

FINANCIAL STATEMENT

JANUARY 1–DECEMBER 31, 2006

FOR SWITCHCORE AB (PUBL)

CORPORATE IDENTITY NUMBER 556541-8869

Sales on par with released forecast – the first design within the Xpeedium3 family completed

SUMMARY

- The Group's sales for the period totaled SEK 59.4 million (108.2) which is on par with released forecast in the 3Q report. Sales calculated in USD amounted to 8.0 million (14.5). 4Q sales reached SEK 8.4 million (15.3) with sales calculated in USD reaching 1.2 million (1.9).
- The Group's operating loss for the period was SEK 80.0 million (-27.8). Loss after taxes amounted to SEK 79.1 million (-27.8). The loss per share was SEK 0.13 (-0.13). The Group's operating loss for 4Q totaled SEK 32.2 million (-9.9). Loss after taxes amounted to SEK 32.3 million (-10.4). The loss per share was SEK 0.05 (0.05).
- Orders received during the period reached SEK 56 million (82), with orders received during 4Q reaching SEK 6 million (15). The variation between the years' figures is attributed to a generally lower demand for the company's products.
- Liquid funds stood at SEK 96.4 million (16,1) at the close of the period.
- Development of SwitchCore's third product generation, Xpeedium3 is progressing according to plan. The first design is now completed and will be launched in the spring 2007. SwitchCore will reduce the number of consultants in tune with the completion of the Xpeedium3 products, thereby reducing the company's costs during the first six months of 2007.
- The drop in sales during 2006 and the current sales level will remain until Xpeedium3 start generating revenues. The company is actively working to develop partnerships with industrial and financial partners to accelerate growth.

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



*Erwin Leichtle, Koncernchef och
Verkställande Direktör SwitchCore AB*

COMMENTS BY THE CEO

"SwitchCore has made important progress in the development of the next product generation, Xpeedium3. We completed the first design, a Network Search Engine that is a device for quick searches in address lists based on our in-house designed CAM technology around the end of last year, which is very satisfying. We will now continue to work unrelentingly on the other Xpeedium3 products and predict that they will be ready for a market launch around the end of 2007.

"We received our first volume order for Xpeedium2Pro from the Austrian company, Keymile in 2006. We have also entered a partnership with Fujitsu Microelectronic Europe to provide advanced Metro, Access and Core network solutions. Our two companies' products complement each others' well and together give our customers a stronger product range.

"The sales figures for 2006 are disappointing. The Xpeedium family has been a success but is now declining. That together with the lower sales of Xpeedium and Xpeedium2pro, explains the drop in sales.

"Finally I'm happy to say that we have employed Johan Ericsson as VP of Engineering and Matz Öhlén as VP of Strategic Marketing."

SALES AND RESULTS FOR THE PERIOD

- The Group's net sales for the period amounted to SEK 59.4 million (108.2). Billing in USD reached 8 million (14.5). OEM sales to Intel made up 40 percent (30) 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 92.8 million (26.2). The sum is not included in the above net sales.
- The gross profit margin for the period was 41 percent (53). The drop in margin is due to increased inventory write-offs of 7 MSEK.
- The Group's operating loss was SEK 80.0 million (-27.8). A total of SEK 40.8 million (17.4) for R&D costs brought forward were depreciated in 4Q. Results were negatively affected by declining sales, write-offs in inventory and the company's decision to accelerate the depreciation rate of Xpeedium 2, which has been written off in full from the turn of 2006/2007.
- USD exposure in the net operating loss amounts to about 0 percent of sales since all billing is issued in USD and some of the company's operating costs are in USD. The Group's results for the period include a foreign exchange profit/loss of SEK 0.1 million (0.5).
- The loss after tax was SEK 79.1 million (-27.8).
- Loss per share was SEK 0.13 (-0.13).

