SWISSCOM AG
Form 20-F
April 21, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number **1-14860**

Swisscom AG
(Exact name of Registrant as specified in its charter)

Switzerland
(Jurisdiction of incorporation or organization)

Alte Tiefenaustrasse 6,
3050 Bern, Switzerland
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one-tenth of one Registered Share, Nominal Value CHF 1 per share	New York Stock Exchange
Registered Shares, Nominal Value CHF 1 per share*	New York Stock Exchange

* Listed, not for trading or quotation purposes, but only in connection with the registration of American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each of the issuer s classes of capital or common stock as of December 31, 2004: 66,203,261 Registered Shares, Nominal Value CHF 1 per share.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 þ

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Introduction

Presentation of financial and other information

Swisscom publishes its financial statements in Swiss francs (CHF). Unless otherwise indicated, all amounts in this annual report are expressed in Swiss francs. Solely for the convenience of the reader, certain amounts denominated in foreign currencies appearing primarily under the headings *Item 4: Information on the Company Divestments/Discontinued Operations* and *Item 5: Operating and Financial Review and Prospects* have been translated into Swiss francs. These translations should not be construed as representations that the amounts referred to actually represent such translated amounts or could be converted into the translated currency at the rate indicated.

Swisscom s annual audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), which differ in certain respects from U.S. GAAP. For a reconciliation of the material differences between IFRS and U.S. GAAP as they relate to Swisscom, see Note 42 to the consolidated financial statements.

As used in this annual report, the term Swisscom , unless the context otherwise requires, refers to Swisscom AG and its consolidated subsidiaries. The term Confederation refers to the Swiss Confederation.

Cautionary statement regarding forward-looking statements

This annual report contains statements that constitute forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. In addition, other written or oral statements, which constitute forward-looking statements have been made and may in the future be made by or on behalf of Swisscom. In this annual report, such forward-looking statements may be found, in particular, in *Item 4: Information on the Company* and *Item 5: Operating and Financial Review and Prospects* and include, without limitation, statements relating to:

- the implementation of strategic initiatives;
- the development of revenue overall and within specific business areas;
- the development of operating expenses;
- the anticipated level of capital expenditures and associated depreciation expense; and
- other statements relating to Swisscom s future business development and economic performance.

The words anticipate , believe , expect , estimate , intend , plan and similar expressions identify certain of these forward-looking statements. Readers are cautioned not to put undue reliance on forward-looking statements because actual events and results may differ materially from the expected results described by such forward-looking statements.

Many factors may influence Swisscom s actual results and cause them to differ materially from expected results as described in forward-looking statements. Such factors include:

- general market trends affecting demand for telecommunications services;
- developments in the interpretation and application of existing telecommunication regulations in Switzerland and the possibility that additional regulations may be imposed in the future;

developments in technology, particularly the timely rollout of equipment;

the evolution of Swisscom s strategic partnerships and acquisitions, including costs associated with possible future acquisitions and dispositions;

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- the effects of tariff reductions and other marketing initiatives;
- the outcome of litigation in which Swisscom is involved; and
- macroeconomic trends, governmental decisions and regulatory policies affecting businesses in Switzerland generally, including changes in the level of interest or tax rates.

Swisscom disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I

ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

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ITEM 3: KEY INFORMATION

Selected Financial Data

Selected Consolidated Financial and Statistical Data

The selected consolidated financial data below should be read in conjunction with Swisscom s financial statements included elsewhere in this annual report. The selected financial data as of December 31, 2000, 2001, 2002, 2003 and 2004 for each of the years in the five-year period ended December 31, 2004, have been extracted or derived from, and are qualified by reference to, the audited financial statements of Swisscom. The financial statements were prepared in accordance with IFRS, which differ in certain respects from U.S. GAAP. For a reconciliation of the material differences between IFRS and U.S. GAAP as they relate to Swisscom, see Note 42 to the consolidated financial statements. As a result of the sale of debitel in June 2004, Swisscom treats debitel in its consolidated financial statements as a discontinued operation. Prior years have been restated accordingly.

	Year Ended December 31,				
CHF in millions	**2000**	**2001**	**2002**	**2003**	**2004**
Consolidated Income Statement Data:					
Amounts in accordance with IFRS:					
Net revenue	**10,067**	**10,366**	**10,415**	**10,026**	**10,057**
Other income	125	194	230	233	197
Total	**10,192**	**10,560**	**10,645**	**10,259**	**10,254**
Goods and services purchased	1,862	2,056	2,073	1,706	1,847
Personnel expenses	2,302	2,224	2,329	2,266	2,194
Other operating expenses	2,161	2,058	1,989	1,783	1,809
Depreciation	1,826	1,674	1,552	1,543	1,548
Amortization	14	62	114	142	151
Total operating expenses	**8,165**	**8,074**	**8,057**	**7,440**	**7,549**
Gain on sale of real estate		568(1)			
Gain on partial sale of Swisscom Mobile AG		3,837(1)			
Operating income	**2,027**	**6,891**	**2,588**	**2,819**	**2,705**
Financial expense	(324)	(764)	(508)	(196)	(285)
Financial income	473	416	197	170	141
Income before income taxes, equity in net income of affiliated companies and minority interest	**2,176**	**6,543**	**2,277**	**2,793**	**2,561**
Income tax (expense) benefit(2)	(581)	48	(313)	(467)	(394)
Equity in net income of affiliated companies	1,754	32	94	(9)	22
Minority interest	(1)	(226)	(301)	(340)	(352)
Net income from continuing operations	**3,348**	**6,397**	**1,757**	**1,977**	**1,837**

Discontinued operations[3]	(192)	(1,433)	(933)	(408)	(243)
Net income	**3,156**	**4,964**	**824**	**1,569**	**1,594**

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CHF in millions except per Share and ADS amounts	Year Ended December 31, 2000	2001	2002	2003	2004
Basic earnings per share[4]					
-on continuing operations	45.53	86.98	25.97	29.86	28.39
-on discontinued operations	(2.62)	(19.48)	(13.79)	(6.16)	(3.76)
-net income	42.91	67.50	12.18	23.70	24.63
Diluted earnings per share[4]					
-on continuing operations	45.48	86.93	25.95	29.85	28.39
-on discontinued operations	(2.61)	(19.47)	(13.78)	(6.16)	(3.76)
-net income	42.87	67.46	12.17	23.69	24.63
Basic and diluted earnings per ADS[4]	4.29	6.75	1.21	2.37	2.46
Amounts in accordance with U.S. GAAP:					
Net revenue	**10,042**	**10,384**	**10,424**	**10,057**	**10,113**
Net income from continuing operations	2,432	6,070	1,780	2,066	1,968
Net income (loss) from discontinued operations	(513)	(368)	(994)	(8)	145
Cumulative effect of a change in accounting policy	169		(1,649)	38	
Net income (loss)	**2,088**	**5,702**	**(863)**	**2,096**	**2,113**
Basic earnings (loss) per share					
-on continuing operations	33.07	82.53	26.31	31.21	30.41
-on discontinued operations	(6.98)	(5.00)	(14.69)	(0.12)	2.24
Cumulative effect of a change in accounting policy	2.30		(24.38)	0.57	
-net income	28.39	77.53	(12.76)	31.66	32.65
Diluted earnings (loss) per share					
-on continuing operations	33.03	82.49	26.29	31.19	30.41
-on discontinued operations	(6.97)	(5.00)	(14.68)	(0.12)	2.24
Cumulative effect of a change in accounting policy	2.30		(24.35)	0.57	
-net income	28.36	77.49	(12.74)	31.64	32.65
Basic earnings per ADS[4]	2.84	7.75	(1.28)	3.17	3.27
Diluted earnings per ADS[4]	2.84	7.75	(1.27)	3.16	3.27

