

Swisscom in an eventful time – light and shade

Address by Dr. Markus Rauh, Chairman of the Board of Directors of Swisscom AG, to the General Meeting of Shareholders

Lucerne, 25 April 2006

(Check against delivery)

Ladies and Gentlemen, Swisscom Shareholders and Guests

Today's 8th Ordinary General Meeting goes beyond the usual framework: The agenda includes a change in the board chairmanship; we have a new CEO and have made some changes in senior management; and we have revised our strategy and are facing a debate on privatisation. In summary, we have had a challenging year but look forward with confidence to the future. There is no doubt that we are living in turbulent times, and light is always accompanied by shade. In recent months Swisscom has been in the headlines on more than one occasion: unfortunately not always in the most positive light. Recently it has become clear that our company is strongly influenced not only by developments in the telecoms sector but also by the political environment: an environment – as experience has shown – that is often very difficult to gauge.

Fiscal 2005 – revenue slightly down, profit up

Firstly, however, I am pleased to report that in 2005 Swisscom once more held on to its high market share and increased net income to more than CHF 2 billion, with a slight drop in revenue and operating income. Thanks to extremely popular services, a high presence in all regions throughout the country, new products and – above all – dedicated employees, our customers' confidence in Swisscom has grown and will continue to grow.

Our customers were able to benefit from massive price reductions as well as our employees' dedicated efforts.

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To cite just one example of this, I would like to mention the special efforts made by Swisscom employees when they worked day and night to rectify the damage caused by last summer's floods.

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Permit me now to say a few words about the shareholder base:

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Generalversammlung 2006 

Aktionariat per 31.03.2006

Aktionäre		Aktien	
Schweizerische Eidgenossenschaft	1	Nicht eingetragene Aktien (Dispo)	6'581'948
Mitarbeiter	11'841	Eigenbestand (Aktienrückkauf 2005)	4'764'200
Übrige	45'597	Eingetragene Namenaktien	47'627'321
Total	57'439	Eingetragene US-Zertifikate (ADR)	2'509'292
		Total	61'482'761
Aktionäre		Eingetragene Aktien (ohne Schweizerische Eidgenossenschaft)	
1-500 Aktien	56'739	Schweiz	33.0%
501 - 1'000 Aktien	275	Grossbritannien	25.9%
1'001 - 10'000 Aktien	336	Nordamerika	31.0%
10'001 - 100'000 Aktien	76	Rest	10.1%
> 100'000 Aktien	13	Total	100.0%
Total	57'439		

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At the end of March the number of Swisscom shareholders entered in the share register amounted to more than 57,000, of which some 20 per cent are Swisscom employees. Most Swisscom shareholders hold between 1 and 500 shares and a mere one per cent hold more than 500 shares in their custody account. Although all shareholders are equally important to Swisscom, it is necessary to devote more attention to large institutional investors. With this in mind, Swisscom management regularly takes the time to discuss the company's business performance, strategic thrust and financial outlook with current as well as potential institutional investors without disclosing confidential information.

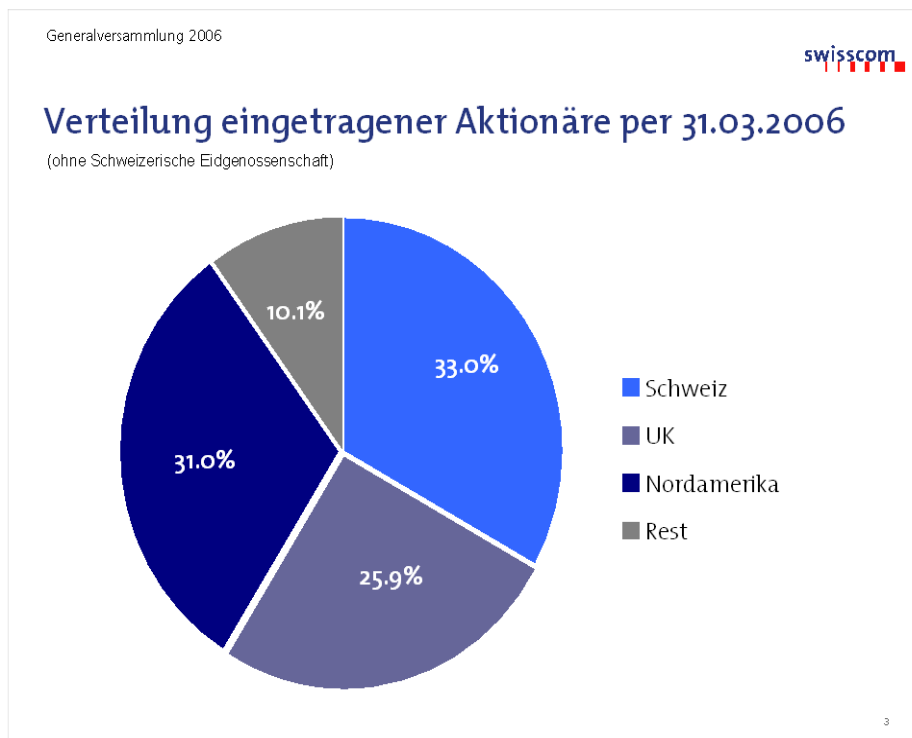
At the end of March, more than 80 per cent of Swisscom shares were registered: 47.6 million in the form of registered shares listed on the Swiss

