

2Q REPORT
 JANUARY 1 - JUNE 30, 2006
FOR SWITCHCORE AB (PUBL)
 CORPORATE IDENTITY NUMBER 556541-8869

Good sales levels throughout 2Q; lower sales figures expected for 2006 as compared with 2005.

SUMMARY

- The Group's sales for the period totaled SEK 38.7 million (61.2). Sales calculated in USD amounted to 5.2 million (8.5). 2Q sales reached SEK 21.5 million (30.5) with sales calculated in USD reaching 2.9 million (4.2).
- The Group's operating loss for the period totaled SEK 35.4 million (-14.5). Loss after taxes amounted to SEK 34.6 million (-13.2). The loss per share totaled SEK 0.06 (-0.06). The Group's operating loss for 2Q totaled SEK 22.5 million (-6.4). Loss after taxes amounted to SEK 21.8 million (-5.3). The loss per share totaled SEK 0.04 (0.03). Escalating losses are ascribed to lower sales and increased depreciation related to investments in capitalized development costs.
- Orders received during the period reached SEK 39 million (46), with orders received during 2Q reaching SEK 12 million (23.0).
- SwitchCore expects the sales from Xpeedium to decline over the coming years. Combined with that Xpeedium2 and Xpeedium2pro have not evolved as the

company anticipated affects the revenues. SwitchCore currently has 11 design wins with this family which will generate income over the next few years. The company's sales figures for 2006 are expected to total SEK 70-75 million, compared with SEK 108 million in 2005.

- After the spring's considerable new share issue, which secured just over SEK 200 million for SwitchCore, the company is well equipped to handle both the development of Xpeedium3 and counter 2006's decline in sales. Liquid funds at the close of the period amounted to SEK 175.5 million (31.3).
- The development of SwitchCore's third product generation, Xpeedium3, is progressing according to plan with the ambition to launch the first products by the end of 2007. The Xpeedium3 venture is considered to be Europe's single largest ASIC project.
- SwitchCore continues its long-term efforts to find partners for both Xpeedium2pro and the third generation Xpeedium3, as well as to increase direct sales of its devices.

EVENTS AFTER THE PERIOD

SwitchCore and the North American company World Wide Packets signed a volume contract in July. According to the terms of the contract, SwitchCore will supply the Xpeedium product for World Wide Packet's network

equipment for broadband connection which is marketed on the global corporate market. World Wide Packets has the potential to become one of SwitchCore's largest customers.

Footnote: The figures in parenthesis (xx) correspond to the figures for the same period last year.



Erwin Leichtle

COMMENTS BY THE CEO

“Sales during the second quarter climbed for the second consecutive quarter, due largely to a relatively high share of sales from Intel.

“Orders received during the second quarter have been patchy and not up to my expectations. This is due both to variations in volumes to Intel and to a surprisingly cooler response to Xpeedium2Pro, which is intended for the IP-DSLAM market. One reason for this reaction is that Xpeedium2Pro lacks 10 Gigabit ports, a feature we have elected to incorporate in the Xpeedium3 family.

“SwitchCore’s development organization is now fully concentrated on producing the company’s third product generation, Xpeedium3. This is a collaborative effort that has required the addition of 40 individuals, mainly consultants, to our development department. The Xpeedium3 venture is currently Europe’s largest ASIC project. I am confident that we will regain SwitchCore’s position as a leading engineering company through this multi-functional, module-based product family.

“Consolidation of the market for communication equipment continues. At the close of the second quarter, Intel sold its communications and application processor business to Marvell for USD 600 million. This deal does not have any bearing on SwitchCore’s sales to Intel which will continue as planned. It is essential that SwitchCore exploits the opportunities that arise in the consolidation process and we are constantly negotiating with other companies the possibility of partnerships, both within existing and imminent product generations.

“In my opinion, SwitchCore has a definite advantage after the spring’s substantial injection of capital since it has the financial strength to both carry out the company’s to date largest development venture and counter short-term declines in sales.”

