

Swisscom strengthens position as innovation leader

2005 General Meeting of Shareholders, address by Jens Alder, Swisscom Ltd CEO, Lucerne, April 26 2005

(Check against delivery)

The Swisscom Group can look back on a successful fiscal 2004. Competing against more than 300 national and international rivals, we held onto overall market shares, increased revenue to CHF 10.1 billion and recorded an excellent operating result of CHF 4.4 billion. Some other important key figures: Net income increased slightly year-on-year by CHF 25 million to CHF 1.6 billion. Following last year's share buy-back program, in which stocks to the value of CHF 2 billion were repurchased, and the resultant smaller average number of shares, net earnings per share rose by 3.9 percent to CHF 24.63.

These figures are indicative of the fact that, seven years on from market liberalization, Swisscom remains in good shape. The company is healthy, debt-free and can look forward to a sound future, as reflected also in its share performance: In the year under review, Swisscom shares gained almost 10 percent, recording the ninth-best performance of all SMI shares. Our success in 2004 was also achieved on the basis of superior, comprehensive services, Swisscom's nationwide presence, its innovative strengths and, last but not least, a motivated workforce. We view the proven trust of our customers as recognition of Swisscom's close ties with the community and its importance as a key economic factor in Switzerland.

A business dominated by convergence – mobile communications goes broadband

The telecoms sector was affected by the weak economy in 2004. Sluggish economic growth coupled with rapid technological change inhibited investment spending in the business customer segment. The market trend is converging as telecommunications and IT grow closer and fixed network communications merge with mobile. The fixed network is becoming wireless, and mobile communications is going broadband.

Broadband is the technology of the future. This is where we intend to apply our competence as a full-service provider with a broad-based range of offerings, optimally supported by our countrywide presence and a comprehensive product and service portfolio. Our products are developed to meet the

demand for fast Internet access at work, in the home and on the move, and address the trend towards music and multimedia content via broadband communications.

Acquisitions in neighbouring areas – success as an IT outsourcer

Swisscom ranks as the leader in the home market, and is expanding into neighbouring territories through acquisitions. In 2005 the company is aiming to continue its success at home, driven by innovative new offerings as well as the skilful application and integration of modern technology with simple services, and supported by special service promises that differentiate us from the competition. Following the merger of Enterprise Solutions and Swisscom Systems at the beginning of 2005, Swisscom now offers customers in this field a single point of contact as well as a one-stop shop for all services.

Last year's revision of the Swisscom IT Services strategy has already borne fruit. In 2004 the company won a number of important new customers, thereby securing a foothold in the third-party market. A provider and operator of complex IT systems and services, Swisscom IT Services is of strategic importance to the Swisscom Group as business IT and telecommunications infrastructures continue to converge. The core businesses of Swisscom IT Services are IT outsourcing and software development, and the IT specialist also integrates and operates standard solutions produced by market leaders such as SAP, IBM and Microsoft. With its integration and migration services as well as outsourcing services covering the operation of large computer centres, the management of related applications, and several tens of thousands of computer workstations, Swisscom IT Services was already the second-largest IT company in Switzerland at the end of 2004. Swisscom increased its stake in Swisscom IT Services to 100 percent at the end of last year.

In the spring of 2004, we sold our financial stake in the German Group company, debitel. The expected synergies from this acquisition failed to materialize, among other things due to differences in the Swisscom and debitel business models and the performance of European mobile markets following the auction of UMTS licenses. In autumn 2004, we sold our 17.7 percent stake in Infonet Services Corporation, a US-based company specializing in data services, primarily for multinationals. Swisscom is currently represented abroad by the WLAN provider, Swisscom Eurospot. This fully-owned Swisscom subsidiary is now active in ten European countries, providing wireless broadband Internet access at 1,930 different locations.

Swisscom Fixnet targets Triple Play – continuing strong growth in ADSL

The trend towards broadband communications was one of the significant developments in 2004. Within a single year, Swisscom increased the number of DSL access lines from 487,000 to 802,000.

Switzerland ranks among the leaders in Europe in terms of broadband penetration. In the autumn of 2004, as part of a move to become a multimedia provider, Swisscom Fixnet launched a market trial involving television over broadband Internet. Introduction is planned for the second half of 2005. Our goals are extremely ambitious. Entry into the TV business is in line with the company's future strategy of offering one-stop shopping for telephony, Internet and television. The move has been supported by acquisition of a strategic holding in Cinetrade AG, a company with many years' experience in the media business, whose activities include pay TV, cinema and the marketing of film rights. In conjunction with Cinetrade, Swisscom is aiming to also offer films over the broadband infrastructure.

