside its home markets of Switzerland and Liechtenstein.

In November 2004, Swisscom agreed to sell its interest in Infonet Services Corporation (Infonet) to British Telecommunications plc (BT). Infonet provides global voice, data and networking solutions to companies seeking to outsource their worldwide communications needs. In February 2005, Swisscom received USD 170 million (approximately CHF 201 million) for its 17.7% stake. After the sale of its stake in Infonet, 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. As a result of the sale, Swisscom may lose certain multinational business customers in Switzerland and related revenue.

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, provisioning, implementation and support of PBXs, LANs and other data and telecommunication infrastructure.

Effective March 2006, Swisscom Solutions AG took over 300 mid- to large-sized customers and 129 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 has also agreed to a commercial collaboration with Siemens Schweiz AG.

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 inhouse LANs, Solutions introduced a variety of services in 2005 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 range from telecommunication outsourcing (*i.e.,* companies outsourcing their voice traffic needs) up to complete ICT outsourcing (*i.e.,* comprehensive planning, building and operations designed to meet customers ICT needs). In 2005, Solutions continued to expand its outsourcing activities by winning further major national and international contracts. Solutions believes that its outsourcing business will grow in the future as technologies converge and demand for combined IT and telecommunications solutions increases.

Other

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

Competition

Cablecom Cablecom, the largest cable network operator in Switzerland, operates its own infrastructure and has invested heavily to upgrade it. This network allows Cablecom to compete with Swisscom in the following areas: traffic, leased lines, intranet services, and PBX related services. Furthermore, Cablecom has entered into a partnership with NextiraOne and redIT, thereby augmenting its product and service portfolio. Cablecom offers interregional connections throughout Switzerland.

TDC (Sunrise) TDC (Sunrise) is one of Solution s most significant competitors in traffic, 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 has strengthened its market position by purchasing Ascom s PBX business. TDC (Sunrise) offers interregional connections throughout Switzerland.

NextiraOne NextiraOne competes with Swisscom in the following areas: PBX related services, telecommunication infrastructure services, and the operation and maintenance of in-house LANs. NextiraOne s partnership with Cablecom has strengthened its market presence.

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 Solution s 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 the recent adoption 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, Equant, MCI/Verizon, 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 and T-Systems (which has a strong position in the local market due to a portfolio of contracts with mid- and large-sized entities) 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 IBM and Accenture compete with Swisscom in the operation and maintenance of in-house LANs, consulting services and security solutions. Other consulting competitors include BearingPoint, Capgemini and EDS. IBM is also a strong competitor with regard to the new international telecommunications offerings by Swisscom 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.

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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,		
	2005	**2004**	**2003**
Swisscom IT Services	249	207	214
Swisscom Broadcast	150	148	149
Antenna Hungária	26		
Accarda Group	115	112	52
Swisscom Eurospot	31	9	1
Total Other	**571**	**476**	**416**

Swisscom IT Services

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 60,000 desktop computers nationwide. Approximately two-thirds of these became part of Swisscom IT Services service portfolio over the last three years through outsourcing deals.

Swisscom IT Services customers are largely the Swisscom group companies and several small to large-sized financial institutions. Swisscom IT Services provides IT outsourcing services to major companies in the telematics, media, airline and health care sectors, and to parts of the government. One of Swisscom IT Services main objectives for 2006 is to increase its profile in the telecommunications, financial and health care industries.

Swisscom IT Services increased the number of full time employees from 2,100 as of December 31, 2004, to 2,285 as of December 31, 2005.

On January 4, 2006, Swisscom IT Services acquired Comit, an IT group specializing in the financial services industry, for CHF 66 million, subject to certain purchase price adjustments. Swisscom IT Services financial services unit has been incorporated into the new company. The acquisition strengthens Swisscom IT Services know-how in the banking sector and will allow it to offer IT services along the entire value chain.

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

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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 will become effective at the beginning of 2007 and run at least until the end of 2010. In 2005, 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. In mid-2005, Tele Rätia launched a new digital video broadcasting terrestrial (DVB-T) program offering, which had been developed jointly with Swisscom Broadcast. The roll-out of this project is expected to be finished by mid-2006. Swisscom Broadcast has started a pilot project with digital video broadcasting handheld (DVB-H) technology, offering mobile users TV reception on handheld devices.

Swisscom Broadcast also provides services and solutions for the roll-out of the Tetrapol technology, which has been chosen as the standard infrastructure for security networks within Switzerland.

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 is expected to enter into effect during the first quarter of 2007. Accordingly, Swisscom Broadcast does not expect the new law to have any economic effect before this date.

Antenna Hungária

On October 25, 2005, Swisscom acquired a 75% stake plus 1 share in the Hungarian broadcasting network operator Antenna Hungária for CHF 293 million. Following a mandatory public tender offer in which Swisscom purchased an additional 22.99% and acquired the remaining shares in a squeeze out. Antenna Hungária was delisted from the Budapest Stock Exchange on February 16, 2006. For further information, see Note 5 of the consolidated financial statements.

Antenna Hungária also provides both analog and digital 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 (2,638 end points for managed lease lines; 2,403 end points for VSAT). Antenna Hungária also provides field maintenance services to other telecom network operators. Swisscom intends to contribute its knowledge of digital broadcasting to promote the growth of digital television service in Hungary.

The Hungarian Fair Competition Bureau (FCB) commenced competition proceedings against Antenna Hungária in February 2005. The FCB is investigating whether the company abused its economic power in the broadcasting and primary program distribution market for the period between January 1, 2003 and June 30, 2005. The FCB s suspicion of abuse of economic power is based on allegedly unfair broadcasting and program distribution charges. At present, it cannot be established whether or not Antenna Hungária s broadcasting and program distribution charges are excessive. In 2005, Antenna Hungária established new contracts with the broadcasters at significant discounts over the next seven years.

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Accarda Group

The Accarda Group comprises the business activities of Billag AG and the former Billag Card Services AG. Swisscom founded Accarda AG as a fully-owned subsidiary and, effective July 1, 2005, all activities that had previously been provided by Billag Card Services were transferred to Accarda AG and Billag AG is now controlled by Accarda AG. Accarda AG provides customer loyalty card processing and billing services in the private sector. Some of the billing services include the financing of purchases billed to the customer on a delayed basis when using a loyalty card. Accarda AG is seeking to expand its business and is providing from 2006 onwards debt collection services to Swisscom Group companies. In addition, Accarda acquired Medipa AG, a leading company in Switzerland s medical billing industry, effective July 1, 2005.

Billag AG provides billing services to the public sector as part of an agreement to collect radio and television licensing fees for the Swiss Broadcasting Corporation (SRG). The current agreement will expire at the end of 2007, but after a recent bidding process, the Federal Department of Environment, Transport, Energy and Communications (UVEK) announced in April 2006 that it would extend the agreement with Billag AG regarding the collection of radio and TV license fees to include the period from 2008 to 2014.

Swisscom Eurospot

Swisscom Eurospot is a leading pan-european provider of high-speed Internet access and services to guests of the hospitality industry across Europe (excluding Switzerland, where the market is served by Swisscom Mobile). Swisscom Eurospot operates its network in premium hotels and is focused on offering tailored services to business travelers, enabling them to remain in contact with their companies or business partners in an efficient and flexible way. The company s infrastructure spans more than 2,200 active properties in 14 countries providing approximately 190,000 hotel rooms with communication services.

During 2005, Swisscom Eurospot strengthened its market presence in Western Europe and developed its presence in Eastern European markets. Furthermore, in June 2005 the Hilton Group and Swisscom Eurospot extended their partnership, which reinforced Swisscom Eurospot s leadership in the high-end European hospitality industry.

In order to strengthen its position in the European conference services market, Swisscom Eurospot will acquire the US-based Core Communications Corporation, a company specialized in data communications and Internet solutions for the hospitality industry. The deal is expected to close in May 2006. Core Communications supports conference events in conference centers and business hotels throughout North America and is recognized as an innovative leader in technology services for the meetings and events industry. The acquisition is subject to the approval of the competition authorities of Switzerland.

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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 Reduction 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, for third parties as well as for internal purposes. Furthermore, SIMAG expanded its service portfolio with 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 will expire on April 30, 2006, but is expected to be renewed by the relevant authorities.

Although the Competition Commission has approved Swisscom s participation in CT Cinetrade AG from a market point of view, certain issues regarding the Swiss constitutional law of media independence and the Swiss Confederation s majority interest in Swisscom remain to be decided by regulatory authorities.

In 2005, Swisscom generated revenues of CHF 1.5 million from transactions with Cinetrade and paid an amount of CHF 1.3 million for services purchased from Cinetrade.

Belgacom International Carrier Services

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. In 2005, after founding the joint venture on July 1, 2005, Swisscom generated revenue with BICS in the amount of CHF 83 million and paid CHF 60 million for services purchased from BICS. Revenues and expenses derived from transactions with BICS relate primarily to incoming and outgoing international voice traffic.

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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 ElectronicPartner 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. A tax audit is currently being conducted in Germany which may lead to higher taxes payable. Based on current estimates, the maximum amount that could become due relating to the tax indemnity was approximately EUR 70 million as of December 31, 2005. A provision of CHF 50 million was recorded for this potential indemnification at the end of 2005. As a result of the sale, debitel is treated in the 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.

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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 order to implement Swisscom s triple play strategy, technical preparation and planning activities were initiated in 2004. Swisscom began to introduce the necessary functionality to its fixed network in 2005 and significantly upgraded capacity. Swisscom s capital expenditures related to its fixed network totaled CHF 353 million in 2005. The triple play program will continue to represent the focal point of capital expenditures in the years to come.

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 2005, Swisscom s capital expenditures related to its mobile network totaled CHF 238 million.

Fixed-Line Networks

Swisscom operates a highly sophisticated PSTN/ISDN network, principally for the provision of public voice telephony, and 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. These networks are supported by Swisscom s access networks and its extensive national transmission infrastructure. Effective July, 2005, Swisscom transferred its international network assets to a joint venture with Belgacom, the leading telecommunications company in Belgium.

In keeping with the general trend toward IP-based networks and services, Swisscom continues to upgrade and optimize its broadband and IP capabilities. With respect to voice services, customers are beginning to shift towards Voice over IP, though the timing of widespread adoption of the technology is less clear. Swisscom is monitoring industry trends very closely and continues to co-operate closely with major equipment suppliers in Europe and the U.S., in particular with respect to its triple play strategy.

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. The triple play program will lead to a significant increase of fiber optic cable in the access network.

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 ADSL bandwidth of up to 4 Mbit/s (downstream) to approximately 80% of Swiss households. However, in the mid- to long-term this bandwidth capacity will not be sufficient for rich multimedia services, in particular for simultaneous transmission of several TV channels. Swisscom therefore started the rollout of the next generation of DSL technology known as very high bit-rate digital subscriber line (VDSL) that will allow downstream speeds well above 10 Mbit/s. VDSL requires closer proximity of active network elements to customer locations and hence more fiber in the access network. VDSL-based services will be launched in 2006, with VDSL coverage expected to reach approximately 45% of Swiss households by mid-2006. In addition, Swisscom launched its symmetric digital subscriber line (SDSL) service in August 2005. SDSL technology permits data to be sent (upstream) at the same rate that it is received (downstream), thereby eliminating one of the major drawbacks to ADSL technology. SDSL holds the potential to greatly increase business communication efficiency.

Transmission Infrastructure. Swisscom s domestic interexchange transmission system is 100% digital and, as of December 31, 2005, consisted of approximately 32,500 kilometers of fiber optic cable representing 930,000 kilometers of individual optical fibers. Capable of operating at speeds of up to 10 Gbit/s, fiber optic cable vastly 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. Swisscom also continues to use and maintain its plesiochronous digital hierarchy (PDH) infrastructure, which, in accordance with its investment policy, is not being proactively replaced but phased out whenever economically viable.

In addition to its classic SDH networks, in 2005 Swisscom continued to build out regional Ethernet rings that are used to deliver Ethernet service to business customers as well as to connect the next generation of DSL technology, in particular VDSL. This constitutes an important step towards a simple but powerful all-IP network.

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, Swisscom received a 28% interest in the joint venture in exchange for its international wholesale business and international network, valued at CHF 36 million. For more information on this transaction, see *Fixnet Wholesale Traffic* .

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, 2005, through 95 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.