SALES AND RESULTS FOR THE PERIOD

- The Group’s net sales for the period amounted to SEK 38.7 million (61.2). Billing in USD reached 5.2 million (8.5). OEM sales to Intel made up 40 percent (48) of the total sales. SwitchCore complies with IAS1 as of January 1, 2005. This means the Group will separately account for capitalized development costs among the Group’s earnings, in total SEK 40.2 million (10.3). The sum is not included in the above net sales.
- The gross profit margin for the period was 52.8 percent (53.0).
- The Group’s operating loss was SEK 35.4 million (-14.5). Most of the increased operating expenses are explained by large investments in product development of next generation products. A total of SEK 23.7 million (8.7) for R&D costs brought forward were depreciated in 2Q.
- USD exposure in the operating loss amounts to about 15 percent of sales since all billing is issued in USD and most of the company’s operating costs are in USD. The Group’s results for the period include a foreign exchange profit of SEK 0.2 million (1.4).
- The loss after tax was SEK 34.6 million (-13.2).
- Earnings per share totaled SEK -0.06 (-0.06).

2Q SALES AND RESULTS

- The Group’s 2Q sales amounted to SEK 21.5 million (30.5). Sales calculated in USD totaled 2.9 million (4.2). OEM sales to Intel answered for 54 percent (53) of the total sales. Investments were reported in capitalized development costs totaled SEK 25.5 million (6.2).
- The Group’s 2Q operating loss was SEK 22.5million (-6.4). A total of SEK 17.9 million (4.4) in previously capitalized development costs were depreciated for the period.

FINANCING AND LIQUIDITY

Stockholders’ equity stood at SEK 234.7 million (84.8) on June 30, 2006 and equity per share was SEK 0.38 (0.41).

Liquid funds at the end of the period totaled SEK 175.5 million (31.3). The company has a utilized credit facility of USD 1.1 million (1.5).

Capital stock amounts to SEK 123,880,039.20 with the number of stock totaling 619,400,196.

PARENT COMPANY	<ul style="list-style-type: none">• The parent company's sales during the period amounted to SEK 38.7 million (36.6)• The loss after net income/expense was SEK 10.2 million (-25.4).
THE MARKET	<p>SwitchCore's products address applications based on the Gigabit Ethernet standard, a standard that is ten times faster than its predecessor, Fast Ethernet. The Gigabit Ethernet market is in the early development phase and expected to grow in volume from about 50 million network connections (ports) in 2005 to over 200 million ports in 2008.</p> <p>According to market analysts IDC, SwitchCore's market is expected to reach about USD 600 million in 2005 and climb to about USD 1000 million by 2008, which corresponds to an annual 20 percent growth in sales. The actual growth for 2005 was considerably higher than 20 percent.</p> <p>SwitchCore's business concept is based on developing and supplying integrated devices for advanced Ethernet-based applications. Its strength presently lies in its position as one of today's few independent suppliers to the promising market for advanced Ethernet-based access networks within telecommunication and enterprise networks.</p>
SALES	<p>SwitchCore's customer segments consist of companies that develop advanced network equipment (network switches) for enterprise and access networks (telecommunication) based on the Ethernet standard. Products developed by SwitchCore's customers cost-effectively manage and prioritize data, video and voice traffic for many different applications. The company estimates there are about 500 potential customers for its products, concentrated to North America and Asia (mainly China, Korea and Japan). The European market is expected to evolve at the same rate the demand for access networks grows.</p> <p>SwitchCore had about 110 design wins and some 65 customers by the end of 2Q. A design win is when a customer decides to develop a switch or router based on SwitchCore's CXE products.</p> <p>SwitchCore is looking for partners to push the sales of both present-day and next generation products. The company has excellent experience of this type of partnership through its long, successful relationship with Intel. The task of finding a partner to promote sales of the Xpeedium2 family, as well as the pending Xpeedium3 product generation is underway, though it has taken longer than anticipated.</p>
NORTH AMERICA	<p>Original Equipment Manufacturing (OEM) sales to Intel answered for about 40% of SwitchCore's total sales. Based on Intel's forecasts, the company finds that Intel's demands for SwitchCore's devices will remain strong also in 2006.</p>
ASIA	<p>During the period SwitchCore signed an agreement with a new consultant/dealer to target the Japanese market. The company has also landed a new design win in Taiwan.</p>
EUROPE AND AFRICA	<p>One of our European customers is preparing for volume production the beginning of 2007. The company launched an IP-DSLAM product at the 2006 CEBIT trade show that is based on SwitchCore's Xpeedium2Pro devices.</p> <p>SwitchCore has established new relationship in Russia on order to increase penetration.</p>
PRODUCTS	<p>Xpeedium is the common name for SwitchCore's products and the first generation of products answer for most of our sales today. The OEM contract with Intel includes the Xpeedium products. The company expects there will be a market for this product family up until 2010.</p>