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CHF in millions	2000	2001	2002	2003	2004
	Year Ended December 31,				
Consolidated Balance Sheet Data:					
(end of period)					
Amounts in accordance with IFRS:					
Cash and cash equivalents	2,063	3,565	1,512	3,104	2,387
Other current assets	3,226	5,807	2,871	2,815	3,818
Property, plant and equipment	9,901	8,060	7,491	6,971	6,395
Investments in affiliated companies	501	589	682	41	58
Other non-current assets	2,396	3,028	2,267	1,924	1,790
Assets from discontinued operations	3,916	3,300	2,135	1,685	
Total assets	**22,003**	**24,349**	**16,958**	**16,540**	**14,448**
Short-term debt	2,625	1,696	960(5)	516(5)	384
Trade accounts payable and other current liabilities	3,145	2,569	2,170	2,219	2,314
Long-term debt and finance lease obligations	3,748	3,715	2,674(5)	2,408	2,151
Accrued pension cost	1,925	1,218	1,101	1,113	1,118
Accrued liabilities and other long-term liabilities	923	1,258	1,087	1,090	1,137
Liabilities from discontinued operations	1,038	1,055	886	794	
Total liabilities	**13,404**	**11,511**	**8,878**	**8,140**	**7,104**
Minority interest	29	769	781	731	663
Shareholders equity	**8,570**	**12,069**	**7,299**	**7,669**	**6,681**
Amounts in accordance with U.S. GAAP:					
Assets continuing operations	21,819	24,049	18,654	18,360	17,734
Assets discontinued operations	3,899	4,049	1,165	1,012	
Total assets	**25,718**	**28,098**	**19,819**	**19,372**	**17,734**
Long-term debt and finance lease obligations continuing operations	5,588	7,255	6,415	5,856	5,394
Long-term debt and finance lease obligations discontinued operations	34	28	23	36	
Total long-term debt and finance lease obligations	5,622	7,283	6,438	5,892	5,394
Shareholders equity	8,110	12,294	5,587	6,523	5,982
Consolidated Cash Flow Data:					
Amounts in accordance with IFRS:					
Net cash provided by operating activities	3,613	3,215	3,700	4,710	4,068
Capital expenditures:					
Fixed-line networks	485	470	479	497	360
Mobile networks	286	258	295	381	434

UMTS/GSM licenses	120				
Other intangibles	89	125	70	98	103
Buildings	18	28	2	6	13
Other	393	287	281	183	226
Total capital expenditures	**1,391**	**1,168**	**1,127**	**1,165**	**1,136**
Investments in affiliated companies	100	2	37	11	
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	Year Ended December 31,				
	2000	**2001**	**2002**	**2003**	**2004**
Statistical Data:					
Fixed-line access lines[6]					
(*end of period, in thousands*)					
PSTN lines	3,382	3,240	3,163	3,086	3,007
ISDN lines	723	857	911	924	924
Total fixed-line access lines	**4,105**	**4,097**	**4,074**	**4,010**	**3,931**
Traffic (*in millions of minutes*):					
National fixed-line telephony[7]	15,274	14,317	12,316	10,957	10,211
Outgoing international fixed-line telephony[8]	1,306	1,399	1,394	1,341	1,316
Mobile telephony[9]	2,977	3,296	3,331	3,335	3,404
Bluewin on-line service subscribers (*end of period, in thousands*)[10]	550	734	860	944	1,013
Swisscom Mobile subscribers[11] (*end of period, in thousands*)	2,961	3,373	3,605	3,796	3,908
Number of full-time equivalent employees (*end of period*)	17,459	17,784	17,171	16,079	15,477

Notes to Selected Consolidated Financial and Statistical Data

(1) In 2001, Swisscom entered into two agreements for the sale of real estate and recorded a gain of CHF 568 million. In 2001, Swisscom sold 25% of the shares of Swisscom Mobile AG to Vodafone and recorded a gain of CHF 3,837 million on disposal.

(2) Prior to 2002, Swisscom was subject to a weighted average statutory income tax rate of 25%. Swisscom s effective tax rate for the year ended December 31, 2001 was reduced by three one-time effects: (1) the gain on the sale of Swisscom Mobile was, in effect, not subject to tax; (2) the gain on the sale of real estate, which was only partially subject to tax; and (3) the impairment charge of debitel for tax purposes exceeded that recorded in the consolidated financial statements. In 2002, Swisscom transferred its operations from Swisscom AG to newly formed subsidiaries, which are each subject to individual tax rates. This resulted in a decrease in the weighted average tax rate from 25% to 23%. In 2004, the weighted average tax rate was 22.3%. See Note 13 to the consolidated financial statements.

(3) As a result of the sale of debitel in June 2004, Swisscom treats debitel in its consolidated financial statements as a discontinued operation. Prior years have been restated accordingly.

(4) Earnings per ADS are based on the ratio of one-tenth of one share to one ADS. Basic weighted-average number of shares outstanding in 2000, 2001, 2002, 2003 and 2004 was 73,540,974, 73,543,972, 67,647,928, 66,199,789, and 64,715,609, respectively. In March 2002, Swisscom repurchased 7,346,739 shares, or 9.99% of its share capital, at a price of CHF 580 per share for an aggregate amount of CHF 4.3 billion. On December 22, 2004, Swisscom completed a share repurchase program in which it repurchased shares in an aggregate amount of CHF 2 billion representing 7.13% of its share capital. The Annual General Meeting to be held on April 26, 2005 will vote on a resolution to reduce Swisscom s share capital accordingly.

(5) Total debt at December 31, 2000, 2001 and 2002 includes debt outstanding to the Swiss Post and the Federal Treasury in the aggregate principal amount of CHF 3.0 billion, CHF 1.8 billion and CHF 0.8 billion, respectively. In the course of 2003, Swisscom repaid the remaining outstanding loans of CHF 0.8 billion to the Swiss Post.

(6) Based on lines in service, including courtesy and service lines and lines for payphones.

(7) Represents total traffic generated by customers of Fixnet and Enterprise Solutions. Includes traffic on courtesy and service lines. Includes traffic from Swisscom s fixed-line network to mobile networks and to private user networks. Does not include Internet traffic and traffic generated from Swisscom-operated public payphones, Swisscom s toll-free, cost shared and premium rate telephone number services for business customers or by Swisscom s information services.

(8) Represents total traffic generated by customers of Fixnet and Enterprise Solutions. Based on minutes as determined for customer billing purposes.

(9) Includes minutes from all outgoing calls made by subscribers of Swisscom Mobile. Beginning in 2001, figures include voice minutes only, whereas in prior years, minutes relating to data and value-added services were also included.

(10) Active access subscribers include all paid-access subscribers and those subscribers to Swisscom s free access services who have accessed their accounts at least once in the past 40 days.

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(11) Beginning in 2001, Swisscom no longer includes accounts of any prepaid customer with inactivity of more than twelve months in its subscriber figures. This resulted in the deactivation of 207,000 inactive prepaid customers in December 2001. Effective December 31, 2004, approximately 124,000 customers, which have not registered with Swisscom on a timely basis, as required by law since July 2004, were deactivated.

Dividend Information

The following table shows, in respect of each of the years indicated, information concerning the dividends per share paid in Swiss francs and in U.S. dollars. Dividends were declared in Swiss francs and converted into U.S. dollars using the noon buying rate for Swiss francs per U.S. dollar on the date of the shareholders meeting at which the relevant dividend was approved. As used in this annual report, the term noon buying rate refers to the exchange rate for Swiss francs per U.S. dollar, as announced by the Federal Reserve Bank of New York for customs purposes as the rate in The City of New York for cable transfers in foreign currencies.

	Dividend per Share	
Year Ended December 31,	**(CHF)**	**(USD)**
2000	11	6.17
2001[1]	11	6.78
2002[1]	12	9.15
2003[1]	13	10.01
2004[2]	14	n/a

(1) In each of 2001, 2002 and 2003, shareholders received an additional distribution of CHF 8 per share (equivalent to USD 4.48 per share, USD 4.93 per share and USD 6.00 per share, in each case on the date of the shareholders meeting at which the relevant distribution was approved) following par value reductions.

(2) The Board of Directors has proposed a dividend of CHF 14 per share in respect of fiscal year 2004, which is subject to approval by the Annual General Meeting to be held on April 26, 2005. In December 2004, Swisscom completed a share repurchase program, in which it repurchased shares in an aggregate amount of CHF 2 billion. See *Item 8: Financial Information Dividend Policy* .

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Exchange Rate Information

The following table shows, for the years indicated, information concerning the noon buying rate, expressed in Swiss francs per U.S. dollar. The noon buying rate on April 19, 2005 was CHF 1.1843.

Year Ended December 31,	Average Rate(1)
2000	1.6930
2001	1.6944
2002	1.5497
2003	1.3374
2004	1.2393

(1) The average of the noon buying rates on the last business day of each full month during the relevant period.

The following table shows, for the periods indicated, information concerning the high and low noon buying rates for the Swiss franc, expressed in Swiss francs per U.S. dollar.