4Q SALES AND RESULTS

- The Group's 4Q sales amounted to SEK 8.4 million (15.3). Sales calculated in USD totaled 1.2 million (1.9). OEM sales to Intel answered for 19 percent (6) of the total sales. Investments reported in capitalized development costs totaled SEK 29.1 million (9.5).
- The Group's 4Q operating loss was SEK 32.2 million (-9.9). A total of SEK 13.2 million (4.4) in previously capitalized development costs were depreciated for the period.

FINANCING AND LIQUIDITY Stockholder's equity stood at SEK 190.4 million (69.8) on December 31, 2006 and equity per share was SEK 0.31 (0.34), D.

Liquid funds at the end of the period totaled SEK 96.4 million (16.1) The company has a utilized credit facility of USD 0.2 million (.13). The decline in sales experienced in 4Q as well as the investment rate in Xpeedium3 has negatively affected liquidity.

Capital stock amounts to SEK 123.9 million, with the number of stocks totaling 619,400,196.

PARENT COMPANY

- The parent company's sales during the period amounted to SEK 59.4 million (108.2).
- The loss after net income/expense was SEK 38.2 million (-19.1).

THE MARKET SwitchCore's products address applications based on the Gigabit Ethernet standard, a communication technology that is ten times faster than its predecessor, Fast Ethernet. Underlying growth potential for the Gigabit Ethernet market is strong even though the adoption ratio is high.

Next shift in speed is the move from Gigabit Ethernet to 10Gigabit Ethernet which is expected to ramp 2008/2009. SwitchCore therefore estimates a strong growth for it's next generation of products, Xpeedium3.

SALES SwitchCore's customer segments consist of companies that develop advanced network equipment (network switches) for enterprise and access networks 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.

SwitchCore had about 115 design wins and some 65 customers by the end of 4Q. A design win is when a customer decides to develop a switch or router based on SwitchCore's CXE products.

SwitchCore is looking for partners to promote the sales of both present-day and next generation products. The company has excellent experience of this type of partnership through its longstanding, 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 in progress. Our partnership with Fujitsu Microelectronic Europe is a result of these efforts and is expected to generate products on the market during the first quarter 2007.

North America

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 also in 2007. Other major North American customers include Alloptic, Allied Telesyn, Calix, Radisys and World Wide Packets.



Asia

The Chinese company Huawei and customers on the Korean market are presently at the end of the Xpeedium product lifecycle which means that sales are declining. Customer relationship are good and with the right products SwitchCore is welcomed back as a supplier. During 2006 SwitchCore has received new design wins in Taiwan and China based on Xpeedium2pro. Throughout the year the company has strengthened its presence in Japan.

Europe and Africa

The Austrian company Keymile placed its first volume order for Xpeedium2pro, valued at SEK 2.2 million during 4Q. The company launched an IP-DSLAM product at the 2006 CEBIT trade show that is based on SwitchCore's Xpeedium2pro devices. Another revenue-generating customer in Europe is the Israel-based company ECI. The company has signed a new sales agreement with a dealer in France. During 2006 we have increased our presence in Europe, Russia, India and Africa. SwitchCore believes in growth in Europe even though from low levels.

PRODUCTS

Xpeedium is the common name for SwitchCore's products and the first generation of products answers 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.

Xpeedium2 and Xpeedium2Pro are the second generation product family from SwitchCore. Although ready for volume production, the product has not advanced as the company expected. Volume sales are expected to take off in 2007, though in a limited capacity. SwitchCore has some x design wins coupled to this product family, which signals an increase. Our partnership with Fujitsu Micro-electronic Europe is progressing according to plan and the first joint product is expected to be launched during 1Q 2007.

SwitchCore is now developing its third-generation product family, Xpeedium3. Xpeedium3 consists of a number of circuits for advanced next-generation enterprise and access network systems. The new architecture solution allows faster data transfer and integrates many functions in the circuit. SwitchCore's technology enables customers to cost-efficiently develop a complete product range from a basic platform. SwitchCore completed the first Xpeedium3 product at the close of 2006. The product is a Network Search Engine that performs four times faster than other products on the market and is used to search for addresses, among other things. The product will be launched in the spring 2007.