Xpeedium2 and Xpeedium2Pro are the second generation product family from SwitchCore. The product has not advanced as the company expected. We had planned for volume sales to take off during the second half of 2006, but we now believe this will occur in 2007. SwitchCore has 11 design wins coupled to this product family. We are working diligently to increase our sales of this product family, both directly and indirectly through dealers.

SwitchCore is now developing its third-generation product family, Xpeedium3. Xpeedium3 consists of a number of circuits for advanced next-generation system for enterprise and access networks. The new architecture solution allows faster data transfer and for many functions to be integrated in the circuits. SwitchCore's technology enables customers to cost-efficiently develop a complete product range from a basic platform.

Xpeedium3 is designed to attract more market segments than SwitchCore's products do today, making it easier to grow on the total switching device market. Xpeedium3 follows the original time plan and is one of the largest ASIC projects in Europe that will recover SwitchCore's leading position.

ORGANIZATION AND EMPLOYEES

The SwitchCore organization consists of a parent company, SwitchCore AB, first-tier subsidiaries SwitchCore Options AB, SwitchCore Singapore Private Limited, SwitchCore Intellectual Property AB, Eroc Technology AB, SwitchCore Taiwan AB (dormant) and SwitchCore in Stockholm AB (dormant), and the second-tier subsidiary SwitchCore Corporation (a wholly-owned subsidiary of SwitchCore Options AB).

At the close of the period, the distribution of the Group's employees was as follows: The Group had 56 (53) employees of whom 49 (46) in Sweden and the rest of Europe, 5 (5) in the US and 2 (2) in Asia. Of the employees, 20 (15) percent are female and 80 (85) percent are male. The average age is 39 (37) years.

INVESTMENTS

The Group's investments in tangible fixed assets totaled SEK 0.6 million (0), of which SEK 0.5 million (0) was in the parent company. In addition, investments have been reported in capitalized development costs for a total of SEK 40.2 million (10.3) of which about 25% consists of personnel costs and the remaining portion of external costs such as consultancy costs, tools and license costs. Previously capitalized expenses were depreciated by SEK 23.7 million (8.7). In total, the change in capitalized development costs is SEK 16.5 million (1.6). These investments all relate to Xpeedium3, SwitchCore's imminent new product family.

PATENTS

SwitchCore's patent strategy is built on creating a patent portfolio where the most important parts of the CXE technology are protected. The functions of future products are earmarked at an early stage for possible patenting. In total SwitchCore owns 13 patented inventions spread over 33 registrations; 7 in Sweden, 10 in the US, 2 in Taiwan, 1 in China

and 13 in other countries. A further 4 patent applications have been submitted for review: 2 in the US, 1 in Sweden and 1 globally.

OUTLOOK SwitchCore expects the sales from Xpeedium to decline over the coming years. In combination with that Xpeedium2 and Xpeedium2pro have not evolved as the company anticipated affects the revenues. SwitchCore currently has 11 design wins with this family which will generate income over the next few years. The company's sales figures for 2006 are expected to total SEK 70-75 million, compared with SEK 108 million in 2005.

REPORTS 2006	3Q report	January 1 – September 30, 2006	October 19, 2006
	Financial statement	January 1 – December 31, 2006	January 25, 2007

ACCOUNTING PRINCIPLES This interim report was prepared according to the IFRS and is the sixth financial report that SwitchCore presents in line with the IFRS, meaning that the report complies with IAS 34. The conversion to IFRS had no effect on SwitchCore. However, there are some areas where IFRS will have an influence on the Group's income statement and balance sheet as of January 1, 2005:

REPORTING AND EVALUATION OF FINANCIAL INSTRUMENTS (IAS 32 AND IAS 39): In accordance with IAS 39, all derivative instruments such as futures are to be reported in the balance sheet and evaluated at actual value. Since SwitchCore did not have any futures or other financial instruments on January 1, 2005 the impact of the opening balances was zero according to IAS 39. IAS 39 did not have any impact on the closing balance.

