

















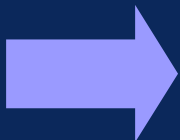
Mechanics share buyback 2004

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1-2 April 2004
Swisscom Capital Markets Event
Interlaken, Switzerland

Different share buyback mechanics possible ...

	Goals			
	Accretion	Speed	Flexibility	Transparency
Put				
2nd trading line				
Fix price				
Bilateral deal				



... our goals are best achieved with 2nd line

Put option structure versus 2nd trading line

	Put	2nd trading line
Characteristics	<ul style="list-style-type: none">▪ Premium delivers cash yield▪ But cash yield in hindsight generally not reflected▪ A smaller SBB volume (in % of outstanding capital) leads to lower value of premium → less attractive since cost becomes relatively high	<ul style="list-style-type: none">▪ No cash component but higher accretion▪ Flexible structure in terms of pricing, timing, volumes▪ Fully transparent for every investor at any point in time▪ Technical support to share price
Precedents	<ul style="list-style-type: none">▪ Swisscom (CHF 4.3bn, 2002)▪ Zellweger Luwa (CHF 21mm, 2002)▪ Baloise (CHF 292mm, 2001)	<ul style="list-style-type: none">▪ Novartis (CHF 4bn)▪ UBS (CHF 6bn)▪ Ciba SC (CHF 0.7bn)

Mechanics of 2nd trading line

Share buybacks (with cancellation) are considered as “partial liquidation” by tax authorities in Switzerland

- Swiss withholding tax needs to be deducted
- sellers need to be identified
- therefore separate trading line necessary



2nd trading line features

- Only 1 buyer → Swisscom
- Sellers → those who actively choose 2nd trading line
- Separate security number (ticket code)
- Same level of transparency on trading information systems as for normal trading on 1st line



Trading on 2nd line

- Small premium compared to 1st line
- Volumes normally smaller than on 1st line
- Daily volumes on 2nd line can vary substantially
- Government participation:
“Government intends to participate”

Share buyback - taxes

	Swiss private investor	Swiss institutional investor	Foreign investor
Swiss Withholding tax	<ul style="list-style-type: none">35% of buyback price minus nominal value of CHF 1/sharefully reclaimable	<ul style="list-style-type: none">35% of buyback price minus nominal value of CHF 1/sharefully reclaimable	<ul style="list-style-type: none">35% of buyback price minus nominal value of CHF 1/sharebilateral tax treaty determines what can be reclaimed
Income tax	<ul style="list-style-type: none">on purchase price minus nominal value of CHF 1/share	<ul style="list-style-type: none">on purchase price minus investor's book value	<ul style="list-style-type: none">depending on local tax law

A tax example for different types of investors

(in CHF)	Swiss private investor	Swiss institutional investor		Foreign investor	
Initial purchase price / book value	380	380		380	
Buyback price	420	420		420	
Capital gain	40	40		40	
		privileged Inst.	Corporations	UK and US	other
Tax 1st line (income tax only)	0	0	x% on 40	x% on 40	x% on 40
Tax 2nd line					
- withholding tax	35% on 419 (reclaimable)	35% on 419 (reclaimable)	35% on 419 (reclaimable)	35% on 419 (20%-points reclaimable)	35% on 419 (x%-points reclaimable)
- income tax	x% on 419	0	x% on 40	x% on 40	x% on 40
Likely seller on 2nd line	X	✓	(✓)	X	X

Accretion effect

- Assuming Government participates proportionately with current stake of 62.7%
- Assuming an average buyback price of (in CHF) 420

	before SBB 2004	SBB 2004	after SBB 2004
Number of shares (in mm)	66.2	-4.8	61.4
of which Freefloat	24.7	-1.8	22.9
of which Government	41.5	-3.0	38.5
EPS 2003 (in CHF)	23.7	7.8%	25.5

Accretion effect of almost 8% at assumed buyback price

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