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 still serve customers, although they are earmarked to be phased out in the years to come. By contrast, Swisscom accelerated the expansion of its IP platform that is used for all of Swisscom s broadband services and which will form the backbone of its triple play strategy. In 2005, Swisscom s IP capacity was significantly increased.

The platforms used for the provision of leased lines and managed bandwidth services include a dedicated multiplexing platform which allows transmission speeds ranging from below 64 kbit/s up to 2 Mbit/s. Swisscom s PDH platform supports unmanaged leased lines from 2 Mbit/s up to 34 Mbit/s, whereas its 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.

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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. In addition, Swisscom 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 transceiver stations used for UMTS are called Node B. 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.

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

	As of December 31,		
	2005	**2004**	**2003**
Base Transceiver Stations	5,551	5,481	5,247
Node B	1,609	1,308	695
Base Station Controllers	43	43	43
Mobile Switching Centers	31	32	31
Radio Network Controller	17	16	9

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

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 2005, Swisscom had installed over 1,600 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 provided customers with enhanced services, Swisscom will enable high-speed downlink packet access (HSDPA) in selected dense urban areas in the course of 2006. HSDPA is a packet-based data service with theoretical downlink data transmission 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 through Swisscom Eurospot. For more information, see *Mobile* and *Other*

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Swisscom Eurospot . PWLAN provides complementary wireless broadband Internet access through gateways connected to a fixed-line network. Swisscom intends to further expand its PWLAN network 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 TV transmitters and approximately 20 digital audio broadcasting transmitters. In addition, Swisscom Broadcast operates approximately 60% of the transmitters used by private broadcasters in Switzerland.

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 212 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.

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Property, Plant and Equipment

Real Estate Property

As of December 31, 2005, Swisscom has real estate property with an aggregate net book value of CHF 839 million. Of this amount, CHF 451 million relates to property which Swisscom uses under the leaseback contracts described below and in Note 22 of the consolidated financial statements. Such property was not subject to any mortgages or other security interests as of December 31, 2005. 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 previously 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. For further information on the change in IAS 17, see Notes 2.4 and 24 to the consolidated financial statements. 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. Starting in 2004, Swisscom introduced a new program with the aim of optimizing workplace infrastructure by moving employees to main buildings and by reducing the office space allocated per employee. These measures allowed Swisscom to terminate various lease-back contracts as of March 31, 2006, and will result in reduced rental and facility management costs.

Technical Equipment

As of December 31, 2005, Swisscom carried assets on its balance sheet which primarily related to its network infrastructure in the amount of CHF 3,957 million. Of this amount, CHF 60 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 39 million in 2005 and CHF 39 million in 2004.

Swisscom believes that continued research and development activities enhance its competitiveness. Swisscom currently focuses 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.

Swisscom s research and development activities include programs to explore and develop new opportunities in: (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) current software technology trends and their impact on the efficiency of creating new services and on the quality of service, as well as on related areas such as digital identity management for transaction and authentication services, and on management of the security of communication networks, computer systems, and communication devices, (3) multimedia information and entertainment services enhanced by broadband access through various access networks and terminals, focusing in particular on mobile entertainment and quadruple play (voice, Internet, and TV over the same network, fixed and mobile), (4) emerging network technologies enabling wired and wireless, fixed and mobile broadband services including home-networking applications, with special emphasis on seamless access across different networks, and (5) electromagnetic compatibility and perceived health issues arising from existing and emerging service delivery technologies.

Swisscom responds quickly to promising new technologies with high business potential by developing them as so-called Innovation Ventures.

Swisscom explores strategies and technologies 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. Moreover, Swisscom applies usability testing, which means that Swisscom observes potential users interacting with prototype applications and services with a view to improving interface and dialog design.

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 third generation partnership project (3GPP) consortium (UMTS services and beyond), the WiFi and WiMax fora (wireless access technologies), the moving picture experts group (MPEG, making video signals suitable for transmission at lower bandwidths), the liberty alliance (virtual identity management and authentication services), and the digital living network alliance (DLNA, home-networking applications). In addition, Swisscom participates in a number of international organizations, e.g. the home gateway initiative (HGI), the WiMesh alliance and the Wireless World Research Forum (WWRF).

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.

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. However, based on a decision issued by the Federal Court in November 2004, these amendments currently are not applicable on the grounds that the Telecommunications Act, as currently in effect, does not provide a sufficient legal basis for such amendments.

In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which are not expected to enter into force prior to January 1, 2007. These amendments are intended to bring the Swiss telecommunications regulatory regime in line with regulatory developments in the EU and reflect some of the amendments to the Telecommunications Ordinance. Swisscom will be 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. In the form passed by the Swiss Parliament, unbundling of the local loop will require market-dominant providers to also offer bitstream access to other providers on demand for four years on a cost-oriented basis. Market-dominant providers will have to make bitstream access available at the main distributor frame and over their copper net in the local loop. Competitors will not be entitled to use Swisscom s investments in fiber optic lines. The amendments are expected to increase competition when they become effective.

In February 2006, the Federal Council published a proposal for the new Universal Service obligation, which would apply beginning in January 2008 when the existing Universal Service license held by Swisscom will expire. The proposal was prepared by the Swiss Ministry for Environment, Traffic, Energy and Communication (UVEK) and the Federal Office for Communications (OfCom). As proposed, the new Universal Service obligation would require the provision of broadband services, but omit directory information and call-forwarding services. Interested parties have until May 31, 2006 to respond to the proposal.

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. With limited exceptions, anyone who provides telecommunication services and independently operates a significant portion of the telecommunications installations used to provide transmission and anyone who wishes to make use of radiocommunication frequencies must obtain a license from the regulatory authority. Anyone meeting the conditions for a license application is entitled to receive a license, subject to frequency availability in the case of a license to use radiocommunication frequencies. Anyone who provides telecommunications services without being required to obtain a license must notify the regulatory authority. At the end of 2005, more than 400 operators had been licensed or registered under this requirement.

Swisscom to Provide Universal Service until December 31, 2007. As a transition measure under the Telecommunications Act, Swisscom was required to provide Universal Service throughout Switzerland until December 31, 2002. In June 2002, ComCom renewed Swisscom s Universal Service license for another five year term. ComCom will open the tender for the new Universal Service licence in fall 2006. The new license will apply after the expiration of Swisscom s current Universal Service license in December 2007.

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 limit Swisscom s ability to rebalance tariffs by increasing prices for services such as basic access or local telephone calls, although the ordinance does not restrict Swisscom from offering selective discounts in connection with tailored service packages or to particular customer segments. The proposal published by the Federal Council in February 2006 would include broadband service in the Universal Service obligation, and include a price ceiling to ensure that people without access to competing services would not have to pay too high a price. The proposal also includes a suggested price ceiling for calls within Switzerland of CHF 0.075, which would be lower than Swisscom Fixnet s current peak rates for domestic fixed-fixed 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 recently passed by the Swiss Parliament (but not yet in force) include:

Unbundling of the Local Loop and Other Access Regulation. Market-dominant service providers will be required to offer full access to the unbundled local loop (but only with respect to copper lines), bitstream access for a limited period of four years, 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 existing requirement that telecommunications service providers obtain a license to provide most services will be eliminated.

The existing 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

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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 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 or revised quite quickly.

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 radiocommunication frequency 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 before an Appeals Board (*Rekurskommission*). 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. Decisions of ComCom may be appealed to the Swiss Federal Supreme 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.

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Licensing and Notification Requirements

The Telecommunications Act requires that anyone who provides telecommunication services and independently operates a significant portion of the telecommunications installations used to provide transmission must obtain a license. In addition, licenses are required for users of the radiocommunication frequency spectrum and for an operator with Universal Service obligations. Anyone who is a provider of telecommunications services in any other way must notify OfCom, but is not required to obtain a license. Under the amendments to the Telecommunications Act recently passed by the Swiss Parliament, licenses will only be required for service providers with a Universal Service obligation and for users of radio frequencies.

Under the existing Telecommunications Act, telecommunications services are subject to such licensing and notification requirements if they involve the electrical, magnetic, optical or electromagnetic transmission of information for third parties over lines or radio waves. The Telecommunications Ordinance excludes service providers from such licensing and notification requirements who transmit information solely (1) within a corporate network, (2) within a building or (3) on a single property or on two adjoining or separated properties. In addition, a pure reseller or broker of telecommunications services is not considered a provider of telecommunications services under the Telecommunications Act and is therefore not required to satisfy the licensing or notification requirements. A provider of international telecommunications services whose services are provided through a connection in Switzerland with another carrier is not required to satisfy the licensing or notification requirement if the carrier through which it is connected meets such requirement.

In general, anyone meeting the conditions for a license application, subject to the availability of frequencies in the case of a license to use radiocommunication frequencies, is entitled to receive a license. Conditions include the requirement that the applicant have the necessary technical capabilities, and that the applicant provide assurances that it will comply with the Telecommunications Act, the ordinances thereunder and the terms of the license, respect Swiss labor law and maintain working conditions customary for the industry. ComCom may also impose other conditions in particular situations. An applicant incorporated in a foreign country may be denied a license if its home country law does not provide reciprocal treatment. Licenses are granted for specified periods determined by ComCom by reference to normal market and industry standards for the recovery of investments.

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. Radiocommunication frequency 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 2005, Swisscom was required to pay charges of CHF 7 million, which includes 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 Telecommunications Act, a failure on the part of a licensee 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 ComCom. Such sanctions may include the suspension, revocation or withdrawal of the license. In addition, to the extent that a provider of telecommunications services fails to comply with the terms of its license or with a decision having force of law, such service provider may be required to pay a monetary penalty equal to up to three times the amount of any gain resulting from such failure to comply. In the event such gain cannot be determined or estimated, the service provider may be required to pay up to 10% of the amount of its revenue in the prior year in Switzerland.

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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 required to provide Universal Service throughout Switzerland until December 31, 2002. In June 2002, ComCom renewed Swisscom s Universal License for another five year term. In its bid for the new license, Swisscom renounced the right to receive contributions from other telecommunication service providers for providing Universal Service. However, Swisscom stipulated that its bid was based on the regulations then in effect and that a reevaluation would be required if the regulations were changed, and in particular if Swisscom were required to offer unbundled access to its local loop. Competitors of Swisscom are free to offer some or all of the services included in Universal Service.

The Telecommunications Ordinance, as amended in October 2001, defines 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. In February 2006, the Federal Council published a proposal for the new Universal Service obligation, which would apply after the expiration of Swisscom s current Universal Service license in December 2007. As proposed, the new Universal Service obligation would require the provision of broadband services, but omit directory information and call-forwarding services. Providing broadband services to the entire Swiss population may be difficult as a practical matter, and would likely require significant capital expenditures.

Price Ceilings for Universal Service

The Telecommunications Act provides that the Federal Council is periodically to fix upper limits for the price of Universal Service. In periodically determining such tariff ceilings, the Federal Council is to strive to set tariffs that are not dependent on distance. The ceilings are to apply uniformly over the entire region covered by the license and are to be determined in light of the development of the market.

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

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effect until at least 2007, though existing price ceilings may 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.

Because price ceilings have been established separately for each Universal Service component, as opposed to establishing a single price cap for all such services taken together, Swisscom is limited in its ability to rebalance tariffs by increasing the tariff for access service to compensate for reduced traffic tariffs. However, the Ordinance does not restrict Swisscom from offering selective discounts in connection with tailored service packages or to particular customer segments, and Swisscom is also free to raise prices for a particular service at any time up to the then-applicable price ceiling. In addition to the price ceilings established by the Federal Council, Swisscom is subject to certain consumer price legislation in setting its prices. The level of prices charged by a market-dominant telecommunications service provider can be subject to review by the Supervisor of Prices (*Preisüberwacher*) under the Federal Act on the Supervision of Prices of December 20, 1985 (*Preisüberwachungsgesetz*).