TRANSLATION OF FOREIGN COMPANIES ACCOUNTS (IAS 21): All businesses abroad are classified as integrated, i.e. they have the same functional currency as the parent company. They have therefore been translated using the monetary method. Translation differences are reported in the consolidated statements.

STOCK OPTION PLAN (IFRS 2): The parent company has issued stock options. The programs were issued before November 7, 2002 and are therefore not affected by IFRS 2.

The Annual General Meeting held on May 4, 2006 resolved to introduce a stock option plan valid from 2006-2010. The Plan has had a marginal effect on SwitchCore's earnings and position presented in this report.

The same accounting principles and calculation methods used in the most recent Annual Report have been used in this report.

Lund, Sweden July 20, 2006

Erwin Leichtle, Chief Executive Officer SwitchCore AB (publ)

The report has not been subject to review by the company's auditors.

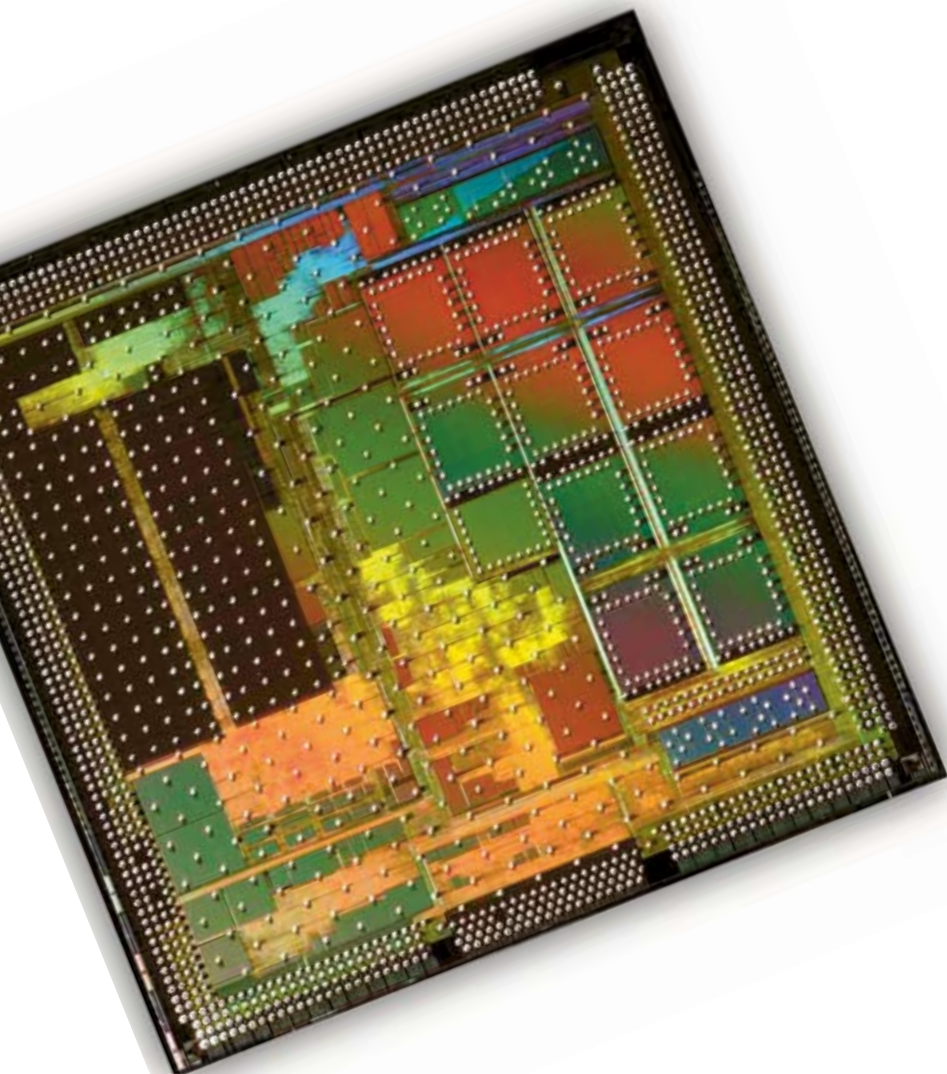
FOR MORE INFORMATION: SwitchCore will hold a phone conference for media and financial analysts today, July 20, 2006 at 10 a.m. A presentation is available at www.switchcore.com

