

Call for greater transparency on the part of shareholders, too

2005 General Meeting of Shareholders, address by Dr. Markus Rauh, Chairman of the Swisscom Board, Lucerne, April 26 2005

(Check against delivery)

Dear Shareholders, Dear Guests

You may have been somewhat surprised and puzzled by the pictures shown prior to this meeting. But their connection with the General Meeting of Shareholders is closer than you might think. The pictures were taken during the qualifying heats for the Swisscom Games, a sort of Olympic Games for Swisscom employees, which we will be holding this June near Biel. We expect no fewer than 3,000 contestants, helpers and visitors to what promises to be one of the largest Swiss sporting events. And what better time to hold it than in the UN Year of Sport! Swisscom employees who have qualified in the many disciplines ranging from tennis to football, golf and chess, will be assembling in Magglingen on June 11th for the big final. As the pictures so vividly portray, the Swisscom Games combine sport with fun, determination and commitment. Yet the Games are not so much about sporting achievement, but more a way of strengthening employees' ties with our company: Sportsmanship and the Olympic ideal are mirrored in Swisscom's everyday actions. Team spirit and healthy competition are key criteria both in sport and in business. If we manage to simultaneously promote the Swisscom spirit and a sense of identity with the company as a whole, then I believe the Swisscom Games will have been well worth while.

Successful fiscal 2004 – another year of high payouts to shareholders

Like any aspiring athlete, we too set ourselves high performance goals for 2004. We have chalked up another successful year, recording marginally higher revenue of CHF 10.1 billion and an outstanding operating result of CHF 4.4 billion. Our CEO Jens Alder will discuss business performance in more detail in his address.

Now to a brief outlook for 2005: Given ongoing intensive competition and unchanged regulatory conditions, Swisscom expects to post consolidated revenue of around CHF 10 billion and operating income before interest, tax, depreciation and amortization (EBITDA) of approximately CHF 4.2 billion for 2005. Capital expenditure will be in the region of CHF 1.2 billion.

Thanks to the good result and a debt-free balance sheet, we can continue our payout policy, from which you, our valued shareholders, directly profit. Several years ago we decided not only to pay our shareholders part of the net income as a dividend, but also to distribute Equity Free Cash Flow (EFCF) in

full. This practice allows Swisscom to pass on a great deal more than net income to its shareholders. The instruments used to distribute our freely available funds are a combination of dividend payments and share buy-backs. This strategy enables us to provide a high direct cash return in the form of dividends, as well as a long-term return through the concentration of earnings per share as a result of the shares cancelled on completion of a share buy-back.

The payout, announced last year, of CHF 2.9 billion in Equity Free Cash Flow for 2003 was distributed in the form of a dividend payment of CHF 861 million and a share buy-back to the value of CHF 2 billion. In May 2004 Swisscom launched a share buy-back programme. By the time the programme was completed on December 22, 2004, we had repurchased 7.13 percent of share capital via the second trading line. Today we are asking you to approve a capital reduction equivalent to the number of repurchased shares, and the subsequent destruction of the shares. Reducing repurchased share capital by 7.13% will trigger a corresponding earnings concentration effect, which in turn will positively impact dividend per share in the following year.

Taking into account the share gain of CHF 40 as well as the dividend payment of CHF 13 per share, the total return for 2004 was 13 percent (based on the 2003 closing price of CHF 408).

Shareholder benefits - CHF 15.9 billion paid out since IPO

In 2004 we were once more able to generate a sizeable Equity Free Cash Flow of CHF 2.9 billion. The dividend payout is based on the number of shares at the time of payment rather than on the average number of shares. Due to the share buy-back in 2004, the number of shares is around 7 percent lower than the previous year. Accordingly, and in consideration of the 2004 net income of CHF 1.6 billion, we are today proposing a dividend of CHF 14 per share or a total payout of CHF 861 million. The concentration of earnings here is obvious: For the same payout amount as the previous year, the dividend is correspondingly higher. The remaining EFCF of approximately CHF 2 billion will be paid out to shareholders this year in the form of a share buy-back, to be launched in a few weeks' time. Once more, the shares will be repurchased via a second trading line ("at market"). A capital reduction corresponding to the number of repurchased shares will be proposed at the 2006 General Meeting.

Including the 2005 payout, Swisscom has distributed a total of CHF 15.9 billion to shareholders since its flotation. This sum is made up of dividend payments in the region of CHF 6 billion, par value reductions of CHF 1.6 billion and share buy-back programs amounting to CHF 8.3 billion. Within the space of only seven years, therefore, Swisscom has distributed more than half its current stock exchange valuation to shareholders.

Efforts to increase corporate value through acquisitions abroad

Over the past five years, Swisscom's market capitalization has been between CHF 26 billion and CHF 34 billion. While share buy-backs increase corporate value per share, we have not been able to enhance Swisscom's overall corporate value in recent years.

One reason for this is the lack of growth opportunities available to us in Switzerland due to our strong position and regulatory intervention. We continually keep an eye out for opportunities to develop and add value to the company and examine potential companies or holdings, including those beyond our national borders, with a view to their purchase. We follow such opportunities up only if they meet our strict acquisition criteria. It is Swisscom's aim to increase corporate value through appropriate acquisitions and create new strategic options as well as business opportunities.

In the year under review, we made a bid to acquire a majority stake in the Austrian market leader, Telekom Austria, our counterpart in our neighbour to the East. I am convinced that such a collaboration would have proved advantageous for both companies in the long term, particularly ahead of a potential new wave of consolidation in Europe's telecoms market. Unfortunately, however, the takeover bid for Telekom Austria fell through in August 2004 due to political opposition in Austria. This situation is unlikely to change much over the next few months.