Month	High	Low
October 2004	1.2663	1.1962
November 2004	1.2075	1.1389
December 2004	1.1613	1.1338
January 2005	1.1960	1.1466
February 2005	1.2222	1.1585
March 2005	1.2060	1.1501

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Risk Factors

Risks Related to Swisscom s Business

Proposed amendments to the Telecommunications Act would require Swisscom to offer unbundled access to its local loop and other related services, which would negatively affect its fixed-line business and overall operating results

Since the entry into force of the Swiss Telecommunications Act on January 1, 1998 (Fernmeldegesetz) (the Telecommunications Act), the Swiss telecommunications market has been open to competition. While the Telecommunications Act contains provisions designed to facilitate competition in the fixed-line telephony market, Swisscom has not yet been required to unbundle its local loop, which means that Swisscom provides access services to the vast majority of customers who use fixed-line telephony services in Switzerland, many of whom continue to use Swisscom as their default provider of national and international calling services. Although competition has resulted in loss of market share and margin pressure for such calling services, Swisscom s access business has been a source of revenue growth and has also served to support Swisscom s retail traffic business.

Under proposed amendments to the Telecommunications Act currently being considered by the Second Chamber of the Swiss Parliament, Swisscom would be required to offer, among other things, unbundled access to its local loop in the form of full access and bitstream access on a cost-oriented basis as well as access rebilling. Unbundling of the local loop in the form of full access would allow competitors to offer access services to customers in Switzerland without having to build local loops of their own, although they would still have to make significant investments in their own network infrastructure in order to connect to the local loop. Moreover, with access rebilling, competitors would be able to bill customers directly for the access services provided by Swisscom. As a result, Swisscom s competitors would be able to offer their customers a full range of fixed-line services, including access, and their customers would receive a single bill covering all these services. Accordingly, adoption of the proposed amendments would increase competition in the access market and could cause Swisscom to lose additional market share in the national and international calling markets.

Unbundling of the local loop would, as currently proposed, also require market-dominant providers to offer bitstream access for two years on a cost-oriented basis. Currently, Swisscom s competitors provide ADSL services to its customers based on a wholesale contract with Swisscom on commercial terms. Regulated bitstream access may therefore enable Swisscom s competitors to offer ADSL services at lower rates than currently offered. While competitors would have to make upfront investments in their own network infrastructure in order to reach the transfer points for bitstream data traffic, the extent of these investments will depend on the regulations that are ultimately adopted. As currently proposed, the amendments would require Swisscom s competitors to make significant investments in their own network infrastructure. However, it cannot be excluded that the amendments ultimately adopted would require less investment by Swisscom s competitors, which would intensify competition in the broadband market. With increased competition, Swisscom s share of the ADSL market would be likely to decline and Swisscom could be required to lower its ADSL tariffs to remain competitive. While the loss in retail access revenue would be partially compensated by wholesale revenue for access services provided to its competitors, those services would have to be provided on a cost-oriented basis. Accordingly, introduction of bitstream access could have a significant and adverse effect on the growth and profitability of Swisscom s access business.

Overall, the proposed amendments to the Telecommunications Act would negatively affect Swisscom s fixed-line business by reducing revenues and causing margins to decline. Because fixed-line voice and data services continue to account for a significant part of Swisscom s overall revenues, the amendments would adversely affect Swisscom s consolidated results as well.

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Regulation of mobile access or call origination, mobile termination or mobile roaming may negatively affect Swisscom s mobile revenues and overall profitability

While the Telecommunications Act opened the Swiss mobile telephony market to competition, mobile telephony in Switzerland has not yet been the subject of extensive regulation. However, developments in the EU and Switzerland could result in additional regulation in the future.

In recent years, the European Union has been analyzing the markets for various mobile telephony services, including mobile access and call origination, mobile termination and mobile roaming with a view to determining whether additional regulation is required to ensure effective competition and prevent market abuse. These initiatives could ultimately lead to European-wide regulation of mobile access and call origination and/or a significant reduction in mobile termination fees for individual companies determined to have significant market power in their local markets. They could also lead to a significant reduction in international roaming charges. While Switzerland is not a member state of the EU and therefore is not subject to EU legislation, EU directives and implementing legislation in various EU countries have served as points of reference for the development of the Swiss regulatory regime.

Although not part of the current proposed amendments to the Telecommunications Act, earlier proposals would have provided the legal basis in Switzerland for requiring market-dominant providers to provide access to any relevant infrastructure or service, including new technologies such as mobile technology or wireless broadband networks, on a cost-oriented basis. There can be no assurance that such measures will not be reintroduced in the future. Regulation of mobile access could result in Swisscom being required to give access to its network to mobile virtual network operators or to sell to its competitors mobile telephony minutes for resale on a cost-oriented basis. Pressure on the Swiss regulatory authorities to regulate mobile access has increased as a result of the award of new mobile licenses to two service providers that require national roaming in areas where they do not have their own network.

With regard to mobile termination tariffs, the Competition Commission has initiated proceedings against Swisscom, Orange and TDC Switzerland (Sunrise), alleging that each operator has a dominant position with respect to terminating traffic on its own mobile network. If Swisscom were found to have a dominant position in this market, it could be required to reduce its mobile termination fees.

Concerns regarding mobile roaming charges have also been raised in Switzerland and it is possible that Swisscom may become subject to regulation in this area as well.

Regulation of mobile access or call origination, mobile termination fees or roaming charges would have a material and adverse effect on Swisscom s mobile revenues and lead to additional pressure on margins and reduced profitability. Since the mobile business has been a major source of Swisscom s profitability in recent years, these regulatory changes would adversely affect Swisscom s business as a whole.

Service providers are increasingly able to offer Swisscom s core telecommunications services using alternative technologies

The availability of alternative technologies capable of supporting telecommunications services is increasingly enabling competitors to provide services which fully substitute for Swisscom s core services (fixed-line voice and data services and mobile telephony).

With mobile penetration rates having reached 87% in Switzerland, mobile telephony is increasingly used as a substitute for fixed-line telephony, resulting in a decline in access lines and fixed-line traffic revenues. To the extent a Swisscom Fixnet customer opts to use Swisscom s mobile services, Swisscom Mobile benefits from this trend. Where a customer switches to another mobile service provider, however, Swisscom may no longer earn any revenue from this customer. Some of this loss can be compensated by wholesale revenue which Swisscom Fixnet and Swisscom Mobile derive from collecting fees for terminating calls on their networks and for routing calls between the mobile networks of other mobile operators. However, with direct mobile interconnection now available, mobile network operators are able to terminate their traffic directly on each other s networks instead of routing traffic through Swisscom Fixnet, bypassing Swisscom entirely.

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While the continuing substitution of mobile for fixed-line telephony has negatively affected Swisscom s fixed-line business, Swisscom faces an even greater threat from cable operators, in particular Cablecom, the largest cable network operator in Switzerland. Having made significant investments in its cable network to allow for bidirectional data transfer, Cablecom has been able to leverage its existing network into a platform for competing directly with Swisscom in its core competencies by offering basic voice and data services, as well as high speed Internet access services, to customers throughout Switzerland. Since mid-2004, Cablecom has been able to add subscribers to its voice telephony services at a rapid rate and Swisscom expects this trend to continue.

There are also numerous service providers with minimum network infrastructure who take advantage of interconnection rates and leverage the public Internet to provide low cost national and international calling services using voice over IP (VoIP). The increasing popularity of peer-to-peer communication also means that international calls may be placed between personal computers at minimal cost. As the quality and convenience of using these IP-based services has improved in recent years, they have become a viable alternative to traditional fixed-line services for many users, a trend Swisscom expects to continue and accelerate in the future. As in the fixed-line business, the popularity of IP-based peer to peer communication is having an increasingly disruptive effect on Swisscom s mobile business due to substitution of instant messaging for SMS and of VoIP-services for mobile voice telephony services. While Swisscom continues to derive revenue from providing its infrastructure to some of these services, revenue is likely to decline overall as a result of the increased use of these services.

Increased competition may have a significant impact on the revenues and profitability of Swisscom s fixed-line broadband business, which may not allow Swisscom to recoup its investment in the fixed-line broadband infrastructure and multimedia services

The provision of broadband access based on ADSL technology has been a fast-growing business for Swisscom over the last several years, partially offsetting declines in its traditional fixed-line business. In order to continue to grow this business, Swisscom is making significant capital expenditures to increase download capacity by upgrading its network. However, there is a risk that increased competition may negatively impact this growth and prevent Swisscom from realizing a return on its investment.