Phone: + 46 8 672 81 51
Register code SwitchCore

Or contact:

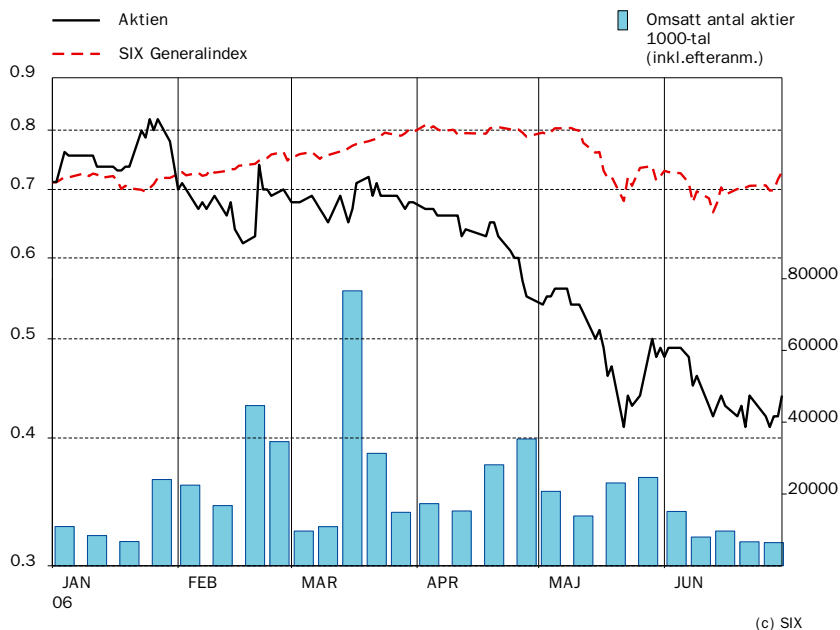
Erwin Leichtle, CEO SwitchCore
Email: erwin.leichtle@switchcore.com
Mobile: +46 703 389300

Maria Rydén-Persson, CFO SwitchCore
Email: maria.ryden-persson@switchcore.com
Mobile: +46 73 429 2565



SWITCHCORE'S STOCKS

The company's stocks are quoted on Stockholm Stock Exchange's O list. The average daily turnover of stocks for the January 1 – June 30, 2006 period was SEK 2,754,864. During the same period, the average number of traded stocks was 4,359,184 per day. The total number of stocks in the Company at the end of the period was 619,400,196.



CONSOLIDATED INCOME STATEMENT (KSEK)

	April 1 2006 June 30 2006	April 1 2005 June 30 2005	Jan 1 2006 June 30 2006	Jan 1 2005 June 30 2005	Jan 1 2005 Dec 31 2005
Net sales a)	21 475	30 490	38 714	61 186	108 195
Work performed by the entity and capitalised b)	25 454	6 247	40 219	10 272	26 187
	46 929	36 737	78 933	71 458	134 382
Raw materials and consumables	-10 116	-14 227	-18 271	-28 757	-50 872
Other external costs	-27 536	-10 811	-47 039	-22 820	-47 523
Personnel costs	-13 346	-13 042	-24 150	-24 118	-43 691
Depreciation b)	-18 439	-5 099	-24 917	-10 245	-20 062
	-69 437	-43 179	-114 376	-85 940	-162 148
Operating loss	-22 508	-6 442	-35 443	-14 482	-27 766
Financial income/expense net	775	1 176	936	1 450	118
Loss after financial income/expense net	-21 733	-5 266	-34 507	-13 031	-27 648
Tax	-55	-63	-108	-118	-165
Earnings for the period	-21 788	-5 329	-34 615	-13 150	-27 813
Earnings per share, SEK 4) 5)	-0,04	-0,03	-0,06	-0,06	-0,14
Earnings per share, SEK 4) 6)	-0,04	-0,03	-0,06	-0,06	-0,14