Unlimited mobility – international award for Mobile Unlimited

To meet our customers' communications needs unconditionally even when they are on the move, we are committed to providing broadband mobile communication networks, high-level availability and top-quality products. In 2004 Swisscom Mobile invested large sums of money in UMTS and WLAN expansion and the introduction of EDGE, a further development of GSM technology that enables the transmission of larger volumes of data. Swisscom Mobile's total capital expenditure last year came to CHF 513 million, up 19 percent on the previous year.

Swisscom Mobile's UMTS network already covers 90 percent of the Swiss population. In the year under review Swisscom Mobile launched its patented world innovation, Mobile Unlimited, which in February 2005 won the 2005 award for the best mobile enterprise application at the GSM Association awards in Cannes. This is the most prestigious prize to be awarded in the mobile communications industry. This mobile office application enables seamless handover between different types of networks, with automatic selection of the highest-bandwidth network at any given time.

In November 2004 Swisscom Mobile was the first Swiss provider to launch two UMTS cellphones on the market. The new phones allow access to attractive services such as video telephony and mobile television. With its range of UMTS products, Swisscom Mobile is positioned as an innovation leader on the Swiss mobile market. At the end of 2004, almost four million people were Swisscom Mobile customers.

In 2005, the investments made in the year under review will positively impact revenue, particularly from data services. By the spring of 2005, some 99.7 percent of the Swiss population will have access to the EDGE network, which alongside GPRS, UMTS and WLAN will also be supported by Mobile Unlimited. The focus in the residential customer segment will be on further development of Vodafone Live! The portal is already used by more than 445,000 customers.

For network providers, additional regulation reduces the incentive to invest

We must not permit the satisfaction derived from our financial and business successes in 2004 to blind us to the present and future obstacles and hazards past which Swisscom must steer its course. Chief among these are regulatory factors, declining prices and margins, and new technologies such as Voice over IP. One risk facing Swisscom is that of over-regulation. In the year under review, the parliamentary consultations on the revision of the Telecommunications Act (FMG) and the Swiss Radio and Television Act (RTVG) entered a decisive phase. The revision of the Telecommunications Act centres on the controversial issue of unbundling the local loop. Ahead of the National Council's deliberations, Swisscom proposed unbundling the last mile of copper cabling to individual buildings (full access) as a way of meeting political expectations – even though this ran counter to the company's interests.

Thanks to intensive competition between Swisscom and cable network operators, Switzerland currently leads the whole of Europe in terms of broadband use: More than 40 percent of Swiss households already have broadband Internet access, via either the telephone network or cable. Competition is therefore also flourishing along the last mile, and every additional regulatory restriction impedes the development of Switzerland's information society, since it reduces the incentive for network providers to invest.

Much is also at stake for Swisscom in terms of the Swiss Radio and Television Act. Aside from the central debate on media policy, the issue of most concern to the telecom sector is the public broadcasting service. Swisscom is opposed to comprehensive regulations governing the provision and distribution of radio and TV programs. Telecoms providers must be able to charge market prices for broadcasting radio and TV programs: anything less would amount to cross-subsidization of the broadcasting sector by the telecommunications sector.

The final parliamentary deliberations on the Telecommunications Act and the Swiss Radio and Television Act are scheduled to take place this year.

Our objectives for 2005 – focus on multimedia and broadband

Competition will remain fierce in 2005, with price wars continuing in the business customer segment. Revenue from mobile will increase slightly thanks to new products and services, while a marginal decline is anticipated in fixed network revenue. Our Chairman has already outlined the quantitative objectives for 2005. Capital expenditure will remain high, in the region of CHF 1.2 billion for the current year. Swisscom will once more purchase around CHF 4 billion in services from the private

sector, primarily in Switzerland. We will also systematically continue to pursue our efforts to enhance customer satisfaction.

The path towards becoming a multimedia provider lies ahead, driven primarily by ongoing efforts to expand our service promises. We are convinced that our innovations in the broadband business will already start bearing fruit in 2005. Central to all of this are our customers with whom, as we continue our journey into the future, we want to share Swisscom's enthusiasm for the exciting opportunities enabled by modern communications.