

Address by CEO Carsten Schloter to the Swisscom 2006 General Meeting of Shareholders

Ladies and Gentlemen and Swisscom Shareholders

Swisscom's performance in 2005 can be viewed from two different perspectives.

On the one hand, revenue dropped year-on-year by 3.2 percent and operating income by 4.9 percent. The main causes behind this development were a reduction in termination fees and the sale of our low-margin international wholesale business to Belgacom. In terms of their scale, both effects may be regarded as one-off. Discounting them, revenue and operating income would have remained largely stable and the many price reductions from which our customers benefited would have been offset by other means. Nevertheless, declining figures are always an unwelcome development and must prompt us to seek new growth opportunities.

On the other hand, Swisscom actively helped to shape the market in many areas, expanding or holding onto market share in most sectors.

With new products for first-time ADSL users, Swisscom increased its share of the ADSL market to 64% and has already generated revenue of more than one billion francs in its fourth year of business in this area.

Swisscom made decisive advances in the fiercely competitive mobile communications market with the launch of its new Liberty and M-Budget pricing plans and posted an increase in market share. Revenue from various new data services based on broadband mobile technologies already stands at 172 million francs in only the second year of this business.

And in its new IT business, Swisscom last year generated 250 million francs in third-party revenue and recorded 600 million francs in incoming orders from new customers.

The three businesses I have just mentioned are indicative of the fact that Swisscom is fully capable of harnessing new sources of growth even in the Swiss market. I might add that it is exactly these growth areas which offset the substantial reductions in 2005 of 6 and 10 per cent respectively in our customers' fixed network and mobile charges.

We held onto our market share in the telecoms segment for business customers, and further enhanced our attractiveness through partnerships with Vanco and Siemens.

Only in the fixed-line telephony business do we have to concede a loss of some 100,000 customers to Cablecom.

Besides these important market developments, Swisscom once more invested heavily, to the tune of some 1.2 billion francs, in the cost effectiveness and efficiency of its offerings.

I would now like to present a few areas in which Swisscom is playing a leading role, prompted by the conviction that our market position in Switzerland – an extraordinary position compared with other European telcos – can only be sustained if we offer our customers outstanding products and services.

With 54 percent of households connected to broadband, Switzerland ranks third in Europe in this respect. The media often compare the performance of our ADSL offerings with France and find them wanting. But this is like comparing apples and pears: While it is true that faster, more efficient ADSL offerings are to be found in major French cities, there are broad swathes of the country which have no ADSL access at all. The French government is now beginning to finance further expansion through state funds. In Switzerland, 98 percent of all households are already able to use ADSL. And we are investing further in efficiency enhancements, so that we can offer our customers bandwidths of around 25 Mbps from as early as next year and enable, among other things, HDTV over the telephone cable.

Since the summer of 2005, Switzerland is the only country in Europe to have nation-wide mobile broadband coverage. Here Swisscom is playing a pioneering role within Europe: From the end of 2006, 40 percent of the Swiss population will already have access to bandwidths of around 1.8 Mbps.

But Swisscom's offerings go beyond mere technology. Our high market share commits us to deliver additional benefits which in this case are unique.

Swisscom has already provided 4,000 schools with Internet access and is financing the related infrastructures: It is Swisscom's declared objective to provide our schoolchildren with an opportunity to come to grips with modern technology at an early age, and to finance such opportunities.

Due to our importance as an employer, we aim to set an example in the field of education and offer some 850 apprenticeships in various vocational areas.

Last but not least, I would like to mention the Help Point initiative: Started in mid-2005, the initiative aims to bridge our society's digital divide and provide everyone with simple access to new technologies. At the end of last year, some 15,000 persons had already attended our courses.

Swisscom is a special organisation. The fact that virtually every Swiss household is a customer of ours obliges us to pursue a long-term, sustainable business policy which finds expression in the aforementioned examples.

Now to the outlook. With our customers benefiting from additional price reductions, revenue and margins in the traditional voice and data transmission business are being eroded. Our goal must be to develop new business fields which have the potential to offset this erosion. Our strategy in this regard is based on three pillars:

Strengthen our existing core business. Here we ask the question: Is Swisscom exploiting to the full what makes it unique from its competitors, in order to offer its customers a unique product?

The answer is: No. What makes Swisscom unique is its broad base in the Swiss market and its technological competence. By better combining and integrating complete multimedia offerings from the different Group companies, we can create added value for our customers and, by extension, for you as shareholders. Customers see Swisscom, not four Group companies, and they should be offered a clear incentive for purchasing several Swisscom products. Moreover, we should present ourselves in such a way that our customers do not have to deal with the complexity of our organisational structure, and can enjoy universally excellent service in all their dealings with Swisscom.

In the interests of the customer, this objective necessitates much closer cooperation between the individual Swisscom units. The basis for this has been created by means of changes in Group management: Adrian Bult, formerly CEO of Swisscom Fixnet, is now responsible for the mobile business – Ueli Dietiker, formerly CFO of the Swisscom Group and before that, CEO of our biggest rival, Cablecom, now heads up Fixnet – and Urs Schaeppi, until now responsible for marketing and sales at Mobile, will manage the solution business for commercial customers. This way, all heads of large units within the Swiss core business will be familiar not only with their own areas but also with the entire spectrum of Swisscom business activities: an essential prerequisite for closer cooperation in the customer's interests.

The second pillar of our strategy pursues the goal of further expansion in our IT and telecommunications services for business customers. Last year Swisscom already recorded 600 million francs in incoming orders for new IT and telecoms services such as:

- Management of our business customers' IT workstations. Swisscom is already responsible for managing some 60,000 IT workstations for Swiss business customers,

- Another example: we provide all telecoms services to Winterthur Versicherung business units around the world.

These two examples are symptomatic of the trend in business customer requirements. There is a growing demand for integrated IT and telecoms services, and a need to offer one-stop solutions, in conjunction with partners, for international customers with a decision base in Switzerland.

We are seeking to expand this business significantly on the basis of new activities and agreements.

Now to the last pillar of our strategy:

Our business is undergoing dramatic change in the wake of increasing digitisation and broadband networking. This is also one reason behind the steady decline in prices for traditional voice and data transmission services. But these developments are also exerting a major influence on other businesses. For instance, content such as music and video is increasingly being marketed over our networks rather than on physical carriers such as CDs and DVDs. And medical treatment is increasingly being provided via technological solutions that allow a patient's blood pressure or heart rate to be continually monitored. Swisscom is also in the process of expanding in this area, since this is where our technological skills can make an ideal contribution. This year we plan to open the largest video store in Switzerland: You will be able to choose your film on the TV screen and watch it immediately. We have also recently acquired a share in Switzerland's largest provider of telemedicine services.

Ladies and gentlemen and Swisscom shareholders: In the course of the (at times ideological) discussion on Swisscom's privatisation, reference has been made to Swissair and the threat of concentrated risk. This, too, is a natural part of any ideological debate. But Swisscom is different: it is a unique company operating in a fascinating market: a company in which, day after day, 15,000 dedicated employees make every effort to retain the trust and confidence of their customers and shareholders.