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 schedule.

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 58 (51) employees of whom 50 (44) in Sweden and the rest of Europe, 6 (5) in the US and 2 (2) in Asia. Of the employees, 22 (18) percent are female and 78 (82) percent are male. The average age is 41 (38) years.

SwitchCore has reinforced its management team with two individuals who have extensive experience from the industry. The company has hired Johan Ericsson as Senior Vice President Engineering. He has worked at Assa Abloy Entrance Systems, Wespot, Cellavision, Axis and TAC. The company has also hired Matz Öhlén as Vice President of Marketing. He joins SwitchCore from Nanoradio where he was in charge of Product Management and Applications. He has also worked at National Semiconductor and Programma Electric. Johan Ericsson and Matz Öhlén will take up their positions in May and February 2007 respectively.

INVESTMENTS

The Group's investments in tangible fixed assets totaled SEK 1.0 million (0.6), of which SEK 0.9 million (0.6) was in the parent company. In addition, investments have been reported in capitalized development costs for a total of SEK 92.8 million (26.2) of which about 20% 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 40.8 million (17.4). In total, the change in capitalized development costs is SEK 52.0 million (8.8). 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 14 patented inventions spread over 31 registrations; 7 in Sweden, 11 in the US, 2 in Taiwan, 2 in China and 9 in other countries. One patent application has been submitted for review in the US.

OUTLOOK

Sales has gone down during 2006 and from now until Xpeedium3 start generating revenues the lower sales level will remain. The company is actively working to develop partnerships with industrial and financial partners to accelerate growth.

REPORTS 2007	1Q Report	January 1-March 31, 2007	April 19, 2007
	2Q Report	January 1-June 30, 2007	July 19, 2007
	3Q Report	January 1-September 30, 2007	October 18, 2007
	Financial statement	January 1-December 31, 2007	January 24, 2008

ACCOUNTING PRINCIPLES This interim report was prepared according to the IFRS and is the seventh 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 schemes were issued before November 7, 2002 and are therefore not affected by IFRS 2.

The Annual 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 January 25, 2007

Erwin Leichtle, Chief Executive Officer and President, SwitchCore AB (publ)

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

FOR MORE INFORMATION

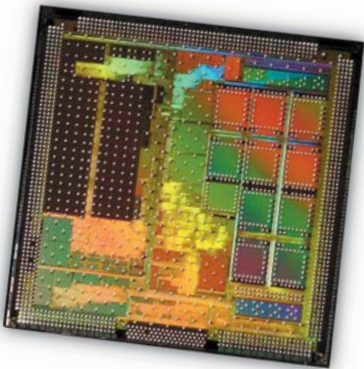
SwitchCore will hold a phone conference for media and financial analysts today, January 25, 2007 at 11 a.m. A presentation is available at www.switchcore.com

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Register code SwitchCore

Or contact:

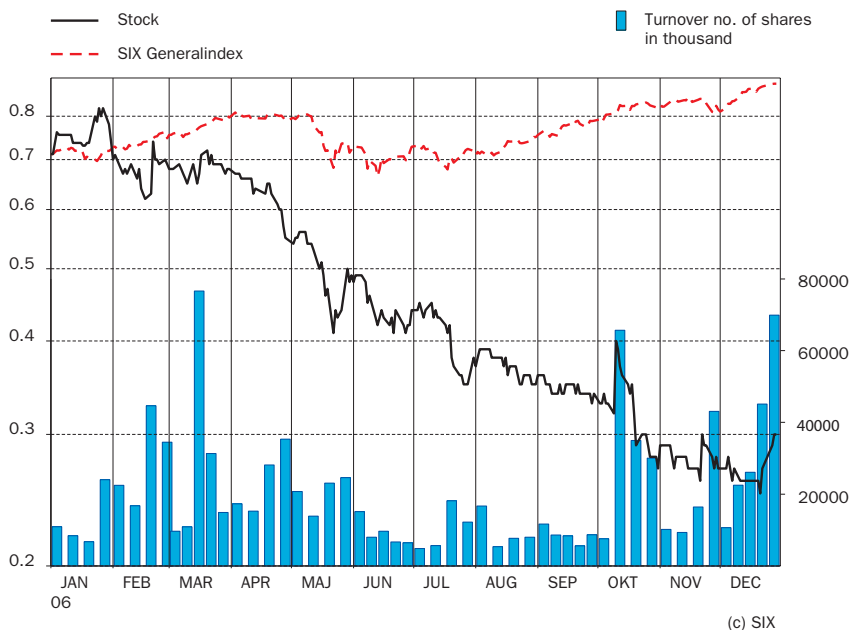
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SWITCHCORE'S STOCK

The company's stocks are quoted on the Stockholm Stock Exchange's O list. The average daily turnover of stocks for the January 2 – December 29, 2006 period was SEK 1 990 397 million. During the same period, the average number of traded stocks was 4 180 345 per day. The total number of stocks in the Company at the end of the period was 619 400 196.



CONSOLIDATED INCOME STATEMENT (KSEK)	OCT 1 2006 DEC 31 2006	OCT 1 2005 DEC 31 2005	JAN 1 2006 DEC 31 2006	JAN 1 2005 DEC 31 2005
Net sales a)	8 408	15 329	59 387	108 195
Work performed by the entity and capitalised b)	29 086	9 483	92 755	26 187
	37 494	24 812	152 142	134 382
Raw materials and consumables	-10 949	-7 141	-34 906	-50 872
Other external costs	-30 784	-11 922	-104 442	-47 523
Personnel costs	-13 996	-10 744	-49 352	-43 691
Depreciation b)	-13 933	-4 869	-43 479	-20 062
	-69 662	-34 676	-232 179	-162 148
Operating loss	-32 168	-9 864	-80 037	-27 766
Result from other securities	-	-	-	-
Financial income/expense net	-180	-575	1 178	118
Loss after financial income/expense net	-32 348	-10 439	-75 859	-27 648
Tax	34	-7	-205	-165
Earnings for the period	-32 314	-10 446	-79 064	-27 813

**CONSOLIDATED BALANCE SHEET
 ASSETS**

	Dec 31 2006	Dec 31 2005
Capitalized expenditure R&D 1)	103 394	51 402
Tangible fixed assets	5 855	3 327
Inventory	19 328	20 940
Current receivables	17 849	25 470
Cash and bank and current investments	96 418	16 058
Total assets	242 844	117 197

STOCKHOLDERS' EQUITY AND LIABILITIES

	Dec 31 2006	Dec 31 2005
Stockholders' equity c)	190 449	69 762
Provision 2)	750	2 250
Long-term liabilities d)	18 301	16 584
Current liabilities to credit institutions e)	2 438	10 595
Other liabilities	30 906	18 006
Total stockholders' equity and liabilities	242 844	117 197

NOTES AND KEY FIGURES

	OCT 1 2006 DEC 31 2006	OCT 1 2005 DEC 31 2005	JAN 1 2006 DEC 31 2006	JAN 1 2005 DEC 31 2005
Gross profit margin			41,2%	53,0%
Equity/assets ratio, % 3)			78,4%	59,5%
Earnings per share, SEK 4) 5)	-0,05	-0,05	-0,13	-0,13
Earnings per share, SEK 4) 6)	-0,05	-0,05	-0,13	-0,13
Equity per share, SEK 4) 7)			0,31	0,34
Rate of return, equity 8)			neg	neg
Rate of return, capital employed 9)			neg	neg
No. of stocks at period's end			619 400 196	206 466 732
Investments, MSEK			93,7	26,7
Operating cash flow, MSEK 10)			-108,7	-31,3
Average number of employees/full time			51	51

- 1) Capitalized expenses for product development
- 2) Refers 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.

