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Outline of speech by Jens Alder, CEO Swisscom AG

"Growth"

1 Facts

1.1 Swiss overall ICT Market 2004-2008 stagnant

- Telecom business (mobile, wireline access & traffic, PBX, LAN, LL, Data) grows at -0.5% p.a.
  → Swisscom's market share in this business is approx. 60% today
- Adjacent business (IT outsourcing & projects, TV distribution) grows at 7% p.a.
  → Swisscom's market share is approx. 4% today (market fragmented and overcrowded)

1.2 Business Outlook 2005-2008 for Swisscom is neutral at best

- Swisscom's core telecom business is stagnant:
  - Swisscom cannot reasonably grow current market shares (a.o. due to regulation)
  - Prices of mass services tend to go south further
  - Volumes of new core services/products not sufficient yet to compensate
- Growth potential from adjacent business (IT outsourcing & projects, TV distribution) will help – but not compensate for losses in core business

→ Overall, Swisscom will see at best a stagnating domestic business over the next few years

2 Management Challenges

2.1 Sustainability

- Economies of scale
  - Relevant in mobile segment: purchasing of handsets etc
    → strategic partnership with VF
  - Attractive operational partnerships in many other segments
  → Our conviction: outside mobile segment not very substantial
  (economies of scale at risk of being mitigated by cost of complexity)
- Economies of scope (global solutions)
  - Relevant for global corporate customers (end-to-end service provisioning)
    → long-term partnership with Vanco plc (virtual global network operator)
  - Relevant for international mobile communications
    (adhere to proprietary global network standard)
    → strategic partnership with VF
  - Attractive operational partnerships in many other segments

→ we are convinced of the sustainability of our core business – even if stagnating by nature
→ large acquisitions abroad will hardly create substantial economies of scale or scope for domestic business

2.2 Innovation

- Key driver of competitiveness in core business

→ Swisscom is undisputed Swiss innovation leader in
  - Mobile (wireless data, business solutions)
  - Wireline (VDSL2, MPEG4 TV, business solutions)

- Key opportunity for organic growth in adjacencies

→ Swisscom is clear Swiss innovation leader in
- Broadcast (DVB-T, DVB-H)
- Billing (billing solutions)

2.3 Employees

- Reduction of workforce by approx. 40% since 1998 (like-for-like)
- No single year with less than several 100 layoffs
- Outlook negative: every year several 100 layoffs in next few years

→ virtually no career opportunities for managers in Swisscom
→ permanent atmosphere of insecurity due to openly acknowledged negative employment outlook
→ long-term hardly manageable without changes for Swisscom managers' career perspectives

2.4 Growth within current business scope

- Core business Switzerland has negative growth outlook, which at best can be neutralised by our efforts to grow adjacencies

→ need to enlarge current business scope to get growth

2.5 Diversification

- Swisscom sees no value for its shareholders by diversifying e.g. into the Swiss utility business

→ shareholders are better placed to diversify than management.

2.6 Shareholder value

- Current operating value is larger than total market capitalisation of Swisscom

→ market expects mildly negative free cash flow growth in future
→ market expectations and management business outlook approx. in line

2.7 Issue balance sheet

- Status end Q3/2005: net cash 2.4 bn CHF

→ inefficient balance sheet management of financial assets, creating opportunity cost of spare cash and unutilised funding capacity

→ gearing up to 2.5x EBITDA "would be adequate" (i.e. 10 bn CHF pre-inclusion of target)

3 Balance Sheet Management

3 generic options
a) continue current policy of full EFCF returns
b) gear-up balance sheet and accelerate share buy-back
c) acquire outside Switzerland and create value

3.1 Continue current policy of full EFCF returns

- Balance sheet remains under-leveraged
- Increasing challenge of managing a stagnant company

→ default, until better option exercisable

3.2 Gear-up balance sheet and accelerate share buy-back

- Financial engineering needed to circumvent issue of limited distributable reserves
- Very difficult to reverse this process
- Does not create any additional value creation opportunities, whilst causing negative equity under IFRS
- Increasing challenge of managing a shrinking company

→ short term – and one-off - gain for shareholders with ever increasing risk for long-term sustainability
→ not an option today

3.3 Acquire outside Switzerland and create value

- Larger scale acquisitions inside Switzerland not possible (without diversification)
- Acquisition criteria remain unchanged

- within our scope of business	→ "incumbent business or direct adjacencies"
- within our scope of legal/regulation understanding	→ EU
- add value through strategic control	→ majority or path to control required
- maximum price = full value	→ gearing itself creates benefits to shareholders
- feel comfortable with reasonable net debt level	→ max. 2.5x consolidated EBITDA as sustainable comfort-level

→ if feasible, best option for Swisscom

4 Growth of current business scope, i.e. same business outside Switzerland

- Definition: exploit core competencies in other markets
- Business cases are attractive when
  - based on transferable core competencies
  - within current risk profile of Swisscom
  - value creating to shareholders
- Why look at Eircom?
  - would fit our acquisition criteria
  - could add industrial value (less covenant constraints, broadband services, process automation, etc.)

  → however nothing firmly decided yet
  → not only project we are looking at
- Why not another target?
  - every target has its specificities
  - not all assets are for sale
  - not all assets – even when for sale – can be acquired by Swisscom
  - we always had at least 3 parallel projects the last 5 years – also today

  → Swisscom management feels obliged to exploit every opportunity, even with the risk of not getting any transaction completed.
- If no M&A completed, situation will remain as is: full domestic business model delivering strong free cash flows to shareholders through continuation of return policy. Not a bad "worst case" to have, however not entirely satisfactory either