SWX and virt-X exchanges, and 2.5 million in the form of US certificates traded on the New York Stock Exchange as American Depositary Receipts or ADRs at a ratio of 1 registered share to 10 ADRs. Taking into account the 4.8 million shares repurchased through the buyback programme, the total number of unregistered shares is 11.3 million.

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A geographical breakdown of registered shares looks like this:

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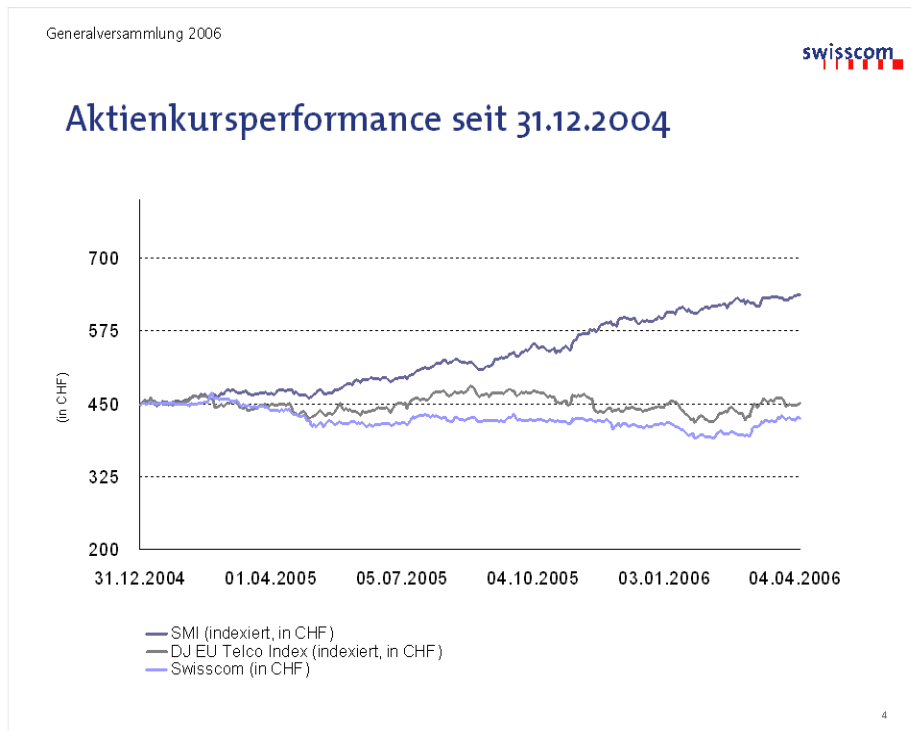


33 per cent Switzerland, 26 per cent UK, 31 per cent North America und 10 per cent Rest of World.

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Now to the performance of the Swisscom share in 2005:

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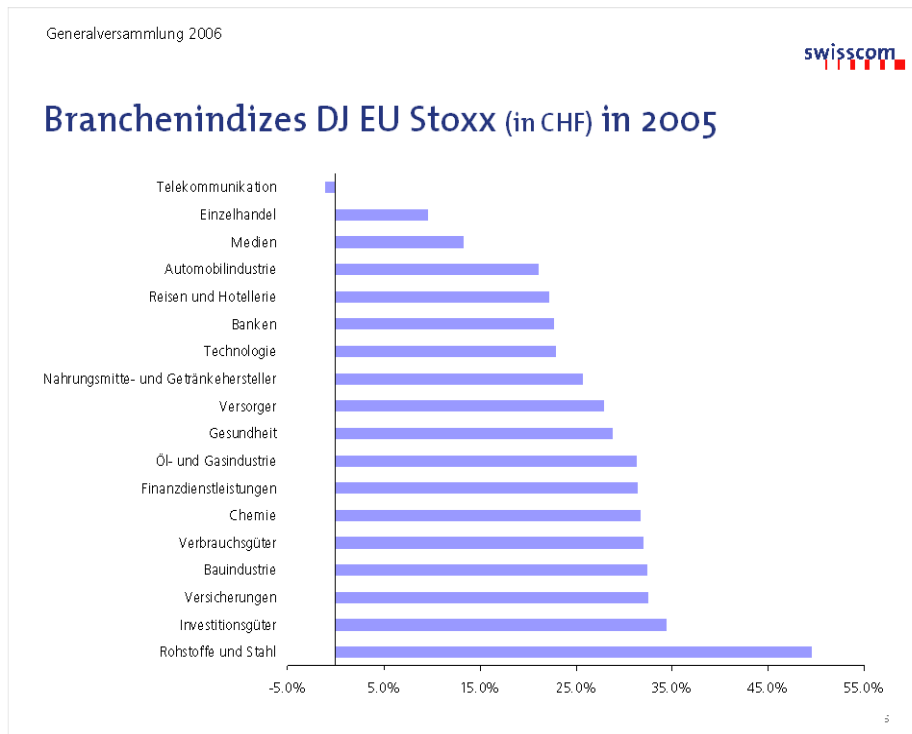
The Swisscom share closed 2005 at 414.50 francs: 7.4 per cent below the previous-year level. This performance puts the Swisscom share in the lower half of the DJ EU Telecom Index which, by way of comparison, fell by 1.1 per cent (in Swiss francs). Conversely, the Swiss Market Index (SMI) registered what may be a record annual increase of 33.2 per cent to become the absolute top performer among Europe's share indices.

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Share price performance: telecom sector lagging

Last year, the telecommunications sector was once more relegated to the ranks of unspectacular performers, scoring the poorest performance among sector indices in 2005.

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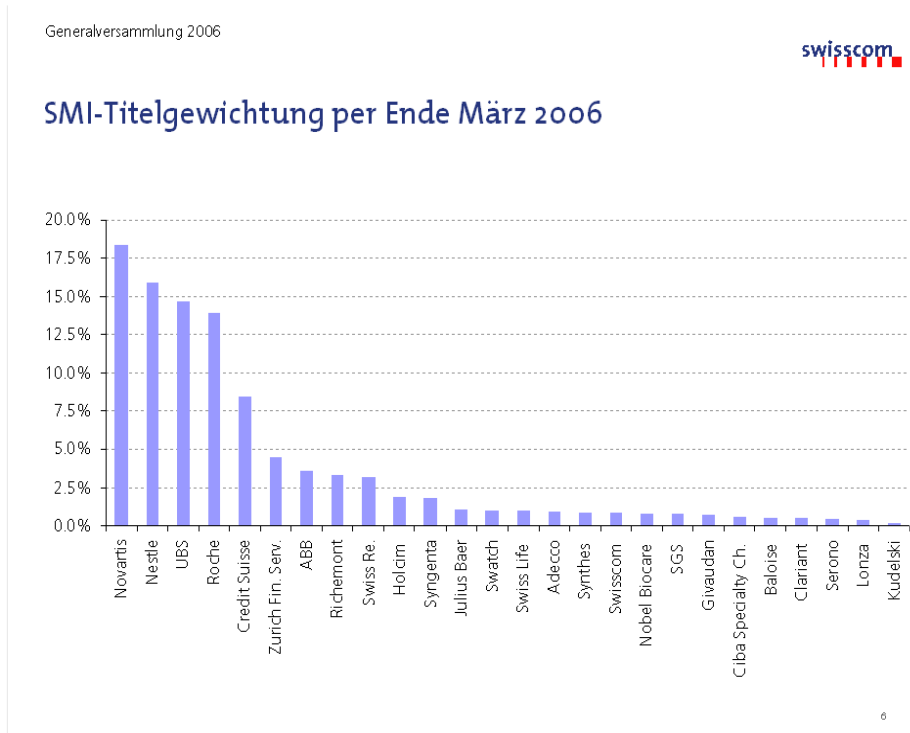


In short: While the sector remains fashionable, it is exhibiting little growth and too little imagination for investors' tastes . .

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It is also important to note that Swisscom is accorded only an insignificant index weighting due to its below-average free float:

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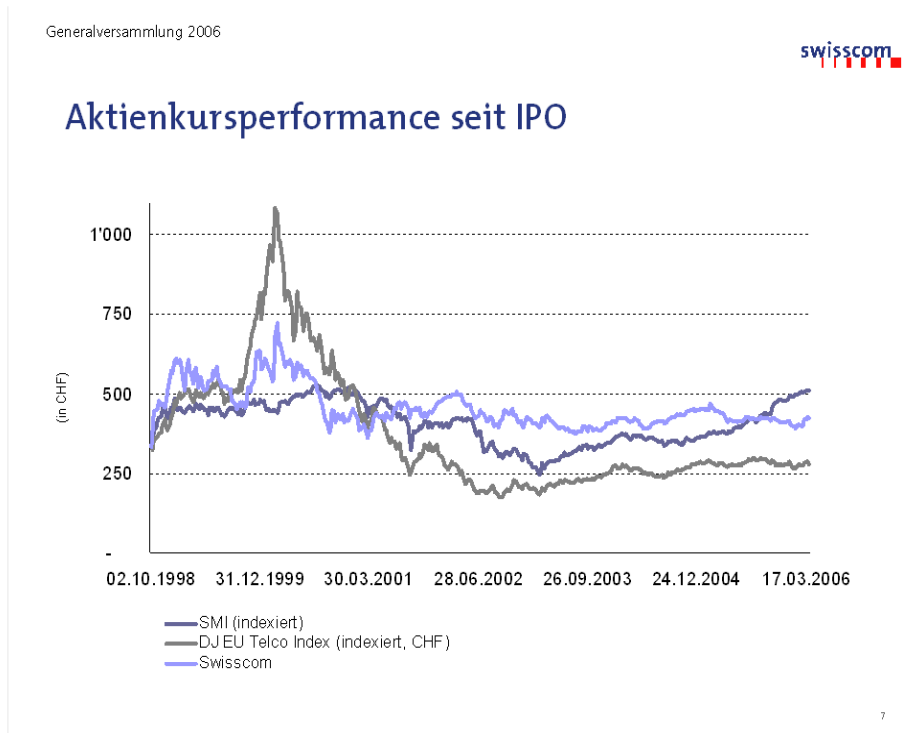


In the DJ EU Telco Index the weighting is 1.3 per cent, and in the SMI less than 1 per cent. This implies that Swisscom has virtually no impact on index movements.

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However, from an investor's standpoint I believe it is misleading to consider only the most recent year's performance. A much better yardstick is share price performance since Swisscom's IPO.

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With an IPO price of 340 francs in October 1998, the Swisscom share has performed far more steadily than the DJ EU Telco Index and remains largely free of UMTS hysteria and its consequences. For much of 2005, the Swiss market also performed below the Swisscom share. Consistent, clear management as perceived by the capital market, coupled with Swisscom's ongoing optimisation of its core business, are the reasons behind the stable performance of the Swisscom share and the basis of our payout policy. In addition to an increase of 74.75 francs since the IPO, any calculation of shareholder return per share must factor in this attractive form of payout, that takes into account 100 per cent of freely available funds!

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High payouts to the benefit of shareholders

The next slide contains more information on total shareholder return (TSR) per share.

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Generalversammlung 2006

Gesamtrendite pro Aktie seit IPO

(in CHF)

	1998	1999	2000	2001	2002	2003	2004	2005	kum.
Kurs 31.12. Vorjahr	340.0	575.0	644.0	421.5	460.0	400.5	408.0	448.0	340.0
Kurs 31.12. Aktuell	575.0	644.0	421.5	460.0	400.5	408.0	448.0	414.8	414.8
Kursgewinn (-verlust)	235.0	69.0	-222.5	38.5	-59.5	7.5	40.0	-33.3	74.8
Dividende	-	11.0	15.0	11.0	11.0	12.0	13.0	14.0	87.0
Nennwertreduktion	-	-	-	8.0	8.0	8.0	-	-	24.0
Put-Option *	-	-	-	-	8.3	-	-	-	8.3
Ausschüttungen	-	11.0	15.0	19.0	27.3	20.0	13.0	14.0	119.3
Total	235.0	80.0	-207.5	57.5	-32.2	27.5	53.0	-19.3	194.0
TSR **	69.1%	13.9%	-32.2%	13.6%	-7.0%	6.9%	13.0%	-4.3%	57.1%