	Oct 1 2006 Dec 31 2006	Oct 1 2005 Dec 31 2005	Jan 1 2006 Dec 31 2006	Jan 1 2005 Dec 31 2005
MARKET SEGMENT				
Enterprise Networks	1 934	7 925	16 423	30 580
Access Networks	6 474	7 404	42 964	77 615
Total:	8 408	15 329	59 387	108 195

GEOGRAPHIC MARKET

Asia Pacific	1 953	8 247	13 889	41 122
North America	2 754	5 288	38 340	60 833
Europe and ROW	3 701	1 794	7 158	6 240
Total:	8 408	15 329	59 387	108 195

	Oct 1 2006 Dec 31 2006	Oct 1 2005 Dec 31 2005	Jan 1 2006 Dec 31 2006	Jan 1 2005 Dec 31 2005
OPERATING LOSS:				
Enterprise Networks	117	3 769	7 098	15 323
Networks	-2 750	4 695	15 886	39 540
Work performed by the entity and capitalised	29 086	9 483	92 755	26 187
Result per market segment	26 453	17 947	115 739	81 050
Other cost not allocated	-58 621	-27 811	-195 776	-108 816
Operating loss	-32 168	-9 864	-80 037	-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.

	Oct 1 2006 Dec 31 2006	Oct 1 2005 Dec 31 2005	Jan 1 2006 Dec 31 2006	Jan 1 2005 Dec 31 2005
Work performed by the entity and capitalised	29 086	9 482	92 755	26 187
Depreciation	-13 209	-4 360	-40 762	-17 441
Total	15 877	5 122	51 993	8 746

C) STOCKHOLDERS EQUITY

	Dec 31 2006	Dec 31 2005
Opening balance	69 762	69 073
Operational new issue	199 751	28 108
Share of stockholders' equity - convertible promissory notes	-	644
Tax on dividend received from subsidiary	-	-250
Loss for the period	-76 064	-27 813
Closing balance	190 449	69 762

D) LONG-TERM LIABILITIES	Dec 31 2006	Dec 31 2005
Convertible promissory notes	16 855	16 556
Liabilities to credit institutions	1 446	28
Total	18 301	16 584

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 0.6 (0.6) million and is reported as stockholders' equity in accordance with IAS 32.

E) CURRENT LIABILITIES TO CREDIT INSTITUTIONS	Dec 31 2006	Dec 31 2005
Liability to bank for invoice credit	1 650	9 790
Accrued interest – Convertible loan	788	805
Total	2 438	10 595

CONSOLIDATED CASH FLOW STATEMENT (KSEK)	JAN 1 2006 DEC 31 2006	Jan 1 2005 Dec 31 2005
Cash flow from period's activities before changes in working capital	-39 101	-22 300
Cash flow from changes in working capital	21 573	3 142
Cash flow from period's activities	-17 528	-19 158
Cash flow from investment activities	-93 723	-26 733
Cash flow from financing activities	191 611	45 640
Cash flow for the period	80 360	-251
Liquid funds at period's start	16 058	16 309
Liquid funds at period's end	96 418	16 058

STOCKHOLDERS

At December 31 2006, the total number of stockholders was 24 459 spread among 619 400 196 shares.
 The largest stockholders December 31 2006

Per Andersson with entities	2,8%
SEB Private Bank	1,9%
Bostadsrättsbyggarna Svenska Holding	1,8%
Clearstream Banking	1,1%
Christer Svensson	1,0%
Spencer Trading	1,0%



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, Fiberhome, Flextronics, Keymile and World Wide Packets. The Group presently has about 55 employees and some 45 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 Nordic List under Smaller Companies under the SCOR ticker. For more information visit <http://www.switchcore.com/>

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SWITCHCORE

SILICON FOR THE FASTEST NETWORKS