CONSOLIDATED BALANCE SHEET

	June 30 2006	June 30 2005	Dec 31 2005
ASSETS			
Capitalized expenditure R&D 1)	67 913	44 208	51 402
Tangible fixed assets	3 349	3 760	3 327
Inventory	22 807	27 693	20 940
Current receivables	29 001	25 647	25 470
Cash and bank and current investments	175 548	31 266	16 058
Total assets	298 618	132 574	117 197
STOCKHOLDERS' EQUITY AND LIABILITIES			
Stockholders' equity c)	234 745	84 812	69 762
Provision 2)	1 387	1 998	2 250
Long-term liabilities d)	17 313	16 902	17 389
Current liabilities to credit institutions e)	7 845	11 667	9 790
Other liabilities	37 327	17 195	18 006
Total stockholders' equity and liabilities	298 618	132 574	117 197

CONSOLIDATED CASH FLOW STATEMENT
 (KSEK)

	Jan 1 2006 June 30 2006	Jan 1 2005 June 30 2005	Jan 1 2005 Dec 31 2005
Cash flow from period's activities before change in working capital	-5 589	-15 421	-22 300
Cash flow from changes in working capital	8 109	-6 975	3 142
Cash flow from period's activities	2 520	-22 396	-19 158
Cash flow from investment activities	-40 836	-10 164	-26 733
Cash flow from financing activities	197 806	47 517	45 640
Cash flow for the period	159 490	14 957	-251
Liquid funds at period's start	16 058	16 309	16 309
Liquid funds at period's end	175 548	31 266	16 058

KEY FIGURES

	2006-01-01 -2006-06-30	2005-01-01 -2005-06-30	2005-01-01 -2005-12-31
Gross profit margin	52,8%	53,0%	53,0%
Equity/assets ratio, % 3)	78,6%	64,0%	59,5%
Equity per share, SEK 4) 7)	0,38	0,41	0,34
Rate of return, equity 8)	neg	neg	neg
Rate of return, capital employed 9)	neg	neg	neg
No. of stocks at period's end	619 400 196	206 466 732	206 466 732
Investments, MSEK	40,8	10,2	26,7
Operating cash flow, MSEK 10)	-43,3	-21,4	-31,3
Average number of employees/full time	50	55	51

NOTES

- 1) Capitalized expenses for product development
- 2) Refer to costs for restructuring scheme
- 3) Stockholders' equity in relation to balance sheet total
- 4) Adjusted for new issue and split
- 5) Calculated on average number of stocks before dilution
- 6) Calculated on average number of stocks after dilution
- 7) Calculated on number of stocks at period's end
- 8) Net earnings less standard tax in relation to adjusted equity
- 9) Loss after depreciation+ financial income in relation to capital employed
- 10) Operating loss before depreciation less investments and changes in working capital.

A) INVOICING PER GEOGRAPHIC MARKET AND MARKET SEGMENT

As from the report for Q1 2006 the company has chosen to disclose sales to Intel as sales to Access Networks. Previous figures have been reclassified.

MARKET SEGMENT	April 1 2006 June 30 2006	April 1 2005 June 30 2005	Jan 1 2006 June 30 2006	Jan 1 2005 June 30 2005	Jan 1 2005 Dec 31 2005
Enterprise Networks	5 360	3 825	12 045	12 957	30 580
Access Networks	16 115	26 665	26 669	48 229	77 615
Total	21 475	30 490	38 714	61 186	108 195
GEOGRAPHIC MARKET					
Asia Pacific	5 009	10 153	10 460	18 831	41 122
North America	14 680	19 270	24 823	39 531	60 833
Europe and ROW	1 786	1 067	3 431	2 824	6 240
Total	21 475	30 490	38 714	61 186	108 195