Swisscom faces strong competition particularly from cable network operators, including Cablecom, who are able to offer high-speed Internet access via cable. Cable currently allows a higher bandwidth offering than ADSL and has certain other advantages over ADSL. Moreover, as a cable operator, Cablecom is particularly well positioned to combine voice, data and Internet access services with a multimedia content offering. In response to this increased competition, Swisscom is making capital expenditures to upgrade its network to be able to combine its core activities in voice and Internet services with multimedia services such as TV and video on demand. However, Cablecom has already been offering these multimedia services for some time, and Swisscom may not be successful in entering this market.

Furthermore, the proposed amendments to the Telecommunications Act described above, under which Swisscom would be required to offer bitstream access on a cost-oriented basis for two years, would put additional pressure on prices.

If Swisscom were forced to significantly reduce its retail prices as a result of increased competition and price pressure, this would have a significant impact on the revenues and profitability of Swisscom s fixed-line broadband business.

Demand for broadband mobile services, which Swisscom has identified as a source of future growth in its mobile business, may be lower than expected and Swisscom may not be able to recoup the substantial investment required to build out its networks

The future success of Swisscom s mobile business, which in recent years has been Swisscom s most profitable operating segment, depends on, among other things, the capabilities and widespread market acceptance of broadband mobile technologies such as universal mobile telecommunication system (UMTS) and Enhanced Data Rates for GSM Evolution (EDGE) technology. UMTS is a third generation mobile radio system that creates additional mobile radio capacity and enables broadband media applications while also providing high speed Internet access. EDGE is a further development of the general packet radio service (GPRS) standard that allows considerably higher transmission speeds. Swisscom launched its commercial UMTS services in November 2004 and has recently activated EDGE technology.

In connection with the build-out of its UMTS and EDGE networks and the development of related products and services, Swisscom has incurred, and expects to incur in the future, substantial capital expenditures. It is still unclear whether these new services will meet with market acceptance. Market acceptance will depend on a number of factors, including the availability of applications which exploit the potential of the technology, as well as on the breadth and quality of available content. Furthermore, the level of demand for UMTS and EDGE services could be lower than expected as a result of increased use of alternative mobile broadband technologies, such as public wireless LAN. If UMTS and EDGE services fail to achieve the expected advantages over other technologies, Swisscom s mobile business will suffer and Swisscom may be unable to recoup its investment in UMTS and EDGE technology and could be required to write down the value of some or all of the related assets.

High penetration and increasing competition in the mobile telecommunications market could cause customer retention costs to increase substantially and Swisscom may not be able to maintain its current market share

With mobile penetration having reached almost 87% in Switzerland at the end of 2004, it has become more difficult to acquire new customers and Swisscom is therefore increasing its focus on customer retention. In this market, Swisscom already faces substantial competition from the other two mobile licensees in Switzerland, Orange and TDC Switzerland (Sunrise). Competition for business customers is particularly intense, as Orange and TDC have been increasing their efforts to win market share in this segment. In December 2003, the Federal Communications Commission (ComCom) awarded GSM licenses to Tele2 and In&Phone, which will further intensify competition in the mobile business market. For example, Tele2 is expected to launch a city network in Zurich in June 2005 at significantly lower rates than Swisscom currently offers for comparable services. Given the high rate of mobile penetration and increasing competition, customer retention costs, which are already on the rise, could increase substantially. If Swisscom is unable to attract new or retain existing customers in the mobile market, its mobile revenues would suffer and it will lose market share. At the same time, the increasing cost of customer retention could put additional pressure on margins and lead to a substantial decline in profitability.

Actual or perceived health risks and other problems relating to mobile devices or transmission masts could lead to stricter regulation of radiation emissions from mobile base stations and antennae, additional compliance expenditures and decreased mobile communications usage

Concern has been expressed that the electromagnetic signals from mobile devices and base stations may pose health risks or interfere with the operation of electronic equipment, including automobile braking and steering systems.

In December 1999, the Federal Council adopted an ordinance, known as the NIS Ordinance, which establishes emission standards to protect the population of Switzerland from non-ionizing radiation emitted by various sources, including mobile antennae and base stations. In 2002, the Swiss Agency for the Environment, Forests and Landscape (BUWAL) issued final recommendations which provide guidance for enforcement authorities on the appropriate methods for measuring electromagnetic emissions from base stations and masts in the GSM network, but which do not address emission standards for UMTS networks. Draft recommendations relating to emission standards for UMTS networks were published in 2004, which currently apply. Final recommendations are expected to be adopted in the course of 2005. Depending on the enforcement recommendations ultimately adopted, it is possible that additional capital expenditures will be required in connection with the build-out of Swisscom s UMTS network.

A recent study showed that UMTS radiation has an impact on the well-being of humans. While the impact of UMTS radiation on the well-being of humans is supposedly small, the results of the study are statistically significant. Additional studies, which attempt to replicate this recent study, while correcting certain of its scientific shortcomings, are currently being conducted. If these further studies confirm that UMTS radiation may have adverse health effects, regulatory authorities may set stricter emission standards for the UMTS network than currently apply. Any of these regulatory measures would have a severe and adverse effect on Swisscom s mobile business and Swisscom may be unable to recoup its investment in the UMTS network and required to take significant write downs.

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Even if no stricter regulatory measures were adopted, perceived health risks of mobile handsets or base stations and related publicity could cause Swisscom s customer base and average usage per customer to decline, which would have a material adverse effect on Swisscom s mobile communications business. Environmental objections may also make it more difficult to find attractive sites for base stations and could thereby impair the build-out of Swisscom s wireless infrastructure, primarily the mobile network.

If Swisscom is not able to benefit from a potential increase in market demand for integrated communication solutions and IT services, its business customers and solutions business would suffer

As the provision of basic telecommunication services to business customers has become a commodity business characterized by low margins, Swisscom believes that future growth in this market will lie in the provision of enhanced business solutions. Accordingly, it has invested in upgrading its data networks, thereby enabling the provision of integrated data and voice services with greater flexibility, scalability and performance. However, demand for such integrated communications solutions has not developed as Swisscom anticipated. The slowdown of the global economy beginning in 2001 led to a decline in corporate spending which was particularly pronounced in the IT area. Despite modest improvement of the economy since the beginning of 2004, demand for integrated communication solutions and IT services has remained sluggish and may potentially decline if the economy slows down again. Moreover, Swisscom faces intense competition from other players in the market for integrated communication solutions and IT services, some of which have more experience than Swisscom, and there can be no assurance that Swisscom will benefit proportionately from any upturn in market demand.

The expansion of its outsourcing business exposes Swisscom to the risk that it may not be able to achieve expected cost savings and could be required to perform long term contracts at a loss

In 2003 and 2004, Swisscom expanded its business in the outsourcing market. Outsourcing contracts are typically multi-year engagements under which Swisscom takes over management of a client s technology operations, business processes, network and/or IT infrastructure. Generally, Swisscom also takes over the clients employees associated with the outsourced operations and may become responsible for the related employee obligations, such as pension and severance commitments. The successful implementation of outsourcing projects depends among other things on Swisscom s ability to rapidly optimize the outsourced operations by reducing costs. If Swisscom is not able to realize anticipated efficiencies, it may not be able to perform these contracts on a profitable basis. In addition, some of these contracts may permit termination fees or impose other penalties if Swisscom does not meet performance levels specified in the contracts.

Swisscom may consider entering into acquisitions, including potentially large acquisitions outside its home market, which would entail a variety of important risks

Swisscom continues to actively consider investment opportunities, which could potentially include large acquisitions outside its home market. In 2004, Swisscom was in advanced discussions with the Austrian privatization authority (ÖIAG) regarding a possible merger with Telekom Austria, but talks were called off by both parties. More recently, Swisscom submitted a bid to acquire a 51% interest in Cesky Telecom a.s., which the Czech government had put up for auction. However, on April 6, 2005, the Czech government approved the sale to another bidder. Swisscom expects to continue to consider international investment opportunities in the future.

Entry into any such significant acquisition would entail a variety of important risks. There can be no assurance that Swisscom would be able to successfully execute the business plan it pursued with a specific acquisition, such as leveraging the target s expertise in certain areas, or to realize other anticipated benefits, including synergies, from the transaction. This risk may be compounded in the case of a cross-border transaction, particularly if it involves a local incumbent, as political and cultural factors may make it more difficult to implement management and other changes.