The proposal published by the Federal Council in February 2006 concerning the Universal Service obligation would include broadband service in the Universal Service obligation, and include a price ceiling of CHF 69 per month (excluding VAT) to ensure that people without access to competing services would not have to pay too high a price. The proposal also includes a suggested price ceiling for calls within Switzerland of CHF 0.075, which would be lower than 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 (toll-free) and 09xx (shared-toll) 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. Since 2000, Swisscom has been involved in four legal proceedings relating to interconnection. In November 2003, ComCom issued a decision which requires Swisscom to lower interconnection prices with retroactive effect for the years 2000 to 2003 by 25-35%. Swisscom filed an appeal against this decision and in October 2004, the Federal Court overturned ComCom s decision on procedural grounds and remanded the petitions for re-hearing before ComCom. On June 10, 2005, the ComCom confirmed its November 2003 decision, requiring Swisscom to retroactively reduce the interconnection charges charged TDC (Sunrise) and MCI between 2000 and 2003 by approximately 30%. ComCom also required TDC (Sunrise) and MCI to reduce their prices on a reciprocal basis. On July 13, 2005, Swisscom and TDC (Sunrise) both lodged an appeal against this decision with the Federal Court, which has yet to issue a decision. 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 Wholesale National* . As of December 31, 2005, Swisscom had concluded interconnection agreements with 31 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.

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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 the amendments to the Telecommunications Ordinance, with effect from April 1, 2003. However, based on a decision issued by the Federal Court in November 2004, these amendments currently are not applicable on the grounds that the Telecommunications Act as currently in effect does not provide sufficient legal basis for those amendments.

In March 2006, the Swiss Parliament adopted amendments to the Telecommunications Act which are not expected to enter into force prior to January 1, 2007. These amendments are intended to bring the Swiss telecommunications regulatory regime in line with regulatory developments in the EU and reflect some of the amendments to the Telecommunications Ordinance. Swisscom will be 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 will allow competitors to offer access services to customers in Switzerland without having to build local loops of their own, although they will still have to make significant investments in their own network infrastructure in order to connect to the local loop. Moreover, with access rebilling, competitors will be able to bill customers directly for the access services provided by Swisscom. As a result, Swisscom s competitors will be able to offer their customers a full range of fixed-line services, including access, and their customers would receive a single bill covering all these services.

In the form passed by the Swiss Parliament, unbundling of the local loop will require market-dominant providers to also offer bitstream access to other providers on demand for four years on a cost-oriented basis. Market-dominant providers will have to make bitstream access available at the main distributor frame and over their copper net in the local loop. This will require 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 will not be entitled to use Swisscom s investments in fiber optic lines. The amendments are expected to increase competition when they become effective.

Mobile Telecommunications

In connection with the opening of the mobile market to competition, ComCom has adopted a radiocommunication 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 are effective for a ten-year period expiring on May 31, 2008. To renew its GSM license, Swisscom Mobile was required to submit its renewal application at least two years in advance of the license expiration date. Swisscom Mobile submitted its renewal request to ComCom on December 21, 2005. ComCom has yet to issue a decision on Swisscom Mobile s application, and may impose certain conditions on the renewal, such as requiring Swisscom Mobile to pay higher fees or give access to its network to mobile virtual network operators or to sell to its competitors mobile telephony minutes on a cost-oriented basis for resale.

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.

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 20% population coverage by the end of 2002 and 50% by the end of 2004, unless it is unable to fulfill this obligation for reasons beyond its control and can prove that it has made every effort to do so. In June 2002, ComCom amended the terms of the licenses to eliminate the requirement that 20% population coverage be achieved by the end of 2002. Licensees were still required to achieve 50% population coverage by the end of 2004. Swisscom achieved this threshold in May 2003.

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.

The Commission of the European Union is analyzing the markets for various mobile telephony services, including mobile access and call origination, mobile termination and mobile roaming with a view to determining whether additional regulation is required to ensure effective competition and prevent market abuse. These initiatives could ultimately lead to regulation of mobile access and call origination and/or a significant reduction in mobile termination fees for individual companies determined to have significant market power in their local markets, depending on the individual application by national regulators within the European Union. They could also lead to a significant reduction in international roaming charges. 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.

Pressure on the Swiss regulatory authorities to regulate mobile access has increased as a result of the award of new mobile licenses to two service providers who started their mobile service operations in 2005 and requested national roaming in areas where they do not have their own network. See also *Item 8: Financial Information Legal Proceedings Other Regulatory Proceedings* for further information on a regulatory proceeding currently pending, which could also result in Swisscom being required to reduce its mobile termination fees.

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. In order to comply with the applicable emission standards and maintain its current level of service, Swisscom could be required to install additional antennae. However, Swisscom does not expect the associated costs in 2006 to be materially different from those incurred in previous years.

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.

At the end of March 2002, a new numbering plan was introduced in Switzerland. Under the plan, all phone numbers in Switzerland consist of ten digits, with the former area code having become an integral part of a subscriber s phone number. As a result, subscribers who have pre-selected an alternative carrier have their local calls, in addition to their long-distance calls, automatically routed over that carrier s network.

Leased Lines

Under the Telecommunications Act and the Telecommunications Ordinance, ComCom is authorized to require a licensed telecommunications services provider to provide leased lines at cost-oriented prices in a particular region if it is determined that demand for such lines has not otherwise been fully met. To date, ComCom has not taken any action under these provisions.

For information on the recent amendments to the Telecommunications Act that will require Swisscom to offer access to leased lines on a cost-oriented basis, see *Unbundling of the Local Loop and Other Access Regulation* and *Item 8: Financial Information Legal Proceedings* .

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.

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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 44 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 44% and 11% of Swisscom s total revenue in 2005, respectively. Mobile services are provided through the business segment Mobile, generating 38% of Swisscom s total revenue in 2005. 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, 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 substantially reduce its interconnection rates in recent years by an average of 8% per year over the three year period under review. Swisscom expects further reductions in 2006. 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) in 2005.

A number of regulatory initiatives, that are currently pending, are likely to further increase competition and put additional pressure on margins. Under amendments to the Telecommunications Act, Swisscom will be 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. The adoption of these amendments will facilitate competition in the access market and can 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. Several years ago Switzerland experienced an economic slowdown during which customers became more conscious of usage levels and tariffs. Since then, many of Swisscom s fixed-line customers have been switching to newly introduced tariff plans, which has 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 such as ADSL and UMTS/EDGE, 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 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 offerings. Thanks to a very broad market position, 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 traditional activities with new activities from around 2008 / 2009 onwards. 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 which fully substitute for Swisscom s core services (fixed-line voice and data services and mobile telephony).

Personnel expenses. Personnel expenses make up a significant portion of Swisscom s cost base. In order to improve productivity and reduce cost, Swisscom has implemented a workforce reduction program. During the three years under review, the program reduced Swisscom s workforce by approximately 1,950 positions by eliminating positions or transferring them to Swisscom s employment programs. While this program has resulted in an overall decline in personnel expenses, 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 and reduce personnel expenses will have a significant impact on its future profitability.

Capital expenditure and depreciation. Swisscom s results may also be affected by the level of its depreciation expense, which in turn depends on the timing and extent of its capital expenditure. In addition, 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. Swisscom s depreciation expenses declined in the periods under review as a decline in depreciation in the Fixnet segment due to an increase in the number of fully depreciated assets was only partially offset by an increase in the Mobile segment due to increased investments in UMTS / EDGE technology and the resulting reduction of the useful lives of certain GSM equipment. In the medium term, depreciation expenses are expected to remain relatively stable, as a decrease in depreciation expenses due

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to an increase in the number of fully depreciated assets is expected to be offset by an increase due to an increase in capital expenditure mainly related to new broadband technologies.

Summary of Results

The year 2005 has been very challenging for Swisscom. In competition with over 300 national and international competitors Swisscom has shown a steady performance, has overall defended its market shares and increased operating income and net profit, despite a decline in revenue.

Revenue mainly decreased as a result of the transfer of the International Carrier Services activities to a new joint venture with Belgacom and a significant reduction in the wholesale price for call termination on Swisscom s mobile network. Declining revenue in the traditional fixed-line telephony business, mainly due to increased competition from cable network operators as well as the substitution of fixed-line telephony by mobile telephony, was offset by an increase in broadband access revenue, reflecting an increase in ADSL subscribers, and an increase in mobile telephony revenue due to new data services and an increase in the number of subscribers. Pressure on prices in the business segment due to strong competition is unchanged.

Overall, operating income increased, despite a decline in revenue, primarily due to a significant decrease in depreciation expenses following an impairment charge in 2004 as well as an increase in the number of fully depreciated assets. An improvement in financial result and the omission of the loss from discontinued operation (debitel) have added to a significant increase in net income.

Swisscom s cash flows from operating activities in 2005 declined compared to 2004, mainly due to a special contribution to Swisscom s pension fund as well as an increase in taxes paid. In accordance with its return policy, Swisscom returned approximately CHF 2.9 billion to its shareholders through dividends and share buy backs. However, Swisscom still maintains a balance sheet with a significant cash position and has proposed to the shareholders meeting that an even larger amount be returned to shareholders in 2006.

Swisscom expects the trends from 2005 to continue in the future and expects a further decline in revenue as a result of the strong competition and price reductions especially in the Mobile and Fixnet segments. Regulatory risks such as unbundling of the local loop and a reduction in interconnection tariffs will further increase pressure on margins in the traditional fixed-line business. One of the key factors for future success in the fixed-line segment is Swisscom s triple play strategy of combining its core activities with multimedia services to counter competition from cable network operators. Mobile revenue is expected to be driven by Swisscom s ability to retain high-value customers and to stimulate usage through the implementation of innovative services.

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 44 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.

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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 11 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 23.8% of the pension plan assets at December 31, 2005 were held in stocks and bonds denominated in foreign currencies, primarily USD and EUR.

For 2005, the expected rate of return on plan assets was 4.5% or CHF 234 million. Due to the favorable performance of the stock markets, the actual return on assets in 2005 was 13.1% or CHF 703 million, generating an excess return of CHF 469 million. However, from the date of inception of Swisscom s pension plan in January 1999 to December 31, 2005, the cumulative actual return on assets has been lower than the expected return, which resulted in a cumulative loss of CHF 195 million at December 31, 2005. The expected rate of return has been reduced to 3.9% for 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 2005 was 2.6%. Should the discount rate decrease by 0.5%, the pension liability would increase by approximately CHF 709 million and the annual pension expense would increase by approximately CHF 8 million.

The rate of increase in future compensation levels used in 2005 was 2.3%. Should this rate increase by 0.5%, the pension liability would increase by approximately CHF 85 million and the annual pension expense would increase by approximately CHF 10 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, 2005, the liability amounted to CHF 173 million. While Swisscom believes that the assumption used to determine this liability is appropriate, should the Government decide to change the indexation, this would affect Swisscom s pension liability and future expense. The law for PUBLICA is currently under review. However, based on the existing draft law, the contractual obligation of Swisscom will not be effected and therefore not change.

In 2005, under U.S. GAAP, Swisscom recorded a minimum liability of CHF 871 million, of which CHF 113 million reflected the unrecognized prior service cost and was recorded as an intangible asset. The remaining CHF 758 million, excluding a tax benefit of CHF 169 million, was recorded against equity. An increase of the minimum liability would result in a further reduction of shareholder s equity.

Useful lives of technical equipment

Technical equipment, with a net book value of CHF 3,957 million at December 31, 2005, 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 360 million at December 31, 2005 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. In 2003, Swisscom extended the expected timing of the dismantlement as a result of a change in the requirements of a major customer, which would result in the stations being used for a longer period. That resulted in a reduction in the present value of the provision of CHF 43 million, which increased financial income in 2003 by a corresponding amount. 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. The net impact of adopting SFAS 143, which was a credit to the income statement of CHF 31 million, was recorded as a cumulative effect of accounting change on January 1, 2003. See Note 44 to the consolidated financial statements.

Provisions and contingent liabilities

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

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

Changes in accounting policies

Effective January 1, 2005 the International Accounting Standards Board IASB modified its standard IAS 17, Leases. As a result, long-term leases of real estate must be evaluated and disclosed separately for land and building components and the land element is no longer classified as a finance lease but as an operating lease. In 2001, Swisscom sold buildings and leased them back at different lease terms. Some of these sale and leaseback agreements were classified as finance leases under IAS 17 and no distinction was made between the land and building components. The change in the standard, which had to be applied retrospectively, resulted in an increase in shareholders equity at December 31, 2002 of CHF 105 million, and comprises reductions in the lease obligations, the carrying amount of real estate and the deferred profit from these transactions. As a result, lease expense increased and depreciation expense and interest expense decreased in 2003, 2004 and 2005. Prior years numbers have been restated accordingly.