OPERATING LOSS	April 1 2006 June 30 2006	April 1 2005 June 30 2005	Jan 1 2006 June 30 2006	Jan 1 2005 June 30 2005	Jan 1 2005 Dec 31 2005
Enterprise Networks	2 719	2 083	5 911	6 436	15 323
Accessnät	8 460	13 572	13 769	24 536	39 540
Work performed by the entity and capitalised	25 454	6 247	40 219	10 272	26 187
Result per market segment	36 632	21 902	59 899	41 244	81 050
Other cost not allocated	-47 145	-28 344	-83 347	-55 726	-108 816
Operating loss	-10 513	-6 442	-23 448	-14 482	-27 766

B) CAPITALIZED EXPENDITURE R&D

With effect from January 1, 2005, SwitchCore follows IAS 1. This means that the company discloses capitalized work for its own account, where previously this item was reported in operating expenses. Expenditure that has been capitalized and included in income refers, as in previous years, to expenditure applicable to products that are underway in the industrial process. Depreciation begins with effect from introducing each respective product on the market.

	April 1 2006 June 30 2006	April 1 2005 June 30 2005	Jan 1 2006 June 30 2006	Jan 1 2005 June 30 2005	Jan 1 2005 Dec 31 2005
Work performed by the entity and capitalised	25 454	6 247	40 219	10 272	26 187
Depreciation	-17 852	-4 360	-23 708	-8 720	-17 441
Total	7 602	1 887	16 511	1 552	8 746

C) STOCKHOLDERS EQUITY

	June 30 2006	June 30 2005	Dec 31 2005
Opening balance	69 762	69 073	69 073
Operational new issue	199 751	28 107	28 107
Share of stockholders' equity - convertible promissory notes	-152	782	644
Tax on dividend received from subsidiary	-	-	-250
Loss for the period	-34 615	-13 150	-27 813
Closing balance	234 746	84 812	69 762

D) LONG-TERM LIABILITIES

	June 30 2006	June 30 2005	Dec 31 2005
Convertible promissory notes	16 994	16 779	17 361
Liabilities to credit institutions	319	123	28
Total	17 313	16 902	17 389

At an extraordinary general meeting on February 16, 2005, a decision was taken to raise a loan of a nominal SEK 17.2 million via a directed issue of a maximum 172 convertible promissory notes. The issue was subscribed for by Öhman Fondkommission on behalf of Nexum sicav's account. The loan runs for three years and conversion can take place from April 1, 2005 to January 1, 2008. The annual interest rate is 5%.

The interest rate is included in the capitalized amount above and the difference between the nominal value and the actual value amounts to SEK 0.5 (0.6) million and is reported as stockholders' equity in accordance with IAS 32.

E) CURRENT LIABILITIES TO CREDIT INSTITUTIONS

	June 30 2006	June 30 2005	Dec 31 2005
Liability to bank for invoice credit	7 845	11 667	9 790
Total	7 845	11 667	9 790

STOCKHOLDERS

At June 30 2006, the total number of stockholders was 27 007 spread among 619 400 196 shares.

The largest stockholders June 30 2006

Per Andersson med bolag	2,8%
Christer Svensson	1,4%
Finter Bank Zürich	1,1%
Spencer Trading Inc Nuf	1,0%
SIS Segaintersettle AG	0,9%
Per Lindberg	0,9%





GENERAL INFORMATION ABOUT THE BUSINESS:

SwitchCore AB develops, markets and sells integrated network devices for data, voice and video communication based on the Ethernet standard. The core of SwitchCore's expertise is in its CXE technology, which allows for significantly higher network product capacity. Using SwitchCore's components, customers can develop network products that cost-efficiently manage and prioritize data, video and voice traffic for many demanding applications. Customers and partners are network equipment manufacturers and suppliers, including Intel, Allied Telesyn, Huawei/3Com, Alloptic, Corecess, Dasan, Radi-sys and World Wide Packets. The Group presently has about 55 employees and some 40 consultants contracted. SwitchCore's headquarters is in Lund, Sweden. The Company also has offices in San Jose, USA, as well as Singapore and Shanghai in Asia and Rotterdam in Europe. The Company is listed on Stockholm Stock Exchange's O List under the SCOR ticker. For more information visit <http://www.switchcore.com/>

SWITCHCORE AB
EMDALAVÄGEN 18, SE-223 69 LUND
TELEFON: +46 46 270 2500
FAX: +46 46 270 2581

SWITCHCORE

SILICON FOR THE FASTEST NETWORKS