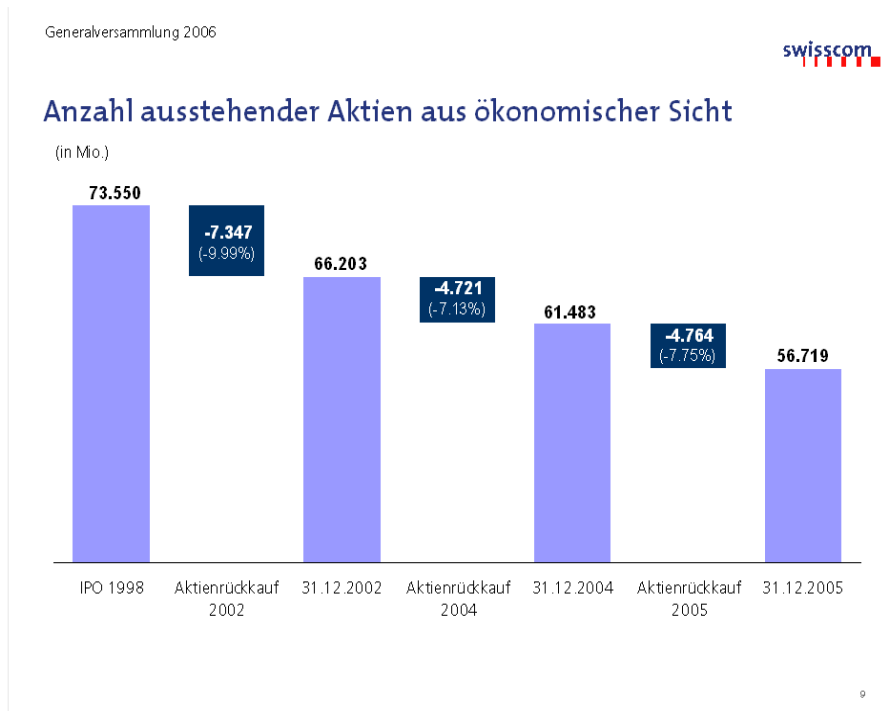
* Aktienrückkauf 2002 mit Optionspreis auf Basis "Volume Weighted Avg. Price"
 ** TSR = Gesamtrendite = (Kursgewinn (-verlust) + Ausschüttungen) / Kurs t-1

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This table shows the annual price performance and payouts distributed to our shareholders. The total dividend amount of 87 francs, the par value reduction of 24 francs, and the put option premium of 8.30 francs are added to the price gain/loss to obtain a total of 194 francs per share, corresponding to a total shareholder return per share of 57.1 per cent.

In short: since the IPO in 1998 the Swisscom share has shown an annualised return of 6.4 per cent. This is clear corroboration of the share's value, particularly if one considers the below-average risk to which Swisscom is exposed compared with other players in the sector.

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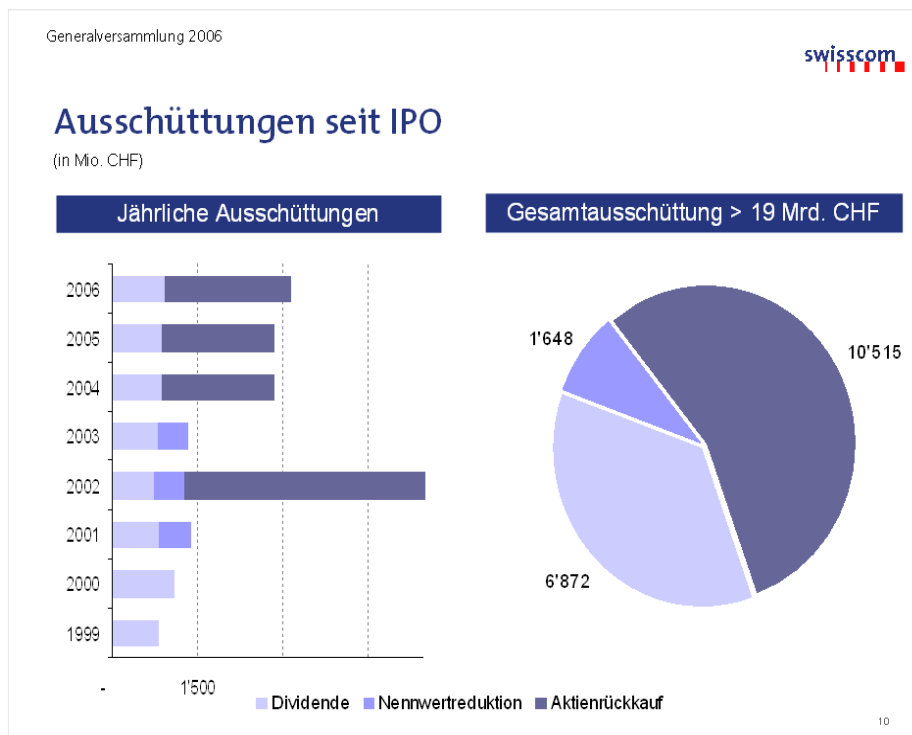
This slide provides a good illustration of the consolidation effect resulting from the share buyback. Cancellation of the repurchased shares necessarily results in a lower number of outstanding shares and, assuming stable net income performance, a higher dividend. The repurchase and cancellation of 7.75 per cent of share capital last year triggers a corresponding profit consolidation effect that in turn positively impacts dividend per share. Today's proposed dividend payment on 28 April of 16 francs is therefore a logical result of a consistently pursued payout policy.