Although Swisscom would seek to conduct due diligence on any potential target, the opportunity to do so may be limited and it is possible that the transaction could entail higher than anticipated costs, that the target could have additional liabilities for which Swisscom may not be entitled to indemnification or that write downs may be required, including of any goodwill arising out of the transaction. Moreover, should Swisscom enter into a large acquisition, Swisscom would likely incur substantial debt, which could negatively affect earnings as well as potentially increase its cost of capital and reduce its future flexibility.

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Swisscom depends upon a limited number of suppliers, particularly for the supply of next generation fixed and mobile network components

Swisscom s ability to provide and roll out reliable, high quality and secure products and services, depends upon, among other things, the adequate and timely supply of transmission, switching, routing and data collection systems, related software and other network equipment. If Swisscom were unable to obtain adequate supplies of equipment in a timely manner, or if there were significant increases in the costs of such supplies, Swisscom s operations would be adversely affected. This is particularly true with respect to network equipment and services that Swisscom requires to upgrade its existing fixed and mobile networks to enable new broadband and multimedia services based on new technologies, such as ADSL, very high bit-rate digital subscriber line (VDSL) and UMTS. While Swisscom seeks to diversify its suppliers, it currently has only one supplier of ADSL, who will also be the supplier of VDSL, and one supplier of UMTS equipment. Swisscom also depends on the timely supply of mobile handsets which can be used in the UMTS network.

Network failures may result in the loss of traffic, reduced revenue and harm to Swisscom s reputation

Modern telecommunication networks are vulnerable to damage or interruption caused by system failures, hardware or software failures, computer viruses or external events such as storms, floods, avalanches, fires, power loss or intentional wrongdoing. Swisscom has experienced network failures in the past. In June 2004, Swisscom s IP network for business customers was disrupted for several hours due to a software failure. If the disruption had continued for a longer period, it would have had significantly adverse consequences, in particular for the banking sector. The risk of network failures can never be entirely eliminated. Any such failure may harm Swisscom s reputation and could result in customer dissatisfaction and reduced traffic and revenues.

Complex IT systems which have been developed over a long period of time may hamper Swisscom s business development

Swisscom relies for many of its most important data processing functions on complex IT systems which have been developed over a long period of time. Older systems have been upgraded and adapted on an ongoing basis and new systems have been introduced. As a result, there is a lack of harmonization in Swisscom s IT systems which may affect Swisscom s ability to compete with newer service providers and therefore require that Swisscom make further investments to facilitate the provision of flexible and cost-effective services to its customers and may harm its competitive position. In addition, further adaptation and extension of Swisscom s IT systems, in particular its billing, order management and customer relationship management systems, would be complex and time-consuming and could therefore hamper Swisscom s business development.

Swisscom may not be able to implement necessary restructuring measures, and its relations with the trade unions could deteriorate

While Swisscom was able to reach an agreement with the trade unions on the extension of the collective bargaining agreement in 2003, new negotiations are scheduled for 2005. In the course of these negotiations, Swisscom expects to face considerable disagreement with the trade unions, particularly with regard to the applicability of a new collective bargaining agreement to all Swisscom group companies and Swisscom s aim to introduce more flexible labor and termination conditions. If Swisscom is not able to achieve its aims, this could restrict its operating subsidiaries in their ability to adapt to changing market conditions, which could negatively affect their profitability. In addition, the negotiations as well as further staff reductions could damage industrial relations or even lead to work disruptions, which in turn could also negatively affect Swisscom s profitability and competitiveness.

A decline in the capital markets or the revision of previously made assumptions may result in increased pension expense and could affect Swisscom s profit

Swisscom contributes to comPlan, a defined benefit plan, which provides retirement benefits for the majority of its employees in Switzerland. comPlan covers the risks of old age, death and disability in accordance with Swiss pension legislation.

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The determination of the liability and expense for pension benefits in Swisscom s consolidated financial statements is based on the guidelines of the International Financial Reporting Standards (IFRS) and is dependent on the selection of assumptions which attempt to anticipate future events, including the discount rate, expected long-term rate of return on plan assets and rates of increase in future compensation levels. These assumptions are regularly reviewed and revised when appropriate, and changes in one or more of them could affect the amount of Swisscom s recorded expenses for these benefits. For 2005, Swisscom expects to make contributions to the comPlan in the amount of CHF 196 million. However, Swisscom plans to review the benefits and contributions under the comPlan and expects to amend the plan in the course of 2005. These amendments may require Swisscom to pay a higher amount than currently planned, which could have a significant negative effect on Swisscom s cashflows from operating activities in 2005.

Under IFRS, the total underfunding as of December 31, 2004 was CHF 2,050 million, of which CHF 1,118 million is recognized in the balance sheet. The difference, consisting of an unrecognized actuarial loss and unrecognized prior service cost totalling CHF 932 million, is subject to future recognition as described in Note 2.15 to the consolidated financial statements and will result in an additional expense of CHF 10 million in 2005, after an additional expense of CHF 9 million in 2004. For more information on Swisscom s pension plan, see Note 9 to the consolidated financial statements. If actual experience differs from expectations, Swisscom s results of operations and cash outflows in future periods could be affected. A deterioration of the capital markets would affect Swisscom s future pension expense and could lead Swisscom to increase its contributions, which would result in higher cash outflows.

Swisscom may be audited by the Swiss tax authorities and, if any deficiencies are uncovered, may be required to make substantial payments

Since Swisscom s incorporation as a Swiss stock corporation, only some of Swisscom s group companies have been subject to a detailed review by the Swiss tax authorities. Based on the experience of other Swiss companies, Swisscom believes that a review of the direct and indirect taxes of other Swisscom group companies or of the whole group may occur in the near future. Past audits by the Swiss tax authorities of other Swiss companies have in some cases resulted in substantial additional payments being required of the affected companies. While Swisscom was not required to pay any substantial additional payments as a result of past tax reviews of its group companies, it cannot be excluded that, if Swisscom is audited by the Swiss tax authorities in the future and any deficiencies are uncovered, Swisscom may have to make substantial payments for which it has not made provisions.

Swisscom is involved in a number of legal proceedings which, if decided against Swisscom, could in the aggregate have a material adverse effect on its results

Swisscom is involved in several legal proceedings that are described in more detail under *Item 8: Financial Information Legal Proceedings* . Swisscom s position as the principal telecommunications provider in Switzerland has attracted the attention of its competitors in Switzerland and of the Swiss regulatory authorities. In addition, Swisscom is regularly involved in legal disputes with competitors as a result of its leading position in the fixed-line and mobile communications markets in which it operates. For example, Swisscom is currently involved in a legal proceeding with respect to fixed-fixed interconnection fees, in which it may be required to lower interconnection prices by 25-35%. Although Swisscom believes that most of these proceedings would not individually have a material adverse effect on its results of operations and financial condition, in the aggregate these proceedings could have such an effect.

In connection with the sale of debitel, Swisscom may not be able to recover the full amount of the vendor loan notes and may be required to make additional payments under the representations and warranties made and indemnities provided in the purchase agreement

On June 8, 2004, Swisscom sold its 95% stake in debitel AG in a leveraged buy out by funds advised by the private equity firm Permira (Permira Funds), for a purchase price of EUR 640 million (equity value). The purchase price was partially financed by Swisscom through the conversion of existing intercompany loans in the amount of EUR 210 million into two vendor loan notes of EUR 105 million each, assumed by debitel Konzernfinanzierungs GmbH, an indirect 100% owned subsidiary of the entity acquired by Permira Funds in the transaction. Swisscom received a first repayment of EUR 20 million on this obligation in early 2005.

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A portion of the purchase price was also financed on a senior secured basis by a consortium of banks. Repayment of Swisscom s vendor loan notes, which have a term of 7 and 8 years, respectively, is subordinated to the full repayment of the senior facilities provided by these banks. Upon repayment of the senior facilities, the vendor loan notes will be secured by assets of debitel Konzernfinanzierungs GmbH, which consist primarily of the debitel shares acquired in the transaction. As a result, Swisscom faces the risk that it may not recover the full amount of the vendor loan notes in the event debitel Konzernfinanzierungs GmbH were to default on its obligations and the assets securing the vendor loans notes were insufficient to satisfy both the senior banks and Swisscom. Should this be the case, Swisscom would need to write off these loans.