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RESULTS OF GROUP OPERATIONS

CHF in millions (except percentages)		Year Ended December 31,		Year Ended December 31,	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
Net revenue	9,732	10,057	10,026	(3.2)	0.3
Other income	260	195	231	33.3	(15.6)
Total	**9,992**	**10,252**	**10,257**	**(2.5)**	**(0.0)**
Goods and services purchased	1,831	1,847	1,706	(0.9)	8.3
Personnel expenses	2,173	2,194	2,266	(1.0)	(3.2)
Other operating expenses	1,817	1,823	1,798	(0.3)	1.4
Depreciation	1,286	1,542	1,537	(16.6)	0.3
Amortization	108	151	142	(28.5)	6.3
Total operating expenses	**7,215**	**7,557**	**7,449**	**(4.5)**	**1.4**
Operating income	**2,777**	**2,695**	**2,808**	**3.0**	**(4.0)**
Financial result	82	(134)	(13)	n.a.	n.a.
Income tax expense	(535)	(392)	(467)	40.9	(16.1)
Equity in net income of affiliated companies	13	22	(9)	(40.9)	n.a.
Net income from continuing operations	**2,337**	**2,191**	**2,319**	**6.7**	**(5.5)**
Discontinued operations(1)	9	(243)	(408)	n.a.	(40.4)
Net income	**2,346**	**1,948**	**1,911**	**20.4**	**1.9**
Net income attributable to equity holders of Swisscom AG	2,022	1,596	1,571	26.7	1.6
Net income attributable to minority interests	324	352	340	(8.0)	3.5

(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. The previous years figures were restated accordingly.

Net Revenue

Revenue decreased from CHF 10,057 million in 2004 to CHF 9,732 million in 2005, 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 and lower average tariffs as a result of a loss in market share to cable network operators and mobile substitution. 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 price pressure due to fierce competition and migration to IP based services. These decreases in the fixed-line segments were partially offset by other businesses, especially by Swisscom IT Services through an increase in revenue from outsourcing services, Swisscom Eurospot and the acquisition of Antenna Hungária. Mobile revenue remained relatively stable, as a decrease in revenue due to a reduction of termination rates and an introduction of new tariff models was offset by a continuing growth of the subscriber base as well as an increase in the usage of new data services.

Revenue slightly increased from CHF 10,026 million in 2003 to CHF 10,057 million in 2004, reflecting an increase in revenue from Mobile, partially offset by a decrease in revenue from Fixnet and Solutions. The increase in revenue from Mobile mainly reflects an increase in the number of subscribers as well as increased usage of new data services and revenue from the sale of handsets. The decrease in revenue from Fixnet was mainly due to a decrease in traffic revenue reflecting primarily a decrease in Internet traffic as customers continued to migrate to ADSL. This decrease was partially offset by an increase in access revenue as a result of a substantial increase in the number of ADSL subscribers, reflecting a continuing growth in demand for high bandwidth connectivity. The decrease in revenue from Solutions was mainly due to a decrease in voice and data traffic as a result of fierce competition.

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Other income

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.

Other income decreased from CHF 231 million in 2003 to CHF 195 million in 2004, primarily due to the gain of the sale of a former subsidiary, Telecom FL AG, in 2003.

Goods and services purchased

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.

Goods and services purchased increased from CHF 1,706 million in 2003 to CHF 1,847 million in 2004, primarily due to an increase in Mobile s cost of equipment purchased for resale reflecting an increase in the number of handsets sold due to a growing subscriber base and higher average purchase prices for more sophisticated handsets. The increase in the number of mobile subscribers also resulted in an increase in expenses that Mobile had to pay other carriers for its customers roaming on the other s networks as well as for national and international interconnection.

Personnel expenses

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.

Personnel expenses decreased from CHF 2,266 million in 2003 to CHF 2,194 million in 2004 mainly as a result of a decrease in termination benefits from CHF 88 million in 2003 to CHF 48 million in 2004, a decrease in the average number of employees resulting from restructuring measures implemented in 2002 and 2003 and a decrease in pension expense of CHF 38 million, as described in Note 11 of the consolidated financial statements. These effects have partially been offset by an overall salary increase.

Other operating expenses

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.

Other operating expenses slightly increased from CHF 1,798 million in 2003 to CHF 1,823 million in 2004 due primarily to an increase in expenses for consultancy and temporary personnel and the consolidation of Billag Card Services (now Accarda AG), which was acquired in December 2003. These increases were partially offset by a decrease in other operating expenses by Fixnet due to an increase in the provision that was recorded in 2003 for the case against Swisscom relating to its interconnection prices.

Depreciation

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.

Depreciation slightly increased from CHF 1,537 million in 2003 to CHF 1,542 million in 2004 mainly due to (i) an increase in depreciation at Mobile due to an increase in capital expenditures relating to the rollout of new broadband technologies and a respective reduction in the useful lives of older network equipment and (ii) an impairment of CHF 155 million relating to sea cable owned by Fixnet, as described in Note 22 of the consolidated financial statements. These effects were partially offset by lower depreciation in the Fixnet segment mainly due to an increase in the number of fully depreciated assets and to the phase out of one of Fixnet s switching platforms in 2004, which resulted in only partial year depreciation in 2004.

Amortization

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.

Amortization increased from CHF 142 million in 2003 to CHF 151 million in 2004 due to the amortization of goodwill for Billag Card Services, which was acquired in December 2003.

Financial result

Financial result changed from a net expense of CHF 134 million in 2004 to a 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 agreement, part of which was reversed in 2005. Further, the increase was due to a reversal 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.

Financial result decreased from a net expense of CHF 13 million in 2003 to CHF 134 million in 2004, mainly due to a reduction in the present value of the provisions for dismantlement in 2003 due to the extension of the expected timing of the dismantlement. See Note 26 to the consolidated financial statements. The decline in financial result was also due to a decrease in foreign exchange gains from CHF 48 million in 2003 to CHF 5 million in 2004.

Income tax

Income tax expense increased from CHF 392 million in 2004 to CHF 535 million in 2005, mainly reflecting an increase in operating income as well as a capitalization of deferred tax assets of CHF 113 million in 2004 as described below. The effective tax rate is 18.6% in 2005.

Income tax expense decreased from CHF 467 million in 2003 to CHF 392 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. In 2003, income tax expense decreased by CHF 80 million as a result of an impairment of the goodwill relating to debitel, which was tax-deductible. The effective tax rate for 2004 was 15.2%.

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

Equity in net income of affiliated companies

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.

Equity in net income of affiliated companies improved from a loss of CHF 9 million in 2003 to an income of CHF 22 million in 2004. The loss in 2003 included a loss from the disposal of the indirectly held investment in Cesky Telecom in 2003.

Discontinued operation

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.

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The following table sets forth debitel s results for the periods indicated:

CHF in millions	Period from January 1 to June 8, 2004	Year Ended December 31, 2003
Net revenue	1,917	4,555
Expenses(1)	(1,913)	(4,938)
Operating (loss) income	**4**	**(383)**
Other net (expenses) income	1	(25)
Net (loss) income from discontinued operation (debitel)	**5**	**(408)**

(1) Includes goodwill amortization in 2003 and 2004 of CHF 172 million and CHF 57 million, respectively, and impairment of goodwill in 2003 of CHF 280 million.

In 2005, income from discontinued operation (debitel) 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 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.

Net operating loss of debitel in 2003, including goodwill amortization of CHF 172 million and goodwill impairment of CHF 280 million, was CHF 383 million. The impairment charge was calculated based on the value in use of the investment which approximated the net proceeds expected from the sale. Excluding the expenses relating to goodwill, debitel had net operating income of CHF 69 million.

Outlook

Based on continuing strong competition and assuming no significant unexpected regulatory changes, Swisscom expects consolidated net revenue as well as operating income to decrease in 2006. The main reasons for the decline are lower termination charges for mobile telephony and the sale of Swisscom s international wholesale activities, both of which will negatively effect the entire year whereas these factors affected only a portion of the 2005 results. Continuing price pressure on Mobile and Fixnet is expected to be partially offset by growth in other segments.

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Results of Operations by Segment

Effective January 1, 2005, Swisscom Enterprise Solutions was merged with Swisscom Systems, formerly accounted for in the segment Other , into a new business segment named Solutions. Prior years numbers for the segments Other and Solutions have been restated accordingly. For details see *Item 4: Information on the Company Solutions* .

The reporting segments for 2005 were defined as follows:

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 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 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 operating income for the segments in place in 2005 for the periods indicated.

Segment results

CHF in millions	Net revenue			Operating income		
	2005	**2004**	**2003**	**2005**	**2004**	**2003**
Fixnet	5,308	5,715	5,781	1,294	1,098	1,045
Mobile	4,168	4,356	4,140	1,477	1,617	1,674
Solutions	1,268	1,437	1,592	35	87	49
Other	1,059	979	945	2	(12)	(44)
Corporate	690	608	703	(31)	(101)	82
Intersegment elimination	(2,761)	(3,038)	(3,135)	(1)	6(1)	2(1)
Total	**9,732**	**10,057**	**10,026**	**2,777**	**2,695**	**2,808**

(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 .

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Fixnet

Revenue from Fixnet comprises primarily revenue from access services and fixed retail telephony traffic in respect of 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,	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
Net revenue from external customers	4,319	4,555	4,601	(5.2)	(1.0)
Intersegment net revenue	989	1,160	1,180	(14.7)	(1.7)
Net revenue	**5,308**	**5,715**	**5,781**	**(7.1)**	**(1.1)**
Segment expenses	4,014	4,617	4,736	(13.1)	(2.5)
Segment operating income	**1,294**	**1,098**	**1,045**	**17.9**	**5.1**
Segment margin	***24.4%***	***19.2%***	***18.1%***		

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,	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
Access	1,992	1,876	1,715	6.2	9.4
Retail traffic	1,082	1,240	1,329	(12.7)	(6.7)
Wholesale traffic	483	691	677	(30.1)	2.1
Other traffic	130	158	247	(17.7)	(36.0)
Other revenue	632	590	633	7.1	(6.8)
Total Fixnet external revenue	**4,319**	**4,555**	**4,601**	**(5.2)**	**(1.0)**

Fixnet s total external revenue decreased by 5.2% in 2005, mainly due to a decrease in wholesale traffic revenue as described below and a decrease in retail traffic revenue reflecting a decline in traffic volumes as a result of a loss in market share to cable network operators and lower average tariffs through the introduction of flat rates as well as a reduction of mobile termination rates. These effects were partially offset by higher access revenue reflecting an increase in the number of ADSL 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, mainly for technical reasons, international incoming traffic to be routed through BICS Switzerland to third party networks and to Swisscom Mobile s network will continue to be routed through Fixnet s network until 2007. Accordingly, associated revenues and costs are still being recognized by Fixnet. These revenues and costs were recorded under international incoming traffic until December 31, 2005 and under wholesale national traffic from January 1, 2006. After 2007, BICS traffic will no longer be routed through Fixnet under this arrangement. Revenue from Fixnet s international wholesale operations was CHF 445 million and CHF 256 million in 2004 and 2005, respectively. For details see *Item 4: Information on the Company Fixnet Wholesale Traffic* .

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In 2004, Fixnet s total external revenue decreased by 1.0% due primarily to a decrease in retail traffic revenue reflecting a decrease in Internet traffic as customers continued to migrate to asynchronous digital subscriber lines (ADSL) and a decrease in other traffic revenue due to the release of deferred revenue in 2003 relating to prepaid calling cards. These effects were partially offset by higher access revenue reflecting an increase in the number of ADSL subscribers.

Fixnet expects total revenue from external customers to further decrease in 2006, mainly due to (i) 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 and (ii) the full-year effect of the Belgacom transaction. On the other hand, the number of ADSL subscriber lines is expected to grow further and should be able 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, broad- 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,	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
PSTN access revenue	824	851	866	(3.1)	(1.8)
ISDN access revenue	512	514	507	(0.3)	1.3
Total PSTN/ISDN access revenue	**1,336**	**1,365**	**1,374**	**(2.1)**	**(0.7)**
ADSL retail revenue	345	228	112	51.7	103.6
ADSL wholesale revenue	185	138	85	34.2	62.4
Total ADSL revenue	**530**	**366**	**197**	**45.1**	**85.8**
Other access revenue	125	146	144	(14.2)	1.2
Total access revenue	**1,992**	**1,876**	**1,715**	**6.2**	**9.4**
Access lines (at period end, in thousands)(1):					
PSTN lines(2)	2,922	3,007	3,086	(2.8)	(2.6)
ISDN lines(3)	900	924	924	(2.6)	0.0
Total access lines	**3,822**	**3,931**	**4,010**	**(2.8)**	**(2.0)**
ADSL subscribers lines (at period end, in thousands of lines):					
Retail subscriber lines	708	490	274	44.5	78.8
Wholesale subscriber lines	390	312	213	25.0	46.5
Total ADSL subscribers lines	**1,098**	**802**	**487**	**36.9**	**64.7**

(1) Based on lines in service, including courtesy and service lines.