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In 2005 Swisscom generated an equity free cash flow of 2.2 billion francs and net profit for Swisscom shareholders of 2 billion francs, resulting in a total dividend payout of 907 million francs or 16 francs per share. The remaining 1.25 billion francs of EFCF will be paid out to shareholders in the form of a share buyback. In addition to the ordinary payout to shareholders, Swisscom

will be taking the first step in 2006 towards implementation of the majority shareholder's new objectives (to reduce distributable reserves to 1 billion between 2006 and 2009), and increasing the ordinary share buyback by 1 billion francs. The share buyback of 2.25 billion francs will be implemented by means of an option scheme in the second half of this year.

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As a Swisscom shareholder, the Swiss government also benefited from this attractive payout policy. Up to the end of 2005, 57 per cent of the 8.5 billion francs paid out in dividends and par value repayments had flowed into government coffers. If one includes sales of shares and participation in share buyback programmes, the government has received as much as 9.9 billion francs.

Including the 3.15 billion francs in total paid out this year, Swisscom has distributed more than 19 billion francs to its shareholders since its IPO. This is

equivalent to three-quarters of Swisscom's current market capitalisation! An impressive amount for shareholders, and a sum that permits me, as outgoing Chairman of the Board, to look back on my time with Swisscom with satisfaction and pride!

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Swisscom supports disposal of the federal majority holding

As you know, on 23 November last year the Federal Council decided to launch a proposal aimed at the disposal of the government's majority holding in Swisscom. The Board of Directors thereupon decided to ask Anton Scherrer, our Vice Chairman and designated Chairman of the Board, to handle the issue of privatisation. The following summary of the situation has, of course, been discussed with him. The dossier will doubtless continue to occupy him for quite some time

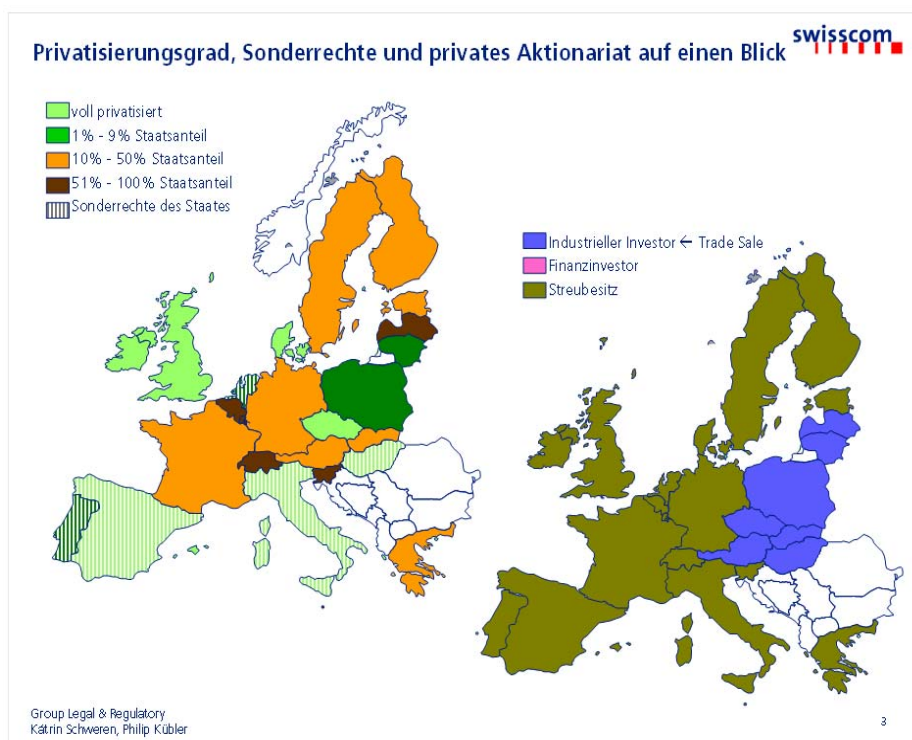
First I would like to emphasise that, in Swisscom's view, the anticipated public opposition voiced by political parties on the disposal of the federal majority holding are attributable to differing political convictions. However, it can never be Swisscom's job to evaluate them. Swisscom respects the political process and whatever results from it. Our assessment of the proposal is dictated exclusively by corporate requirements and the interests of our Group.

First and foremost is our desire for a shareholder base that takes the long view, and is willing to encourage innovation in the interest of corporate development, and to add corporate value through acquisitions and alliances.

Against this backdrop, Swisscom welcomes the discussion initiated by the Federal Council. We support the full or (if not possible for political reasons) at least the partial disposal of the government holding. Rapid resolution of this political issue is in the company's interest, because Swisscom fully understands the concerns and worries expressed by various groups, and supports a factual, objective discussion.

Trend in Europe: state withdrawal from the telecom sector – an important step

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A glance at the European telecoms landscape shows that Switzerland is one of the very few countries in which the state still holds a majority stake in a telecoms company. In most European countries, the state still owns a minority stake, but there is a clear trend in Europe towards a further decline in state influence on our sector.