As is common in this type of transaction, Swisscom has agreed to indemnify the purchaser for any breach of the representations and warranties made by it in the purchase agreement and for certain liabilities, including tax liabilities, of debitel. In addition, Swisscom has agreed to bear the risk of, and to indemnify the purchaser for, any losses which may arise in the future at one of debitel s international subsidiaries. However, the purchase agreement provides Swisscom with the right to assume control of this subsidiary under certain conditions in order to minimize its liability under this indemnity.

Based on current estimates, the maximum amount that could become due relating to the representations and warranties (excluding the indemnification given for one of debitel s international subsidiaries) was approximately EUR 110 million at December 31, 2004. No accrual has been recorded for this potential indemnification as management believes that the criteria for the recognition of a liability had not been met.

Risks Related to Ownership by the Swiss Confederation

The interests of the Swiss Confederation, which owns a majority stake in Swisscom, may differ from those of Swisscom and could hamper Swisscom s development

The Swiss Confederation holds a majority of Swisscom shares. Any reduction of the Confederation s holding below a majority would require a change in law. Swisscom may not undertake a capital increase that would otherwise have the effect of decreasing the Confederation s shareholding to less than a majority, unless the Confederation agrees to participate in the capital increase. Swisscom s ability to raise additional equity capital could therefore be constrained. In addition, Swisscom could also be limited in its ability to undertake major corporate actions, such as acquisitions or entry into strategic partnerships, either at the parent company level or through subsidiaries, which are important elements of its strategy.

The sale of a substantial stake in Swisscom by the Swiss Confederation could negatively affect Swisscom s share price

The Swiss Confederation currently holds a 61.4% stake in Swisscom. The stake will increase again to 66.1% after effectiveness of the planned share capital reduction following the share buyback completed in December 2004. While any reduction of the Confederation s holding below a majority would require a change in law, future sales by the Swiss Confederation down to the required majority may occur. In 2003 and 2004, the Swiss government issued bonds exchangeable into Swisscom shares in the aggregate amount of CHF 3.9 billion. The exchangeable bonds that are currently outstanding have remaining maturities ranging from one year to two and a half years. Full exercise of these bonds would cause the Confederation s stake in Swisscom to decline to 57.2% (assuming effectiveness of the share capital reduction). The Federal Council has also reaffirmed its intention to further reduce its stake to the legal minimum. The sale or potential sale of a significant number of Swisscom s shares by the Swiss Confederation may cause the market price of Swisscom s shares and ADSs to decline significantly.

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Risks Related to Swisscom s Shares

Currency fluctuations may adversely affect the trading prices of Swisscom s ADSs and the value of any distributions Swisscom makes

Because Swisscom s stock is traded in Swiss francs and the ADSs are traded in U.S. dollars, fluctuations in the exchange rate between the two currencies may affect the relative value of Swisscom s ADSs. In addition, should Swisscom make any distribution on its common stock in Swiss francs, the depositary will convert such distributions to U.S. dollars. If exchange rates fluctuate before the depositary converts the currencies, U.S. shareholders may lose some of the value of the distribution.

Shareholders rights are governed by Swiss law and differ in some respects from the rights of shareholders under U.S. law

Swisscom is a stock corporation organized under the laws of Switzerland. The rights of holders of Swisscom s shares, and therefore, many of the rights of its ADS holders, are governed by Swisscom s articles of incorporation and by Swiss law. These rights differ in some respects from the rights of shareholders in typical U.S. corporations. In particular, Swiss law significantly limits the circumstances under which shareholders of Swiss corporations may bring derivative actions.

It may not be possible for shareholders to enforce judgments of U.S. courts against members of Swisscom s Board of Directors or Group Executive Board

Swisscom is a Swiss stock corporation. The members of its Board of Directors and Group Executive Board are non-residents of the United States. In addition, Swisscom s assets and the assets of members of its Board of Directors and Group Executive Board are located in whole or in substantial part outside the United States. As a result, it may not be possible for shareholders to enforce against Swisscom or members of its Board of Directors and Group Executive Board judgments obtained in the United States courts based on the civil liability provisions of the securities laws of the United States. In addition, awards of punitive damages and judgments rendered in the United States or elsewhere may be unenforceable in Switzerland.

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ITEM 4: INFORMATION ON THE COMPANY

Overview

Swisscom is the principal telecommunications provider in Switzerland, offering a comprehensive range of products and services to residential and business customers. As the leading provider of fixed-line services, Swisscom offers analog and digital access services. In addition, Swisscom offers broadband services over existing subscriber lines using a technology commonly referred to as ADSL. As of December 31, 2004, Swisscom provided 3.9 million fixed-line telephone access lines in Switzerland, of which 0.9 million were digital or ISDN lines and 0.8 million were being used for ADSL access. In 2004, Swisscom billed an aggregate of 17.1 billion minutes of national transit and interconnection traffic and terminated over 1.5 billion minutes of incoming international traffic on behalf of other telecommunication service providers. Through Swisscom Mobile AG, in which Vodafone holds a 25% stake, Swisscom is the leading mobile telecommunications service provider in Switzerland, with over 3.9 million subscribers to its mobile service as of December 31, 2004. Swisscom also offers a full range of state-of-the-art data services, from leased lines to integrated solutions for its corporate customers. In 2004, Swisscom s net revenue amounted to CHF 10.1 billion.

On June 8, 2004, Swisscom sold its 95% stake in debitel AG, the largest network-independent telecommunications provider in Europe, in a leveraged buyout by funds advised by the private equity firm Permira (Permira Funds), for a purchase price of EUR 640 million (equity value). As a result of the sale, debitel is treated in the consolidated financial statements as a discontinued operation. Prior years have been restated accordingly. See *Divestments/Discontinued Operations debitel* .

Swisscom operates a variety of state-of-the-art telecommunications networks which enable the quick and cost-effective introduction of next-generation services. Swisscom s PSTN/ISDN network features fully digitalized transmission and local switching and fully integrated ISDN. Swisscom has upgraded its access networks to provide broadband connectivity services via ADSL technology in the local loop. ADSL technologies operate, like ISDN, over existing copper lines, but offer higher speed and volume for data transmission. Swisscom s current ADSL offering provides download speeds of up to 2.4 Mbit/s and is available to more than 98% of the population of Switzerland. Swisscom also operates several data networks used for the provision of packet switched, frame relay and asynchronous transfer mode (ATM) data services and, to an increasing extent, IP and Ethernet communication. Swisscom s mobile telephony network is a digital mobile dual band network based on the international GSM standard. Swisscom has also built out a separate third generation UMTS network. UMTS is mobile radio system that creates additional mobile radio capacity and enables broadband media applications while also providing high speed Internet access. Swisscom is currently capable of providing UMTS service to almost 90% of the Swiss population. As described in more detail below, Swisscom is currently making targeted investments in both its fixed-line and mobile networks to increase coverage where needed as well to enhance capacity and upgrade functionality. See *Networks and Technology* .

The following table sets forth Swisscom s capital expenditures for the periods indicated.

	Year Ended December 31,		
CHF in millions	2002	2003	2004
Fixed-line network	479	497	360
Mobile network	295	381	434
Other	353	287	342

Total	**1,127**	**1,165**	**1,136**

Prior to January 1, 1998, Swisscom was the state monopoly service provider and was subject only to limited competition. On January 1, 1998, the Swiss telecommunications market was opened to competition with the implementation of the Telecommunications Act. Since then, a large number of competitors have entered the Swiss market, with intense competition in both fixed-line and mobile telephony and in services provided to business customers.

Although Switzerland is not a member of the EU, the Swiss market has been liberalized on the schedule and in the manner set forth in the EU directives mandating the liberalization of telecommunications services in member states. In October 2004, the First Chamber of the Swiss Parliament passed a bill with significant amendments to the Telecommunications Act, which is currently under consideration by the Second Chamber of the Swiss Parliament. These amendments would, if adopted into law, require Swisscom to offer unbundled access to its local loop, as well as access to leased lines, on a cost-oriented basis. See *Regulation Unbundling of the Local Loop and Other Access Regulation*.

Under the Telecommunications Act, Swisscom was required to continue to provide certain basic telecommunications services comprising Universal Service throughout Switzerland until December 31, 2002, with a number of such services subject to price ceilings. In June 2002, ComCom renewed Swisscom s Universal Service license for another five-year term. Under the terms of this license, ISDN access is part of Universal Service and is subject to a price ceiling.