(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 by 6.2 % and 9.4 % in 2005 and 2004, respectively, mainly driven by an increase in revenue from ADSL. The number of ADSL subscriber lines continued to increase substantially in 2005, but at a declining growth rate.

PSTN revenue continued to decrease in 2005 due to strong competition from cable network operators and the continuing mobile substitution. Revenue from ISDN access remained relatively stable in 2005 and 2004 reflecting the high penetration rate in Switzerland and the fact that the fast growing ADSL technology can also be offered over a traditional PSTN line.

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

	Year Ended December 31,			Year Ended December 31,	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
CHF in millions (except percentages) (1)					
Local and long distance traffic revenue	391	435	470	(10.3)	(7.4)
Fixed-to-mobile traffic revenue	407	466	464	(12.8)	0.4
Internet traffic revenue	74	109	162	(31.8)	(32.7)
International traffic revenue	210	230	233	(8.5)	(1.3)
Total retail traffic revenue	**1,082**	**1,240**	**1,329**	**(12.7)**	**(6.7)**
Traffic (in millions of minutes)(2):					
Local and long distance traffic	6,628	7,205	7,732	(8.0)	(6.8)
Fixed-to-mobile traffic	925	949	950	(2.5)	(0.1)
Internet traffic	2,252	3,323	4,842	(32.2)	(31.4)
International traffic(3)	926	955	968	(3.0)	(1.3)
Total retail traffic	**10,731**	**12,432**	**14,492**	**(13.7)**	**(14.2)**

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

(2) Includes traffic on courtesy and service lines.

(3) 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 12.7% in 2005 and 6.7% in 2004, 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 in 2005 as a result of a reduction in termination rates by Swisscom Mobile which were introduced on June 1, 2005 and passed on to Fixnet s customers on July 1, 2005.

In both 2004 and 2005, the decrease in local and long distance as well as International traffic revenue is mainly due to a decrease in tariffs reflecting the introduction of new price models at the end of 2004, 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 ADSL.

In 2004 and 2005, the decrease in revenue from Internet traffic is a result of the migration of Internet dial-up traffic to ADSL. ADSL customers 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. Wholesale international revenue comprises 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 of this transaction see *Net revenue from external customers* above.

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

		Year Ended December 31,		Year Ended December 31,	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
CHF in millions (except percentages)					
Wholesale national traffic revenue	227	246	300	(7.7)	(18.0)
International incoming traffic revenue	146	200	208	(27.2)	(3.8)
International termination traffic revenue	110	245	169	(55.3)	45.0
Total wholesale traffic revenue	**483**	**691**	**677**	**(30.1)**	**2.1**
Total wholesale telephony traffic (millions of minutes):					
Wholesale national traffic[1]	15,947	17,055	17,871	(6.5)	(4.6)
International incoming traffic[2]	1,577	1,521	1,607	3.7	(5.4)
International termination traffic[3]	755	1,508	1,188	(49.9)	26.9
Total wholesale traffic	**18,279**	**20,084**	**20,666**	**(9.0)**	**(2.8)**

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

(2) Minutes of incoming traffic terminated in Switzerland as determined for international settlement purposes.

(3) Minutes of outgoing traffic terminated outside of Switzerland.

Total wholesale traffic revenue decreased by 30.1% in 2005 primarily as a result of the Belgacom transaction. Wholesale national traffic revenue decreased by 7.7% and 18.0% in 2005 and 2004, respectively, mainly due to reductions in interconnection rates and a decline in traffic volume by 6.5% and 4.6% as a result of the migration of third-party Internet traffic to ADSL and direct access of residential and business customers to other operators networks.

In 2005, international incoming traffic revenue decreased by 27.2% due to a reduction in mobile termination rates and international termination traffic revenue decreased by 55.3% mainly as a result of the Belgacom transaction as described in net revenue from external customers above.

International termination traffic revenue increased by 45.0% in 2004 compared to 2003 as a result of an increase in traffic volume by 26.9% due to the expansion of the business as a result of focused marketing activities as well as a greater share of higher tariff traffic to mobile networks.

Other traffic. Fixnet operates public payphones as part of its obligation to provide Universal Service. Also, Fixnet generates revenue from operator services and the sale of prepaid calling cards.

The following table sets forth Fixnet s other traffic revenue:

CHF in millions (except percentages)		**Year Ended December 31,**			**Year Ended December 31,**
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
Other traffic revenue(1)	130	158	247	(17.7)	(36.0)

(1) Includes revenue from prepaid calling cards, operator services and Swisscom-operated public payphones.

Excluding the one-time release of deferred revenue in 2003 described below, other traffic revenue decreased by 17.7% and 9.7% in 2005 and 2004, respectively, mainly due to increased competition and online substitution for operator services and substitution of Swisscom-operated public payphones services through the use of mobile phones.

Revenue from the sale of telephone cards, which are valid for 3 years, is deferred and recognized either when the services are provided or once the card is no longer valid. Historically, Swisscom was not able to reliably track the total amount of unutilized credit for cards that were no longer valid. In 2003, however, Swisscom

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implemented changes to the system to allow it to reliably track this amount and released CHF 72 million to revenue.

Other revenue. Other revenue comprises primarily revenue from the sale of customer equipment, the provision of leased lines and the operation of a directories database.

The following table sets forth Fixnet s other revenue:

CHF in millions (except percentages)		Year Ended December 31,		Year Ended December 31,	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
Customer equipment[(1)]	253	250	252	1.5	(0.8)
Leased lines	158	136	143	16.3	(4.9)
Directories	120	113	107	5.8	5.6
Revenue from other activities[(2)]	101	91	131	11.1	(30.5)
Total other products revenue	**632**	**590**	**633**	**7.2**	**(6.8)**

(1) Includes fixed-line customer premises equipment and mobile handsets sold through Swisscom Shops.

(2) Includes primarily revenue from Internet narrowband traffic to third-party ISP numbers and value added and data services to residential customers.

Other revenue increased by 7.2% in 2005 due primarily to an increase in revenue from leased lines as a result of the resolution of a pricing dispute and new services provided to BICS. In 2004, Fixnet recorded a provision for a discount as a result of a dispute with one of its competitors. This dispute was settled in 2005 and the provision of CHF 9 million that had been recorded in 2004 was released in 2005.

Other revenue declined by 6.8% in 2004 mainly due to a decline in revenue generated from other activities, mainly reflecting the sale of Swisscom s wholly owned subsidiary Telecom FL AG in October 2003.

Intersegment net revenue

Fixnet is responsible for building and maintaining the fixed-line network and sells network capacity to Solutions and Mobile. Therefore, intersegment revenue comprises primarily revenue from Solutions and Mobile for the use of the fixed network as well as revenue from Mobile for handset commissions due for new mobile subscribers that sign up in a Swisscom shop.

CHF in millions (except percentages)		Year Ended December 31,		Year Ended December 31,	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
Intersegment net revenue	989	1,160	1,180	(14.7)	(1.7)

Intersegment revenue decreased by 14.7% and 1.7% in 2005 and 2004, respectively, primarily as a result of a reduction in traffic volumes and leased lines from Swisscom s business customers recorded under the segment Solutions (see *Solutions*). In 2005, the decrease was also due to the Belgacom transaction. In 2004, a decrease in commissions received from Swisscom Mobile for the sale of prepaid cards was partially offset by an increase in commissions received from Swisscom Mobile for the sale of mobile handsets through Swisscom Shops.

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Segment expenses

CHF in millions (except percentages)		Year Ended December 31,		Year Ended December 31,	
	2005	2004	2003	2005/2004	2004/2003
				(% change)	
Goods and services purchased	606	693	690	(12.6)	0.4
Personnel expenses	944	954	1,017	(1.0)	(6.2)
Other operating expenses	530	580	643	(8.6)	(9.8)
Depreciation and amortization	797	1,072	1,083	(25.7)	(1.0)
Other operating income(1)	(111)	(85)	(108)	30.6	(21.3)
Total external segment expenses	**2,766**	**3,214**	**3,325**	**(13.9)**	**(3.3)**
Intersegment expenses	1,248	1,403	1,411	(11.0)	(0.6)
Total segment expenses	**4,014**	**4,617**	**4,736**	**(13.1)**	**(2.5)**

(1) Includes mainly capitalized cost and gains on sale of property, plant and equipment.

External segment expenses

External segment expenses decreased by 13.1% in 2005 primarily due to a decrease in depreciation and amortization as well as goods and services purchased.

Goods and services purchased decreased in 2005 by 12.6% mainly as a result of the Belgacom transaction. This effect was partially offset by an increase in expenses for the purchase of ADSL modems, reflecting the growing number of ADSL subscribers.

Personnel expenses decreased by 1.0% mainly due to continuing headcount reductions in 2005. These decreases were partially offset by an overall salary increase as well as an increase in termination benefits from CHF 40 million in 2004 to CHF 50 million in 2005.

Other operating expenses decreased by 8.6% mainly due to expenses for energy as starting in 2005, such expenses were billed as intersegment expenses by Swisscom s real-estate company Swisscom Immobilien AG following the introduction of a centralized energy cost settlement. Cost reductions in the areas of rental as well as maintenance and repair were partially offset by an increase in expenses for information technology relating primarily to Swisscom s triple play strategy and IT restructuring projects.

Depreciation and amortization expenses decreased by 25.7% mainly due to (i) a one-time impairment charge of CHF 155 million in 2004 relating to assets in the international wholesale business; (ii) an increase in the number of fully depreciated assets; and (iii) the phase out of one of Fixnet s three switching platforms in 2004.

External segment expenses decreased by 3.3% in 2004 primarily due to a decrease in personnel expenses and other operating expenses.

Goods and services purchased remained stable in 2004. An increase in international termination traffic expenses reflecting an increase in revenue was partially offset by (i) a decrease in expenses due to the sale of

Swisscom s wholly owned subsidiary Telecom FL in October 2003, (ii) a decrease in international incoming traffic expenses reflecting a decrease in the volume of traffic terminating on other operators networks and (iii) a decrease in expenses for fixed-line customer premises equipment reflecting a decrease in sales.

Personnel expenses decreased by 6.2% due to a decrease in termination benefits from CHF 63 million in 2003 to CHF 40 million in 2004. Excluding termination benefits, personnel expenses decreased by 4.2%, mainly reflecting the headcount reductions in 2003 and 2004, partially offset by an overall salary increase.

Other operating expenses decreased by 9.8% mainly due to an exceptional expense in 2003 for an increase 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, commissions paid to third parties relating to the sale of card products decreased.

Depreciation and amortization expense decreased by 1.0% mainly due to an increase in the number of fully depreciated assets and the phase out of one of Fixnet s three switching platforms in 2004, which resulted in only partial year depreciation for this platform in 2004 as compared to the previous year. These effects have partially been offset by an impairment charge of CHF 155 million relating to assets in the international wholesale business mainly consisting of long-term utilization rights of sea cables. See Note 22 to the consolidated financial statements for further information relating to this impairment.

Intersegment expenses

Intersegment expenses comprise primarily network fees to Mobile for calls from other networks terminating on the mobile network, expenses payable to Mobile for the purchase of mobile handsets and amounts payable to other divisions for information technology, rental of real estate and management fees.

Intersegment expenses decreased by 11.0% in 2005 mainly reflecting a reduction in Mobile termination rates on June 1, 2005 and a decrease in expenses as a result of the Belgacom transaction. A decrease in expenses payable to Mobile for the purchase of mobile handsets as well as a decrease in expenses for information technology were partially offset by energy cost billed by Swisscom s real-estate company Swisscom Immobilien AG. The introduction of a centralized energy cost settlement in 2005 resulted in such cost being recorded as intersegment expenses whereas they previously had been recorded as external expenses.