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We need a stable shareholder base with a long-term outlook that is willing to further develop Swisscom as an intact group of companies, support our strategy, and not be averse to taking corporate risks. We also need the freedom to penetrate any type of new business field, make acquisitions and enter into alliances. If, besides these basic conditions, one considers Swisscom's corporate development and imagines a company that in future can deliver offerings in the fields of media, entertainment, communications and IT and, on top of all this, still pursue additional business fields, then one must truly question whether the state is the right majority shareholder for such a scenario.

In our opinion, at least, it is questionable. The Federal Council even admits it. Wherever we enter new business fields we are entering a new market where we were not expected to appear. The financial and corporate risks are changing and increasing. And these business fields can also be politically sensitive. In certain circumstances, being backed by the state may prove an obstacle. I can only agree with the Federal Council when it talks of wanting to rid itself of the current conflict of interests as legislator, regulator, majority shareholder and key account customer.

Ladies and gentlemen, no doubt you too have been following the heated discussion on the government majority holding and have your own opinions on the matter.

Even if the start of the new privatisation round was rather subdued – to put it mildly – we at Swisscom are of the opinion that the process should not be stopped. At all events we view full privatisation as a long-term goal. If this is not feasible for political reasons, we believe the option of the government

disposing of its majority stake would at least be a step in the right direction. A look at other countries shows that full privatisation has only rarely been achieved in one go.

I don't want to discuss the Federal Council's proposal in any more detail, but I would like to talk about two important topics that are repeatedly discussed in connection with the disposal of the government's majority holding: basic service provision and the various demands for creation of a network company.

Basic service provision is ensured – opposition to a network company

Swisscom takes the view that basic service provision is already ensured effectively by means of the legal licence and the terms of the Telecommunications Act. The Federal Council's new concept for a basic service provision licence will reinforce this guarantee of service. It goes without saying that Swisscom will once more apply for this licence. Basic service provision belongs to Swisscom.

The second topic is the idea of creating a public-law network company. Not only is this unnecessary; it would also have a damaging impact, since it is virtually impossible to separate network and services either technically or in terms of product structure. Any enforced separation would result in Swisscom being obliged to become a mere reseller of services: unlike other providers who operate their own networks. A network company would also lack the incentive for innovation since it would have to concentrate on the provision of basic services. Investments in improving and further developing the infrastructure would be reduced accordingly.

As a strong and dynamic enterprise, Swisscom is able to master the challenges of the future. In any case, the Swisscom Board and the entire company remain fully committed to delivering high-value, innovative products and outstanding services throughout Switzerland well into the future.

New telecommunications law approved – copper-wire network to be unbundled

On 24 March 2006, following years of political wrangling, the National Council and Council of States approved the revision of the Telecommunications Act. The main bone of contention was the unbundling of the last mile: a measure that would oblige Swisscom to grant competitors access to its subscriber connections at state-regulated prices. Despite intense competition for infrastructure between telecoms providers and cable network operators, parliament was not prepared for political reasons to abandon this one-sided regulatory measure that puts Swisscom at a disadvantage.

However, the economic damage caused by excessive regulation was kept within reasonable boundaries, since the parliamentary majority rejected a move to provide technology-independent access and burden new technologies such as optical transmission and mobile communication with regulatory provisions, thereby impeding expansion of infrastructures that are key to the technological development of our country. The final law is restricted to regulating access to the copper-wire network "inherited" from the PTT. However, Swisscom can only be forced to grant unbundled access to its local loop if it can be proven to have a market-dominant position, which will not be easy in view of the competition for infrastructure.

The Federal Council will now have to pass the requisite provisions governing implementation of the new law. However, the regulatory measures passed by parliament are definitive. A call for a legal basis at decree level to handle any future intensification of the access regulation enshrined in the Telecommunications Act was rejected. Enforcement of the law will also take this direction. The revised Telecommunications Act is scheduled to come into force in the first quarter of 2007.

Competition Commission threatens sanctions amounting to almost 500 million francs

As a leading company in various markets and despite effective internal compliance measures, Swisscom is frequently the subject of investigations by competition authorities and hence exposed to the risk of direct sanctions. However, direct sanctions are predicated on proof of a market-dominant position and impermissible restrictive practices.

On 7 March 2006, the Secretariat of the Competition Commission asked Swisscom Mobile to state its position on a proposal to impose a sanction on the company within the context of the current investigation into termination rates in the mobile communications market. In its draft partial ruling, the Secretariat recommended that Swisscom Mobile pay a sanction of around 489 million francs for its alleged misuse of termination rates in the period from 1 April 2004 to 31 May 2005. We cannot understand this move and soundly reject the Competition Commission's allegations. We do not hold a dominant position in the Swiss mobile communications market, nor can we be accused

of misuse. For years Swisscom Mobile has been charging the lowest mobile termination fees of any Swiss mobile carrier. Due to lower prices and higher outgoing call volumes, Swisscom Mobile has for many years been making net payments to its competitors Sunrise and Orange.