On December 22, 2004, Swisscom completed a share repurchase program in which it repurchased shares in an aggregate amount of CHF 2 billion representing 7.13% of its share capital. The Annual General Meeting to be held on April 26, 2005 will vote on a resolution to reduce Swisscom s share capital accordingly. See *Item 8: Financial Information Dividend Policy*.

Historically, Swisscom s operations were a part of the Swiss PTT, a dependent agency of the Swiss Government. The Telecommunications Enterprise Act of 1997 (the TUG) established Swisscom as a special statutory stock corporation. The TUG provides that the Swiss Confederation must hold a majority of the capital and voting rights of Swisscom. Any reduction of the Confederation s holding below a majority would require a change in law. In 2003 and 2004, the Swiss government issued several bonds exchangeable into Swisscom shares in the aggregate amount of CHF 3.9 billion. The exchangeable bonds that are currently outstanding have remaining maturities ranging from one year to two and a half years. Full exercise of these bonds would cause the Confederation s stake in Swisscom to decline to 57.2% (assuming effectiveness of the share capital reduction described above).

Swisscom s principal executive offices are located at Alte Tiefenaustrasse 6, 3050 Bern, Switzerland. For a list of Swisscom s subsidiaries and affiliated companies, see Note 40 to the consolidated financial statements.

Strategy

Swisscom s primary strategy is to remain a leading and innovative multi-service provider of telecommunication services in Switzerland. In addition to focusing on its home market, Swisscom actively considers investments abroad.

In its home market, Swisscom believes that the mobile business continues to have growth potential, while the fixed-line business is likely, in spite of increasing broadband penetration, to erode over time. Accordingly, Swisscom seeks to optimize its free cash flow from existing businesses, while exploring any opportunities to develop new businesses in Switzerland.

In particular, Swisscom s strategy in its home market is:

> ***To develop and introduce innovative broadband services.*** Swisscom believes that the provision of broadband services to customers in both its fixed-line and mobile businesses is key to customer retention and will also be a source of future revenue growth. In its fixed-line business, Swisscom strategy is to combine its core competencies in voice and Internet access services with multimedia services such as TV and video on demand. Swisscom refers to this strategy as its triple play strategy. Swisscom has recently piloted a TV over DSL service, which it intends to introduce on a commercial basis during the second

half of 2005. In its mobile business, Swisscom is actively promoting video telephony services and has expanded the range of broadband mobile services available through the Vodafone live! portal to include live TV and 3D video games. In addition, to further this triple play strategy, Swisscom recently acquired a 49% strategic stake in CT Cinetrade AG, a Swiss media company whose activities include a pay-TV channel, video and DVD film rights, as well as movie theaters.

To support the development and roll out of broadband services through targeted investment in network infrastructure. To support its triple play strategy, Swisscom is making targeted investments to enhance the capacity, reach and functionality of its broadband networks. Swisscom expects such enhancements to include the introduction of very high bit-rate digital subscriber line (VDSL) technology in its fixed-line access network. VDSL will allow downstream speeds well above 10Mbit/s capable of supporting rich multimedia services, such as the simultaneous transmission of multiple television channels. With respect to its mobile networks, Swisscom continues to build out its UMTS capability, while also investing in capacity enhancements and functional upgrades of its existing GSM/GPRS network, for example with the recent deployment of EDGE technology. Following its prudent investment policy, Swisscom intends to proceed with network enhancements in incremental steps aligned with market demand.

To improve its domestic position by developing adjacent and new businesses. Swisscom seeks to expand its business into adjacent and new businesses in order to leverage its strong customer base in Switzerland. In 2004, Swisscom significantly expanded its telecommunication and IT infrastructure outsourcing activities. Swisscom believes that infrastructure outsourcing business will grow in the future as technologies converge and demand increases for combined IT and telecommunication solutions. With the acquisition of Billag Card Services AG in 2003, Swisscom made its debut in the market for third party billing and loyalty cards processing services, a business which Swisscom seeks to expand in the future.

To maintain customer loyalty in its core businesses through enhanced customer care. In addition to providing innovative broadband services to retain and attract customers, Swisscom seeks to maintain customer loyalty through enhanced customer care, which it believes distinguishes it from its competitors. In its fixed-line business, Swisscom offers a variety of promotions, such as discounts for evening and weekend calls and temporary discounts, and recently introduced new pricing models, which gives its customers greater flexibility in choosing the tariff that best fits their individual needs. In its mobile business, Swisscom offers a full range of different tariff models and various customer loyalty programs, such as handset subsidies. The merger of its businesses of Enterprise Solutions and Swisscom Systems to form a new business segment named Swisscom Solutions enables Swisscom to deliver traditional data and voice as well as integrated communications solutions from a single source, which it believes will improve the convenience of its services and increase customer satisfaction.

Efficiency improvements. As a result of increased pressure on margins due to strong competition and regulatory effects, Swisscom has placed increasing emphasis on cost management in recent years. Swisscom seeks to achieve efficiency improvements in particular through reducing headcount and optimizing workplace infrastructure. In addition, Swisscom has sold or closed down businesses with low margins such as its international point of presence in North America and European sales offices, and its international wholesale business, which it agreed to combine with Belgacom in February 2005.

While being primarily focused on its home market, Swisscom continues to actively consider investment opportunities outside of Switzerland with a focus on Europe. Swisscom has defined strict criteria which are applied to any larger investment opportunity: sustainability of the business, strategic fit, quality of management, reasonability of price and overall impact on Swisscom s business and risk profile. In 2004, Swisscom was in advanced discussions with the Austrian privatization authority (ÖIAG) regarding a possible merger with Telekom Austria. While talks were called off by both parties, Swisscom continues to believe that Telekom Austria would be a promising investment. More recently, Swisscom submitted a bid to acquire a 51% interest in Cesky Telecom a.s., which the Czech government had put up for auction. However, on April 6, 2005, the Czech government approved the sale to another bidder. In addition to considering such larger investments, Swisscom may also make venture capital type investments in companies at various stages of development in promising sectors of the telecommunications industry. Should no suitable investment opportunity arise, Swisscom intends, in accordance with its dividend policy, to return capital it does not require to its shareholders. See *Item 8: Financial Information Dividend Policy* .

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Overview of Revenue by Business Segment

In 2004, Swisscom operated in the following business segments:

Fixnet provides fixed-line voice and Internet access services as well as a comprehensive range of fixed-line telecommunication services to residential and business customers. In addition, Fixnet provides a wide range of wholesale services. Fixnet also offers a variety of other services, including the sale of customer equipment, the provision of leased lines and the operation of a directories database.

Mobile provides mobile telephony, data and value-added services in Switzerland.

Enterprise Solutions provides national and international fixed-line voice telephony services to business customers and offers leased lines, Intranet, private network and other services.

Other covers mainly the sale of corporate voice communications equipment through Swisscom Systems, the provision of IT services through Swisscom IT Services as well as the provision of high-speed Internet access to business travelers across Europe through Swisscom Eurospot.

Corporate includes Swisscom s headquarter functions, group-company shared services, property rentals through the real estate company Swisscom Immobilien and Swisscom s programs under its social plan.

The following table sets forth external revenue generated by Swisscom s segments for the periods indicated.

	Year Ended December 31,		
CHF in millions	**2002**	**2003**	**2004**
Fixnet	4,907	4,601	4,555
Mobile	3,434	3,511	3,679
Enterprise Solutions	1,167	1,081	987
Other	833	761	768
Corporate	74	72	68
Total	**10,415**	**10,026**	**10,057**

In 2004, the following effects had an impact on the structure of Swisscom s reporting segments. The previous years figures have been restated to reflect these changes:

Sale of debitel. As a result of the sale of debitel in June 2004, the former reporting segment debitel is now reported separately as a discontinued operation in the consolidated financial statements. See *Divestments/Discontinued Operations debitel* .

Customer transfer from Enterprise Solutions to Fixnet. Effective January 2004, approximately 46,000 business customers with primarily standard traffic needs were transferred to the Fixnet segment from Enterprise Solutions, which has increased its focus on large business customers with complex communication needs.

Direct mobile interconnection. Since February 2003, direct mobile interconnection has been available, and Swisscom Mobile and other mobile network operators are now able to terminate their traffic directly on each other s networks rather than through Fixnet, which had been the intermediary for such traffic. In 2004, Swisscom Mobile entered into an agreement with a further mobile network operator. As a result, the revenues and costs associated with this counterparty, which in the past had been recorded as external revenues and costs in the Fixnet segment are now recorded as external revenues and costs in the Mobile segment.