A few weeks ago, in March 2005, we submitted a bid to purchase a majority stake in the Czech market leader, Cesky Telekom. But the Czech government decided in favour of a higher bidder. I find this decision regrettable. We submitted a fair offer that was also financially very attractive. The price we offered was worked out with meticulous care, but we set a clear threshold in the firm belief that to exceed our defined limit would erode value.

Listed companies subject to increasing transparency requirements

I'd like to devote the second part of my address to a subject that is currently making headlines: transparency. The excesses of various corporate leaders have given rise on the one hand to heated public debate about the partial disclosure of management compensation, and on the other to a flood of new regulations.

There are four main reasons for the growing demand for measures to ensure greater transparency and trust in boards of directors and management:

1. The increase in stock exchange regulations such as Sarbanes Oxley, SEC regulations on fair disclosure, and the Swiss stock exchange guidelines governing ad-hoc publicity and the disclosure of management transactions
2. The rise in demand for corporate governance (sustainability indices, shareholder activism, independent members of the board, division of powers between chairman and CEO etc.)
3. Technological developments and circumstances that oblige companies to publish all capital market relevant information via several channels simultaneously and make such information public

4. Increasing competition for shareholder goodwill, since greater transparency improves the quality of expectations and reduces the risk for (potential) owners.

As a company that has also been exposed to capital market interests since its flotation in 1998, this trend does not surprise us. These calls for consistency and transparency are therefore nothing new for Swisscom.

Nevertheless, we welcome this trend and ask that shareholders reciprocate, since greater transparency is also in their interest! I would now like to take advantage of the discussion on greater transparency to turn the question around and ask our major shareholders: Are you, as investors, also sufficiently transparent to your companies?

Lack of disclosure by shareholders – no improvement in sight

The facts virtually speak for themselves: European-based companies know more or less "everything" about their private investors but virtually "nothing" about their institutional investors. "Everything", in the sense that private investors – i.e. most of you present today – are registered in the share ledger with up-to-date information on their names and addresses, and can be contacted directly by us at any time. By contrast, we know virtually "nothing" about institutional investors since they have only a very limited legal obligation to disclose information on the beneficial owners of the shares. The legal requirement to inform the public if an entity holds more than 5 percent of a company's share capital is therefore of limited information value, since most major shareholders remain anonymous behind nominated shareholders (nominees).

Moreover, some of the blame for current deficiencies in disclosure can be laid at the door of banks, which exert a not insignificant influence on trading volumes and shareholdings, on the one hand through their trading activities, and on the other hand by launching share-based products such as derivatives or hedge funds.

In addition to the information we publish in various degrees of detail depending on country-specific stock exchange laws, we therefore conduct special studies to identify shareholders and gain as accurate an idea as possible of the number of institutional investors. By the way, these costly studies have to be paid for with your money.

The identity or short ID study commissioned only last week shows that, excluding the government's stake and our own shares, we are able to identify holders of only half of Swisscom's shares.

We are not even sure whether the information is correct or up-to-date, since the results are entirely dependent on the goodwill of the investment companies who took part in the survey. Detailed results of this ID study show that 54% of the free float could be identified. The study also showed that the majority of identified shareholders are from the USA. This is due to the relatively large position held by a US investor, the Capital Group of Companies, which has 4.88 million shares in all – no less than 23 percent of the free float or 44 percent of the identified shares.

Lack of transparency is not in shareholders' interests

This lack of concrete information gives a board of directors cause for concern. I am convinced that, as registered shareholders, you will share this concern, since whether large or small, a company has a right to know who its owners are.

Through the volume of their transactions, institutional investors have a significant impact on share price, and a company must know the effective decision-makers in order to find out the background to such trading activities. Moreover, a company should be able to discuss important matters directly with its owners, to gain a better understanding of their positions and incorporate their views in key corporate management issues. Can you imagine a successful company that doesn't know who its customers are, or their specific needs? I doubt it. So why should a company not be able to obtain similar information about its large shareholders?

Since it is these very institutional investors who are calling for more corporate transparency, I believe it is only logical to ask the same from them. I firmly believe that such mutual transparency is in the interests of all parties!

Creating incentives for greater transparency – call for broad-based discussion

Platforms such as today's General Meeting must be used to actively highlight the discussion and correct current deficiencies in disclosure, with a view to expanding companies' knowledge about their institutional investors. Because it is extremely important for companies like Swisscom to systematically receive regular, accurate and up-to-date information about its institutional owners. For this reason, as many listed Swiss or foreign-based companies as possible should support our plea for tighter obligations to disclose for institutional investors. We appeal to interest groups and associations such as Economiesuisse and SIG to take up the issue. Even now, nominees who do not respond to a company's request to disclose, as well as banks with unattributable shares, are not entitled to vote at the General Meeting of Shareholders. Unless any improvement is achieved, the only option left to a company is to amend its articles of incorporation and introduce special incentive mechanisms in order to exert a degree of pressure. But going it alone in such an endeavour is fraught with risks.

In summary: Institutional investors are, unfortunately, often unknown. The path to greater transparency via the shareholder structure appears to be long and strewn with obstacles. But stricter mutual disclosure obligations are in the interests of the company as well as private and institutional investors, and we must hope that we will be able to welcome not only you, but also more institutional investors, to next year's General Meeting. I therefore urge you to spread this appeal for equal transparency rights and obligations for companies and investors, and help us to get the ball rolling.

In conclusion, I would like to thank our management and employees for their major commitment, and extend my thanks to you, our valued shareholders, for your attention and trust. I now have pleasure in handing you over to our CEO, Jens Alder.