Intersegment expenses remained relatively stable in 2004. An increase in expenses payable to Mobile for the purchase of mobile handsets was offset by a decrease in traffic from other mobile network operators terminating on Swisscom Mobile s network through Fixnet as an intermediary as a result of increased competition from other mobile network operators offering direct mobile interconnection as well as a decrease in expenses payable to other group companies for information technology, rental of real estate and management fees.

Fixnet expects total segment expenses to decrease in 2006, mainly due to the full-year effect of the Belgacom transaction as well as a decrease in personnel expenses following the headcount reductions in 2005.

Segment margin

Segment margin increased from 19.2% to 24.4% in 2005, mainly due to a decrease in depreciation expenses reflecting a one-time impairment charge of CHF 155 million in 2004 relating to assets in the international wholesale business as well as an increase in the number of fully depreciated assets. The Belgacom transaction also had a positive effect on the margin as this business was characterized by extremely low margins.

Segment margin increased from 18.1% in 2003 to 19.2% in 2004, due to cost reductions mainly through lower personnel expenses as a result of headcount reductions.

Fixnet expects its margin to slightly decrease in 2006. A further decrease in revenue is not expected to be fully compensated with cost reductions.

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Mobile

Revenue from Mobile consists principally of monthly subscription fees, domestic and international traffic charges for calls made in Switzerland or abroad by Swisscom s customers and roaming fees paid by foreign operators whose customers use their mobile telephones over Swisscom s networks. It also consists of fees for using value-added services numbers, data traffic and sending SMS and MMS messages as well as the sale of mobile handsets through channels other than Swisscom shops. See *Item 4: Information on the Company Mobile Connectivity Voice Principal Products* .

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

CHF in millions (except percentages)	Year Ended December 31,			Year Ended December 31,	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
Net revenue from external customers	3,651	3,679	3,511	(0.8)	4.8
Intersegment net revenue	517	677	629	(23.6)	7.6
Net revenue	**4,168**	**4,356**	**4,140**	**(4.3)**	**5.2**
Segment expenses	2,691	2,739	2,466	(1.8)	11.1
Segment operating income	**1,477**	**1,617**	**1,674**	**(8.7)**	**(3.4)**
Segment margin	***35.4%***	***37.1%***	***40.4%***		

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

Net revenue from external customers

CHF in millions (except percentages)	Year Ended December 31,			Year Ended December 31,	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
Base Fees	677	691	685	(2.0)	0.9
Connectivity Voice	2,203	2,286	2,221	(3.6)	2.9
Connectivity Data and VAS	604	521	454	15.9	14.8
Other mobile revenue(1)	167	181	151	(7.7)	19.9
Total Mobile external revenue	**3,651**	**3,679**	**3,511**	**(0.8)**	**4.8**

(1) Includes revenue from the sale of handsets sold to sales channels other than Swisscom shops and from SICAP, a prepaid billing platform.

Mobile s total external revenue remained relatively stable in 2005. A decrease in Connectivity Voice revenue as a result of a reduction in termination rates as well as the introduction of new tariff models was offset by an increase in the number of subscribers due to an increase in penetration as well as an increase in the usage of new data services.
In 2004, Mobile s total external revenue increased by 4.8%, primarily due to the increase in Connectivity Voice revenue reflecting an increase in the number of subscribers. Data and value-added services (VAS) revenue had a further positive effect on revenue in 2004 reflecting the increased revenue from new data services.
Mobile expects total revenue from external customers to remain relatively stable in 2006. A decrease in revenue due to the full-year effect of the reduction of termination rates and to the growing number of subscribers transferring to new cheaper tariff models is expected to be compensated by an increase in the subscriber base reflecting a further increase in mobile penetration and an increase in the service penetration and usage of new data services.
The following table sets forth certain data relating to Mobile s subscribers and traffic:

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	Year Ended December 31,			Year Ended December 31,	
	2005	2004	2003	2005/2004	2004/2003
				(% change)	
Average number of subscribers (in thousands)(1):					
Postpaid	2,569	2,449	2,333	4.9	5.0
Prepaid(2)	1,502	1,441	1,353	4.2	6.5
Average number of subscribers	**4,071**	**3,890**	**3,686**	**4.7**	**5.5**
Average monthly minutes of use per user (AMPU)(1)(3)	120	118	121	1.7	(2.5)
Average monthly revenue per user (ARPU)(4)	74	81	81	(8.2)	0.0
Traffic (in millions of minutes)(1):					
Connectivity voice(5)	3,688	3,404	3,335	8.3	2.1
Number of SMS messages (in millions)(1)(6)	1,991	1,986	1,847	0.3	7.5

(1) Includes service accounts and traffic generated by service accounts.

(2) Excludes inactive customers. Swisscom no longer includes accounts of any inactive prepaid customer in its subscriber figures. A customer is deemed inactive after a period of twelve months without making a call or sending an SMS message. On a yearly average, inactive customers were

196,172 in 2003, 209,461 in 2004 and 141,910 in 2005.

(3) Includes traffic from all outgoing calls made by Mobile subscribers, excluding inactive customers, plus traffic from all incoming calls made to Mobile subscribers from all other networks.

(4) Includes revenue from all outgoing calls made by Mobile s subscribers, excluding inactive customers, including roaming and data and value added services, plus revenue from all incoming calls made to Mobile subscribers from all other networks as well as base fee revenue.

ARPU reconciliation

CHF in millions (except where indicated)	Year Ended December 31, 2005	2004	2003

Net revenue	4,168	4,356	4,140
less non-connectivity revenue[(a)]	336	386	298
less inbound roaming revenue[(b)]	169	165	199
less other non-service revenue	43	39	46
Service revenue relevant to ARPU	**3,620**	**3,766**	**3,597**
Average subscribers (in thousands)	4,071	3,890	3,686
ARPU/month (in CHF)	74	81	81

(a) Consists mainly of revenue from the sale of mobile handsets

(b) Consists of roaming fees paid by foreign operators whose customers use their mobile telephones over Swisscom s networks and until 2003, roaming fees from the national roaming agreement with another domestic mobile network operator.

Swisscom believes that ARPU provides its management and investors with useful information concerning the financial performance of its product and service offerings and its ability to attract and retain high-value customers.

(5) Includes minutes from all outgoing calls made by Mobile s customers and foreign visitors using the network of Swisscom Mobile.

(6) Excludes wholesale SMS messages.

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Base Fees. Net revenue from base fees consists principally of monthly subscription charges, which includes revenue from the sale of SIM cards.

Base fee revenue remained relatively stable in 2005 and 2004. An increase in the subscriber base was offset by the continued migration of customers from higher price to lower price tariff subscriptions.

Connectivity Voice. Net revenue from connectivity voice consists principally of the domestic and international traffic charges for calls made in Switzerland by Mobile s customers, roaming fees paid by operators whose customers use their mobile telephones over Mobile s network and revenue from the termination of traffic on Mobile s network from other Swiss mobile operators. Further, fees from a roaming agreement with Orange, whereby Orange subscribers could use the Mobile network in parts of Switzerland, were recorded under Connectivity Voice. The roaming agreement with Orange was terminated in July 2003.

Connectivity Voice revenue decreased by 3.6% in 2005, mainly due to the reduction of termination rates by approximately 40% from CHF 0.335 to CHF 0.20 effective June 1, 2005. At the same time Mobile introduced the Natel Liberty product family, a new tariff model charging customers on a per call basis, rather than on a per-minute basis, for which 635 thousand subscribers had registered as of the end of 2005. These effects were partially offset by an increase in the number of subscribers. The reduction of termination rates and the introduction of new tariff models also resulted in a decrease of the average monthly revenue per user (ARPU) from voice telephony. These tariff reductions had a stimulating effect on traffic thereby slightly increasing the average monthly minutes of use per user (AMPU).

Connectivity Voice revenue increased by 2.9% in 2004, mainly due to an increase in the number of subscribers as well as an increase in roaming revenue, partially offset by a decrease in the average monthly minutes of use per user (AMPU) as well as a decline in revenue due to the termination of the national roaming agreement with Orange in July 2003. The increase in the subscriber base is mainly the result of an increase in market penetration and a value-based churn management. However, lower AMPU as well as increasing price competition in the business segment resulted in a decrease of the average monthly revenue per user (ARPU) from voice telephony, which was offset by an increase in the ARPU from data services.

Connectivity data and value-added services. Net revenue from data and value-added services consists principally of fees generated from SMS messages, data traffic and services, especially from a new service launched in September 2004, enabling seamless data download/synchronization via a PC card integrating all mobile broadband technologies.

Connectivity data and value-added services revenue increased by 15.9% and 14.8% in 2005 and 2004, respectively, mainly due to an increase in service penetration within the existing subscriber base as well as higher usage of new data services per user. In 2004, the increase in revenue was also due to the introduction of termination fees for SMS s in January 2004, based on a new interworking agreement with another mobile network operator.

Other Mobile revenue. Other Mobile revenue mainly consists of revenue from the sale of mobile handsets to third-party outlets and revenue from services provided by SICAP AG, a wholly owned subsidiary, to other GSM operators.

Key drivers for revenue from the sale of handsets are the demand and sourcing strategies of third-party handset resellers as well as the average price per handset sold to the resellers, which are mainly dependant on the technology and features of the handsets. As this business has a very low margin, Swisscom Mobile does not actively manage handset sales to resellers and external revenue from the sale of mobile handsets may therefore be very volatile.

In 2005, other mobile revenue decreased by 7.7%, mainly as a result of lower average prices of handsets sold, whereas in 2004, revenue increased by 19.9%, due to an increase in the number of handsets sold and an increase in the average price per handset due to more sophisticated features.

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Intersegment net revenue

Intersegment net revenue comprises principally revenue from Fixnet for incoming calls made to Mobile subscribers from other networks and revenue from the sale of mobile equipment in the Swisscom shops.

CHF in millions (except percentages)	Year Ended December 31, 2005	2004	2003	Year Ended December 31, 2005/2004	2004/2003
				(% change)	
Intersegment net revenue	517	677	629	(23.6)	7.6

Intersegment net revenue decreased by 23.6% in 2005 due to a reduction of mobile termination rates as of June 1, 2005 as well as lower average prices of handsets sold through Fixnet s Swisscom shops.

Intersegment net revenue increased by 7.6% in 2004 due to an increase in the number of handsets sold through Fixnet s Swisscom shops.

Segment expenses

CHF in millions (except percentages)	Year Ended December 31, 2005	2004	2003	Year Ended December 31, 2005/2004	2004/2003
				(% change)	
Goods and services purchased	975	971	801	0.4	21.2
Personnel expenses	322	310	297	3.9	4.4
Other operating expenses	483	505	473	(4.4)	6.8
Depreciation and amortization	373	359	310	3.9	15.8
Other operating income(1)	(17)	(16)	(14)	6.3	14.3
Total external segment expenses	**2,136**	**2,129**	**1,867**	**0.3**	**14.0**
Intersegment expenses	555	610	599	(9.0)	1.8
Total segment expenses	**2,691**	**2,739**	**2,466**	**(1.8)**	**11.1**

(1) Includes mainly capitalized cost and gains on sale of property, plant and equipment.

External segment expenses

External segment expenses remained relatively stable in 2005. An increase in personal expenses as well as depreciation and amortization expenses was offset by a decrease in other operating expenses.

Goods and services purchased remained stable in 2005. A decrease in the number and average prices of handsets purchased for resale was offset by a transfer of expenses from Fixnet (which was recorded as intersegment expense) to Belgacom International Carrier Services as a result of the Belgacom transaction. Since this transaction, Mobile now routes international outgoing traffic directly through Belgacom. For details of the Belgacom transaction see *Item 4: Information on the company Fixnet Wholesale Traffic* .

Personnel expenses increased by 3.9% due to an overall salary increase as well as termination benefits of CHF 8 million in 2005. These effects were partially offset by a slight decrease in the number of employees as a result of cost reduction measures initiated in 2005.

Other operating expenses decreased by 4.4%, mainly due to a decrease in expenses for advertising and maintenance and repair as part of cost reduction measures. In addition, energy costs are no longer recorded under other operating expenses but under intersegment expenses, following the introduction of a centralized energy cost settlement by Swisscom s real-estate company Swisscom Immobilien AG in 2005.

Depreciation and amortization increased by 3.9% due to investments made in 2004 for the rollout of new broadband technologies.