We now have an opportunity to justify our position. We can contest the Competition Commission's forthcoming decree by lodging an objection with the Appeal Commission and, in the last instance, the Federal Court. And we will also do this if the decree is along the same lines as the draft ruling.

Government's changed strategic goals – resignation of Jens Alder

On 20 January this year, Jens Alder retired as Swisscom CEO at his own request. In so doing, he drew personal conclusions from the change in international expansion plans prompted by the Federal Council. The Board of Directors very much regrets the departure of Jens Alder. The company owes him a great debt of gratitude. He joined the Swisscom Executive Board in April 1998 and took over as CEO on 16 December 1999. During the six years under his leadership, Swisscom firmly established its leading position in the Swiss telecoms market and further expanded its activities.

Jens Alder achieved the extraordinary for Swisscom in a turbulent time. He played a key role in shaping Swisscom's consistent customer focus during an era that saw the massive expansion of Switzerland's nationwide telecoms infrastructure. His leadership qualities and in-depth knowledge of the industry, coupled with his outstanding social skills, earned Jens Alder a great

deal of respect both within the company and in the telecoms sector. Swisscom has benefited enormously from this.

Carsten Schloter appointed new CEO – changes in Group management

The Board Committee and the full Board deliberated long and hard over a successor to Jens Alder, finally appointing 42-year-old Carsten Schloter, until then CEO of Swisscom Mobile and a member of Group management. The Board of Directors is proud to have found such a highly-skilled internal candidate for the post.

Carsten Schloter is a business administrator and IT expert, having studied and worked in Paris and held positions at Mercedes and debitel in France and Germany. Under his leadership Swisscom Mobile succeeded in doubling its customer base to more than four million, while at the same time introducing a host of new services, for example in mobile data communications. With Carsten Schloter, Swisscom will continue to be led by a proven expert in the telecoms and IT sectors, and an acknowledged top manager. I am delighted that we have been able to come up with this internal solution.

In March the Board of Directors decided on the strategy it aims to pursue in conjunction with the Executive Board. The future Swisscom strategy is a three-pillared strategy: Firstly, the core business is to be strengthened through convergent offerings, customer benefits maximised and efficiency further enhanced; secondly, we want to generate growth in the business customer market; and thirdly, we are aiming to expand in new areas on the basis of our existing core competences. In his presentation Carsten Schloter will be talking

about where this journey leads, and providing more details of these three pillars of "Maximise", "Enlarge" and "Expand".

This brings me to some additional staff changes in Group management. The changes in management are directly related to Swisscom's new strategic thrust. On the recommendation of Carsten Schloter, we approved important reshuffles and new appointments in March.

Adrian Bult, formerly CEO of Fixnet, will take over as head of Swisscom Mobile, while the current CFO, Ueli Dietiker, will succeed him as Fixnet CEO. He, in turn, will be succeeded by Mario Rossi, currently CFO of Fixnet. Finally Urs Schaeppi, until now responsible for Commercial Business at Swisscom Mobile, will take over from René Fischer as CEO of Swisscom Solutions. Carsten Schloter will explain why these changes are so important in the current context. I and the entire Board of Directors are convinced we have found the best possible solution to tackle the tasks facing us.

Now permit me to say a few words on changes in our workforce. 2,281 employees left our company in 2005, and 2,941 joined. In 2005 the total number of full-time equivalent employees rose by 3.8 per cent from 15,477 at the end of 2004 to 16,088 at the end of 2005. However, this increase was largely due to the acquisition of Antenna Hungária with its 858 employees and to other special factors. If we discount this, the number of employees dropped by 391 to 15,086. Workforce fluctuations varied within the Swisscom Group. For instance, while Swisscom IT Services AG expanded its workforce, other companies were forced to shed jobs. Of the 390 employees affected by

restructuring, 164 found a new position within Swisscom through internal redeployment.

In 2005, 252 apprentices successfully completed their basic training at Swisscom and 201 new apprentices commenced their training. The company is currently training some 850 apprentices, which corresponds to around 5.5 per cent of the total workforce: a good percentage, I think. Swisscom can continue to pride itself on being a reliable and attractive employer, even if the statistics often hide some harsh strokes of fate.

For this very reason I would like to conclude my presentation by expressing my warmest thanks to our management and employees for their outstanding efforts. I also want to thank you, our shareholders, for your attention and trust. I now give the floor to our CEO, Carsten Schloter.