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External segment expenses increased by 14.0% in 2004 primarily due to an increase in goods and services purchased and in depreciation and amortization expenses.

Goods and services purchased increased by 21.2% primarily due to an increase in the number of handsets purchased for resale and higher average purchase prices for mobile handsets supporting new technologies as well as an increase in national and international interconnection and roaming expenses reflecting the increase in the subscriber base.

Personnel expenses increased by 4.4% as a result of an increase in the number of employees required to manage the growth of the business and an overall salary increase.

Other operating expenses increased by 6.8%, mainly due to an increase in expenses related primarily to the retention of mobile customers as a result of value-based churn management.

Depreciation and amortization increased by 15.8% due to an increase in investments for the rollout of new broadband technologies and the resulting reduction of the useful lives of certain GSM equipment.

Intersegment expenses

Intersegment expenses comprise primarily network fees to Fixnet for mobile calls terminated on other networks, commissions payable for the acquisition of new customers or the extension of existing contracts in the Swisscom shops, rent, information technology cost and management fees.

Intersegment expenses decreased by 9.0% in 2005 primarily due to the Belgacom transaction, which resulted in Mobile routing its international outgoing traffic directly through the new company instead of Fixnet. This effect was partially offset by energy cost billed by Swisscom s real-estate company Swisscom Immobilien AG. The introduction of a centralized energy cost settlement in 2005 resulted in such cost being recorded as intersegment expenses whereas they previously had been recorded as external expenses.

Intersegment expenses increased by 1.8% in 2004 primarily due to an increase in expenses payable to Fixnet as a result of an increase in the number of new customers and contract extensions acquired through the Swisscom shops in 2004. Expenses for leased lines from Fixnet also increased due to the increased number of GSM and UMTS sites.

Mobile expects total segment expenses to increase in 2006, mainly due to a further increase in depreciation and amortization expenses relating to investments for new broadband technologies as well as a further increase in expenses related to the retention and acquisition of customers, partially offset by a decrease in expenses as a result of cost reduction measures introduced in late 2005 as well as a decrease in intersegment expenses, mainly due to the full-year effect of the Belgacom transaction.

Segment margin

Segment margin decreased from 37.1% to 35.4% in 2005 primarily reflecting the reduction of termination rates as of June 1, 2005 as well as the introduction of new tariff models.

Segment margin decreased from 40.4% to 37.1% in 2004 compared to 2003 due primarily to an increase in expenses for subscriber retention as a result of value-based churn management and an increase in depreciation and amortization expenses reflecting an increase in investments for new broadband technologies.

Mobile expects segment margin to further decrease in 2006 mainly as a result of the full-year effect of the reduction in termination rates and the increasing number of subscribers transferring to new cheaper tariff models.

Solutions

Effective January 1, 2005, Swisscom Enterprise Solutions was merged with Swisscom Systems, formerly accounted for in the segment Other , into a new business segment named Solutions.

Revenue from Solutions comprises primarily revenue from national and international fixed-line voice telephony services to business customers, revenue from leased lines, revenue from Intranet services, revenue from other service business and revenue from solution business. See *Item 4: Information on the Company Solutions* .

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

CHF in millions (except percentages)	Year Ended December 31,			Year Ended December 31,	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
Net revenue from external customers	1,123	1,279	1,426	(12.2)	(10.3)
Intersegment net revenue	145	158	166	(8.2)	(4.8)
Net revenue	**1,268**	**1,437**	**1,592**	**(11.8)**	**(9.7)**
Segment expenses	1,233	1,350	1,543	(8.7)	(12.5)
Segment operating income	**35**	**87**	**49**	**(59.8)**	**77.6**
Segment margin	***2.8%***	***6.1%***	***3.1%***		

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

Net revenue from external customers

CHF in millions (except percentages)	Year Ended December 31,			Year Ended December 31,	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
National and international traffic	239	297	344	(19.5)	(13.7)
Leased lines national	147	184	216	(20.1)	(14.8)
Intranet Services	152	173	179	(12.1)	(3.4)
Other Service Business	247	272	299	(9.5)	(9.0)
Solution Business	283	277	291	2.2	(4.8)
Other revenue	55	76	96	(27.6)	(20.8)
Total Solutions external revenue	**1,123**	**1,279**	**1,426**	**(12.2)**	**(10.3)**

In 2005 and 2004, Solutions total external revenue decreased by 12.2% and 10.3%, respectively, primarily due to a decrease in national and international traffic revenue as a result of a decrease in traffic volumes and lower average tariffs as well as a decline in revenue from leased lines, Intranet services and other services business due to price pressure and the substitution of older technologies through IP-based services.

Solutions expects revenue from external customers to further decrease in 2006, mainly due to continuing price pressure for traffic and data services as well as substitution through IP-based services, partially offset by growth in revenue from its business with integrated communications solutions, which will include revenue from the takeover of 300 customers from Siemens Schweiz AG in March 2006. For details see *Item 4: Information on the Company Solutions Solution Business System Integration* .

National and International Traffic. Revenue from national and international traffic consists of charges to business customers for making national and international calls and comprises the same products as those of the Fixnet segment.

See *Fixnet Access* and *Fixnet Retail Traffic* .

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The following table sets forth certain information relating to Solutions national and international fixed-line traffic revenue:

CHF in millions (except percentages)	Year Ended December 31,			Year Ended December 31,	
	2005	2004	2003	2005/2004	2004/2003
				(% change)	
Local and long-distance traffic revenue	87	107	134	(18.7)	(20.1)
Fixed-to-mobile traffic revenue	96	122	136	(21.3)	(10.3)
Total national traffic revenue	**183**	**229**	**270**	**(20.4)**	**(15.2)**
International traffic revenue	56	68	74	(17.6)	(8.1)
Total traffic revenue	**239**	**297**	**344**	**(19.5)**	**(13.7)**
Traffic (in millions of minutes)[1]:					
Local and long-distance traffic	1,672	1,779	1,972	(6.0)	(9.8)
Fixed-to-mobile traffic	258	278	303	(7.2)	(8.3)
Total national traffic	**1,930**	**2,057**	**2,275**	**(6.2)**	**(9.6)**
International traffic[2]	356	361	373	(1.4)	(3.2)
Total traffic	**2,286**	**2,418**	**2,648**	**(5.5)**	**(8.7)**

(1) Includes traffic on courtesy and service lines.

(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 traffic revenue decreased by 19.5% and 13.7% in 2005 and 2004, respectively, mainly due to lower average tariffs due to intense competition as well as a decrease in tariffs for fixed-to-mobile traffic following a reduction of termination rates from Swisscom Mobile. In addition, traffic volumes decreased as a result of the continuing substitution of fixed-line traffic by mobile phones or other technologies that enable customers to route traffic directly over the mobile instead of the fixed-line network. Also, the increased use of e-mail had a negative impact on traffic volumes. However, as a result of successful customer win-back and retention programs, Solutions share in the voice traffic market stabilized in 2005.

Leased Lines national. Revenue from leased lines national comprises revenue from business customers in Switzerland for the provision of leased lines services. See *Item 4: Information on the Company Solutions Leased Lines National* .

The following table sets forth, for the periods indicated, certain information relating to Solutions leased lines national revenue:

CHF in millions (except percentages)		**Year Ended December 31,**		**Year Ended December 31,**	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
Leased lines national revenue	147	184	216	(20.1)	(14.8)

Revenue from leased lines national decreased by 20.1% and 14.8% in 2005 and 2004, respectively, mainly due to the migration from leased lines to IP-based services, which is recorded under Intranet services revenue, and as a result of a decline in prices due to continuing competitive pressure.

Intranet Services. Revenue from Intranet Services comprises revenue from managed VPN services, based on multiprotocol label switching (MPLS) services offered to business customers. See *Item 4: Information on the Company Solutions Intranet Services* .

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The following table sets forth, for the periods indicated, certain information relating to Solutions Intranet services revenue:

CHF in millions (except percentages)	2005	Year Ended December 31, 2004	2003	Year Ended December 31, 2005/2004	2004/2003
				(% change)	
Intranet services revenue	152	173	179	(12.1)	(3.4)

Intranet service revenue decreased by 12.1% and 3.4% in 2005 and 2004, respectively, mainly as a result of the substitution of services based on older technologies by new IP based technologies (phase out of products at the end of their lifecycles) as well as a decline in prices due to strong competition. This substitution effect was partially offset by an increase in Intranet services as a result of the migration from other technologies such as leased lines.

Other Service Business**.** Revenue from Other Service Business comprises mainly revenue from private network services, business Internet services, international data services, as well as revenue from business numbers. See *Item 4: Information on the Company Solutions Other Service Business* .

The following table sets forth, for the periods indicated, certain information relating to Solutions Other Service Business revenue:

CHF in millions (except percentages)	2005	Year Ended December 31, 2004	2003	Year Ended December 31, 2005/2004	2004/2003
				(% change)	
Total Other Service Business revenue[1]	247	272	299	(9.2)	(9.0)

(1) Includes revenue from Infonet Switzerland.

Total other service revenue decreased by 9.2% and 9.0% in 2005 and 2004, respectively, mainly as a result of a decrease in private networks revenue due to the phase out of platforms with older technologies and a decrease in international leased lines revenue due to price pressure and the migration to IP-based services.

Solution Business**.** Revenue from Solution Business comprises primarily revenue from Customer Service, System Integration and Outsourcing, providing customers with customized modular solutions to design, install and operate customers business communication infrastructure. Together with other Swisscom companies or external partners, Solutions is able to offer complete communication solutions. For a description of these services, see *Item 4: Information on the Company Solutions Solution Business* .

The following table sets forth, for the periods presented, certain information related to revenue from solution business of Solutions:

CHF in millions (except percentages)	2005	Year Ended December 31, 2004	2003	Year Ended December 31, 2005/2004	2004/2003
				(% change)	
Customer Service revenue[1]	130	148	155	(12.5)	(4.5)
System Integration revenue[2]	122	104	128	17.8	(18.8)
Outsourcing revenue	31	25	8	26.0	212.5
Total Solution Business revenue	**283**	**277**	**291**	**2.2**	**(4.8)**

(1) Includes primarily maintenance of private branch exchanges (PBX) and local area networks (LAN).

(2) Includes primarily the sale and integration of private branch exchanges PBX and local area networks (LAN).

Total revenue from solution business increased by 2.2% in 2005, mainly as a result of an increase in System Integration revenue as a result of an increasing demand for the integration of data and telecommunication infrastructure and an increase in Outsourcing revenue due to newly acquired outsourcing projects. These effects were partially offset by a decrease in Customer Services revenue due to a declining number of contracts for maintenance of PBX equipment and price pressure.

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Total revenue from solution business decreased by 4.8% in 2004, mainly as a result of a decrease in customer services revenue due to a declining number of contracts for maintenance of PBX equipment and price pressure as well as a decrease in System integration revenue due to a decrease in prices and volume of PBX equipment sold, partially offset by an increase in revenue from the growing Outsourcing business.

Other revenue comprises primarily revenue from the rental of private branch exchanges (PBX) to business customers. For a description of these services, see *Item 4: Information on the Company Solutions Other*.

The following table sets forth, for the periods indicated, certain information with respect to Solutions other revenue:

CHF in millions (except percentages)		**Year Ended December 31,**		**Year Ended December 31,**	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
Other revenue	55	76	96	(27.6)	(20.8)

Total other revenue decreased by 27.6% in 2005 and 20.8% in 2004, due to a reduction in PBX rental contracts reflecting a decreasing demand for PBX rentals.

Intersegment revenue. Intersegment revenue comprises primarily revenue from networking services, outsourcing and business numbers.

CHF in millions (except percentages)		**Year Ended December 31,**		**Year Ended December 31,**	
	2005	**2004**	**2003**	**2005/2004**	**2004/2003**
				(% change)	
Intersegment net revenue	145	158	166	(8.2)	(4.8)

Intersegment revenue decreased by 8.2% in 2005, mainly due to a decrease in revenue for services and repairs of fixed and mobile network telephony equipment mainly from Swisscom Fixnet and Swisscom Mobile as Solutions service and repair center was sourced out to a third-party provider in the course of 2004.

Intersegment revenue decreased by 4.8% in 2004, mainly due to a decrease in revenue from data and traffic services as a result of a decline in the number of ports and traffic volumes with other Swisscom companies due to a decrease in the number of employees. In addition, the outsourcing of Solutions service and repair center as described above also accounts for a decrease in intersegment revenue in 2005.

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Segment expenses

CHF in millions (except percentages)	Year Ended December 31,			Year Ended December 31,	
	2005	2004	2003	2005/2004	2004/2003
				(% change)	
Goods and services purchased	197	150	169	31.3	(11.2)
Personnel expenses	261	289	357	(9.7)	(19.0)
Other operating expenses	43	59	65	(27.1)	(14.5)
Depreciation and amortization	39	46	75	(15.2)	(38.7)
Other operating income	(7)	(4)	(3)	75.0	33.3
Total external segment expenses	**533**	**540**	**663**	**(1.3)**	**(18.6)**
Intersegment expenses	700	810	880	(13.6)	(8.0)
Total segment expenses	**1,233**	**1,350**	**1,543**	**(8.7)**	**(12.5)**

External segment expenses

Total external segment expenses decreased by 1.3% in 2005 primarily due to a decrease in other operating expenses and personnel expenses partially offset by an increase in goods and services purchased.

Goods and services purchased increased by 31.3% mainly reflecting an increase in equipment and services purchased relating to the increase in revenue from outsourcing and system integration services.

Personnel expenses decreased by 9.7% due primarily to a decrease in termination benefits from CHF 23 million in 2004 to CHF 0 million in 2005. Excluding termination benefits, personnel expenses decreased by 1.9% due to a decrease in the average number of employees.

Other operating expenses decreased by 27.1% mainly due to a decrease in expenses for information technology. Expenses in 2004 included extraordinary expenses for the development of a new billing system as well as expenses relating to the preparation of the merger of Swisscom Enterprise Solutions and Swisscom Systems.

Depreciation and amortization expenses decreased by 15.2%, mainly due to a decrease in capital expenditures in 2004 as a result of continuing retrogressively investments in customer premises equipment, since the customers increasingly invest in this equipment by themselves.

Total external segment expenses decreased by 18.6% in 2004 primarily due to a decrease in goods and services purchased, personnel expenses and depreciation and amortization expenses.

Goods and services purchased decreased by 11.2% mainly reflecting a decrease in revenue from the sale of communication equipment as part of the system integration business.

Personnel expenses decreased by 19.0% due primarily to a decrease in termination benefits from CHF 41 million in 2003 to CHF 23 million in 2004. Excluding termination benefits, personnel expenses decreased by 15.8% as a result of a decrease in the average number of employees.

Depreciation and amortization expenses decreased by 38.7%, mainly due to a decrease in capital expenditures in 2003 as a result of retrogressively investments in customer premises equipment, since the customers increasingly invest in this equipment by themselves.

Intersegment expenses

Intersegment expenses comprise primarily network fees payable to Fixnet for telephony and leased lines and amounts payable to other divisions for information technology, rental of real estate and management fees.

Intersegment expenses decreased by 13.6% and 8.0% in 2005 and 2004, respectively, primarily due to a reduction in network fees charged by Fixnet, mainly reflecting a decrease in the volume and prices of telephony traffic and leased lines as well as lower expenses for information technology, since Solutions new billing system became operational at the beginning of 2005.

Solutions expects total segment expenses to decrease in 2006, mainly due to a decrease in intersegment expenses as a result of a further decrease in prices and volumes of national and international traffic and data services, partially offset by an increase in goods and services purchased reflecting an increase in revenue from the solution business and from new businesses such as Voice over IP.

Segment margin

Segment margin decreased from 6.1% in 2004 to 2.8% in 2005 due to a decrease in revenue that could not be compensated by cost reductions.

Segment margin increased from 3.1% in 2003 to 6.1% in 2004 despite a decrease in revenue of 9.7%, mainly due to significant cost reductions, in particular lower personnel expenses as a result of headcount reductions and a decrease in termination benefits.

Solutions expects its margin to slightly decrease in 2006 as cost reductions are expected to only partially offset a further decrease in revenue.

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Other

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

CHF in millions (except percentages)	Year Ended December 31, 2005	2004	2003	Year Ended December 31, 2005/2004	2004/2003
				(% change)	
Net revenue from external customers	571	476	416	20.0	14.4
Intersegment net revenue	488	503	529	(3.0)	(4.9)
Net revenue	**1,059**	**979**	**945**	**8.2**	**3.6**
Segment expenses	1,057	991	989	6.7	0.2
Segment operating (loss) income	2	(12)	(44)	n.a.	(72.7)
Segment margin	*0.2%*	*(1.2%)*	*(4.7%)*		

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

Net revenue from external customers

CHF in millions (except percentages)	Year Ended December 31, 2005	2004	2003	Year Ended December 31, 2005/2004	2004/2003
				(% change)	
Swisscom IT Services	249	207	214	20.3	(3.3)
Swisscom Broadcast	150	148	149	1.4	(0.7)
Antenna Hungária	26				
Accarda Group	115	112	52	2.7	115.4
Swisscom Eurospot	31	9	1	244.4	800.0
Total other external revenue	**571**	**476**	**416**	**20.0**	**14.4**

Swisscom IT Services. 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 system integration, outsourcing and IT infrastructure services, including desktop services and data-center services. Effective December 31, 2004, Swisscom increased its stake in Swisscom IT Services to 100% through the acquisition of the minority stake held by eight cantonal banks.

IT Services revenue increased by 20.3% in 2005, mainly due to an increase in revenue from IT outsourcing services. In 2005, IT Services has further strengthened its position in the outsourcing market and has acquired and prolonged contracts with significant volumes. IT Services revenue decreased by 3.3% in 2004, mainly as a result of lower revenue from its former minority shareholder. This decrease has been partially offset by an increase in revenue from IT outsourcing services.

Effective January 4, 2006, Swisscom IT Services has acquired the IT specialist in Banking, Comit AG. Comit is operated as an independent subsidiary and has taken over the Financial Services business unit of Swisscom IT Services. The new company will focus on integrated IT solutions for the banking industry. See *Item 4: Information on the Company Other Swisscom IT Services*.

As a result of this acquisition and further growth from IT outsourcing services, Swisscom IT Services expects revenue to increase in 2006.

Swisscom Broadcast. Broadcasting revenue stems from fees for the transmission and broadcasting of analog and digital signals for television and radio broadcasting. Such services from Swisscom Broadcast are provided primarily to the Swiss Broadcasting Corporation (the SRG).

Broadcasting revenue remained stable in 2005 and 2004.

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Swisscom Broadcast expects revenue to decrease slightly in 2006, due to a reduced usage of analog antennas as a result of a switch from analog to digital broadcasting in 2006 and a better coverage of digital broadcasting signals.

Antenna Hungária. On October 25, 2005, Swisscom acquired a majority stake (75% plus 1 share) in the Hungarian broadcasting network operator Antenna Hungária for CHF 293 million. In a mandatory public tender offer, Swisscom increased its total interest to 97.99% until January 5, 2006. Following the public tender offer, Swisscom acquired in a squeeze out the remaining shares and Antenna Hungária was delisted from the Budapest Stock Exchange on February 16, 2006. For further details see Note 5 to the consolidated financial statements.

Antenna Hungária generates most of its revenue from analog TV and radio broadcasting provided primarily to Hungarian broadcasting stations.

The effect of full-year consolidation of Antenna Hungária in 2006 will lead to an increase in revenue in 2006.

Accarda Group. Accarda Group comprises the business activities of Billag AG and the former Billag Card Services AG, a company that Swisscom acquired in December 2003. Effective July 1, 2005, all activities that had previously been provided by Billag Card Services were incorporated into a newly founded company named Accarda AG that also assumed control over Billag AG as of this date.

Accarda AG provides customer card services and billing services in the private sector domain. Billag AG provides billing services to public sector authorities, primarily as part of an agreement to collect radio and television licensing fees in favor of SRG.

Accarda Group revenue remained relatively stable in 2005.

Accarda Group revenue more than doubled in 2004, reflecting the acquisition of Billag Card Services in December 2003.

Accarda Group expects revenue to increase in 2006, mainly due to the expansion of Accarda AG into new business areas such as healthcare and collection services.

Swisscom Eurospot. Swisscom Eurospot provides high-speed Internet access services to guests of the hospitality industry mainly in premium hotels across Europe (excluding Switzerland; where such services are provided through Swisscom Mobile).

Eurospot revenue increased significantly in 2005 and 2004, reflecting the continuing rollout of its business activities in Europe and an increase in the usage of its services.

Eurospot expects this trend to continue and revenue to further increase in 2006.

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Segment expenses

CHF in millions (except percentages)	Year Ended December 31,			Year Ended December 31,	
	2005	2004	2003	2005/2004	2004/2003
				(% change)	
Goods and services purchased	69	41	46	68.3	(10.9)
Personnel expenses	419	388	431	8.0	(10.0)
Other operating expenses	325	296	259	9.8	14.3
Depreciation and amortization	140	169	158	(17.2)	7.0
Other operating income[(1)]	(25)	(8)	(15)	212.5	(46.7)
Total external segment expenses	**928**	**886**	**878**	**4.7**	**0.9**
Intersegment expenses	129	105	111	22.9	(5.4)
Total segment expenses	**1,057**	**991**	**989**	**6.7**	**0.2**

(1) Includes mainly capitalized cost and gains on sale of property, plant and equipment.

Total segment expenses increased by 6.7% in 2005 primarily due to an increase in goods and services purchased, personnel and other operating expenses, including the effects resulting from the acquisition of Antenna Hungária, as well as intersegment expenses, partially offset by a decrease in depreciation and amortization expenses.

Goods and services purchased increased by 68.3%, mainly reflecting an increase in revenue from IT outsourcing services by Swisscom IT Services.

Personnel expenses increased by 8.0%, mainly due to an increase in the average number of employees at Swisscom IT Services reflecting the takeover of employees from outsourcing contracts as well as the first-time consolidation of Antenna Hungária as of October 25, 2005.

Other operating expenses increased by 9.8% mainly due to an increase in expenses for external employees of Swisscom IT Services, the first time consolidation of Antenna Hungária and a provision recorded in 2005 upon a revision of long-term contracts of Swisscom IT Services. These effects were partially offset by a decrease in expenses for energy as starting in 2005, such expenses are billed as intersegment expenses by Swisscom s real-estate company Swisscom Immobilien AG as a result of the introduction of a centralized energy cost settlement.

Depreciation and amortization decreased by 17.2% primarily due to the omission of goodwill amortization since, starting in 2005, goodwill is no longer amortized in accordance with IFRS 3. For further information, see Note 23 to the consolidated financial statements.

Intersegment expenses increased by 22.9%, mainly due to an increase in energy cost billed by Swisscom s real-estate company Swisscom Immobilien AG. The introduction of a centralized energy cost settlement in 2005 resulted in such cost being recorded as intersegment expenses whereas they previously had been recorded as external expenses.

Total segment expenses increased by 0.2% in 2004 primarily due to an increase in other operating expenses and depreciation and amortization, partially offset by a decrease in personnel expenses.

Personnel expenses decreased by 10.0% due to a decrease in termination benefits from CHF 48 million in 2003 to CHF 1 million in 2004 as well as a decrease in the average number of employees at IT Services, partially offset by an increase in the number of employees at Swisscom Eurospot and the acquisition of Billag Card Services (now Accarda) in December 2003.

Other operating expenses increased by 14.3%, mainly due to the consolidation of Billag Card Services (now Accarda), which was acquired in December 2003.

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Depreciation and amortization increased by 7.0% primarily due to an increase in goodwill amortization as a result of the acquisition of Billag Card Services (now Accarda) in December 2003.

Total segment expenses are expected to increase in 2006 due to the full-year consolidation of Antenna Hungária and an increase in expenses reflecting the expected growth in revenue, in particular from Swisscom IT Services, Accarda and Swisscom Eurospot.

Segment margin

Segment margin increased from a negative margin of 1.2% in 2004 to a positive margin of 0.2% in 2005, primarily due to an increase in revenue and a reduction in goodwill amortization, partially offset by a provision recorded in 2005 relating to outsourcing projects of Swisscom IT Services.

Segment margin in 2004 increased from a negative margin of 4.7% in 2003 to a negative margin of 1.2%, due primarily to a reduction in termination benefits.

It is expected that revenue growth, mainly at Swisscom IT Services, will result in a further increase of the margin of the segment Other.

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Corporate

The Corporate segment encompasses Swisscom s headquarter divisions, group-c