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Fixnet

Through Fixnet, Swisscom is the leading provider of fixed network telecommunication services in Switzerland, which it provides to residential, business and wholesale customers. In 2004, Fixnet generated total revenue of CHF 5.7 billion, including sales of CHF 1.2 billion to other Swisscom business segments. With external revenues of CHF 4.6 billion, Fixnet accounted for 45% of Swisscom s consolidated net revenue in 2004.

Services provided by Fixnet include:

Access. Fixnet provides access services, including traditional analog, digital and broadband access services, to residential and business customers. As of December 31, 2004, Fixnet provided 3.9 million fixed-line telephone access lines, including 0.9 million ISDN lines, and offered ADSL access over 0.8 million subscriber lines.

Retail Traffic. Fixnet provides national and international fixed-line voice telephony services to residential and business customers. In 2004, Fixnet carried an aggregate of 11.5 billion minutes of national telephony and dial-up Internet traffic and 1.0 billion minutes of outgoing international traffic generated by residential customers.

Wholesale Traffic. Fixnet provides a wide range of wholesale services to Swisscom s other segments (which results in the recognition of intersegment revenue) and to other national and international telecommunications providers. In 2004, Fixnet billed a total of 17.1 billion minutes of national interconnection and transit traffic and terminated 1.5 billion minutes of outgoing international traffic and 1.5 billion minutes of incoming international traffic.

Other Traffic. Fixnet operates public payphones, provides operator services and offers prepaid calling cards.

Other. Fixnet also offers a variety of other services, including the sale of customer equipment, the provision of leased lines and the operation of a directories database.

The following table sets forth external revenue generated by Fixnet for the periods indicated.

	Year Ended December 31,		
CHF in millions	**2002**	**2003**	**2004**
Access	1,581	1,715	1,876
Retail traffic	1,405	1,329	1,240
Wholesale traffic	942	677	691
Other traffic	208	247	158
Other	771	633	590
Total	**4,907**	**4,601**	**4,555**

Effective January 2004, Enterprise Solutions increased its focus on large business customers with complex, solution-oriented telecommunication needs, while Fixnet continues to deliver standardized telecommunication products for the residential and small business customer markets. As a result, the revenues and costs generated by 46,000 customers with primarily standard traffic needs were transferred from Enterprise Solutions to Fixnet. Prior years have been restated accordingly.

In order to strengthen its competitive position in the retail fixed-line market, Swisscom aims to increase usage of its broadband access services and to strengthen customer loyalty. Swisscom believes that demand for broadband connectivity services continues to increase and will remain a future source of growth. Swisscom is actively marketing broadband connectivity in the retail market under the brand name Bluewin. Swisscom believes that combining its core activities voice and Internet with multimedia services such as TV and video on demand, a so-called triple-play strategy, will be an effective means of competing with cable network operators. Swisscom carried out a 3-month field trial ending February 2005 of providing television to 600 of its users and plans to introduce the new multimedia services on a commercial basis during the second half of 2005. In addition, Swisscom seeks to optimize product distribution and to promote customer care through direct and indirect sales channels, such as Swisscom shops and specialized outlets. Swisscom also operates a direct marketing center.

Access

Fixnet provides homes and businesses in Switzerland with analog and digital telephone access lines as well as a variety of supplementary services. In addition, Swisscom offers Internet access services to residential and business customers as well as broadband Internet access services to other Internet service providers on a wholesale basis. In 2004, external revenue from access services amounted to CHF 1,876 million.

Voice Access

Swisscom s analog voice access service, provided over the public switched telephone network (PSTN), consists of providing connections between a customer s premises and the PSTN for basic voice, facsimile and Internet services. Each PSTN access line provides a single telecommunications channel. Swisscom offers its PSTN customers a wide range of supplementary services including call forwarding, call waiting, engaged line callback, three-party conference calling and caller identification suppression services. In 2004, PSTN services comprised 48% of total access revenue.

Swisscom s digital voice access services are provided over the integrated services digital network (ISDN). ISDN allows a single access line to be used for a number of purposes simultaneously, including voice, Internet, data and facsimile transmission. ISDN provides higher quality connections with faster transmission of signals, and increases the bandwidth capacity of the access network. ISDN also supports a full range of supplementary services. Swisscom offers both basic ISDN access lines with two channels and primary ISDN access lines with thirty channels.

The following table sets forth, for the periods indicated, selected data relating to access lines provided by Fixnet to residential and business customers.

	As of December 31,		
In thousands of lines(1)	**2002**	**2003**	**2004**
PSTN(2)	3,163	3,086	3,007
ISDN(3)	911	924	924
Total access lines	**4,074**	**4,010**	**3,931**
Total access channels	5,335	5,261	5,175

(1) Based on lines in service, including courtesy lines and service lines.

(2) Each PSTN line provides one access channel.

(3) ISDN lines consist of basic ISDN lines and primary ISDN lines. A basic ISDN line provides two access channels and a primary ISDN line provides 30 access channels.

ISDN growth has slowed in recent years and stagnated in 2004 because of high ISDN penetration and the increasing use of ADSL services, which are also offered over PSTN line. In addition, the total number of access lines declined primarily due to the market entry of Cablecom, Switzerland s major cable network operator, which offers telephony and Internet services over its own infrastructure. Swisscom expects this trend to continue.

Swisscom does not receive revenue in connection with the initial in-house installation of access lines, which is generally performed by independent contractors. Most available supplementary services are included in the monthly subscription.

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The following table sets forth information relating to Swisscom s charges in effect in 2004 for the provision of access services.

CHF (including VAT)	Activation Fee	Monthly Fee
PSTN	43.00	25.25
ISDN basic	43.00	43.00
ISDN primary	914.60	538.00

Under the terms of the Universal Service license, the provision of ISDN access is included within Swisscom s Universal Service obligation and is subject to a price ceiling of CHF 40.00 (excluding VAT). PSTN access is subject to a price ceiling of CHF 23.45 (excluding VAT). Additional charges may be levied for the provision of supplementary services. See *Regulation Universal Service* and *Regulation Price Ceilings for Universal Service*

In October 2004, the First Chamber of the Swiss Parliament passed a bill with significant amendments to the Telecommunications Act, which is currently under consideration by the Second Chamber of the Swiss Parliament. These amendments would, if adopted into law, require Swisscom to offer unbundled access to its local loop on a cost-oriented basis. Swisscom does not expect the amendments to the Telecommunications Act to become effective before mid-2006. See *Regulation Unbundling of the Local Loop and Other Access Regulation* and *Item 8: Financial Information Legal Proceedings* .

Internet Access

Under the brand name Bluewin, Swisscom is the leading Internet service provider for retail customers in Switzerland, offering broadband Internet access over asynchronous digital subscriber lines (ADSL) and narrowband Internet access as a dial-up service over ISDN and PSTN lines. In addition, Swisscom Fixnet provides broadband Internet access to other Internet service providers on a wholesale basis.

The following table provides information about the number of access subscribers for the periods indicated:

	Year Ended December 31,		
In thousands of lines/subscribers	**2002**	**2003**	**2004**
Bluewin ADSL lines	109	274	490
Wholesale ADSL lines	86	213	312
Total ADSL lines	**195**	**487**	**802**
Bluewin narrowband subscribers[(1)]	751	670	523

(1) Includes active access subscribers only, defined as all paid-access subscribers and those subscribers to Swisscom s free-access services who have accessed their accounts at least once in the past 40 days.

In recent years, growth in the access area has come from ADSL technology, which Swisscom believes will also be the source for future growth. ADSL offers significantly higher transmission speeds compared to ISDN. Because ADSL may be offered over a traditional PSTN line, ADSL growth may lead to a decline in the number of ISDN lines.

Through Bluewin, Swisscom offers residential Internet users and small businesses Internet access service packages facilitating high-quality Internet access using both narrowband and broadband access technologies, IP-based communication services, personal information management services and shared hosting services. Internet access over ADSL is offered on a flat-fee basis, depending on the size of bandwidth.

Bluewin s strategy is to focus on its core competencies within Switzerland. In particular, Bluewin seeks to increase the number of subscribers to ADSL access services by offering new ADSL services and increasing significantly the capacity of its ADSL lines. Following the so-called triple play strategy of combining its core activities with multimedia services, Bluewin plans to offer television and video on demand during the second half of 2005. In order to evaluate the technological feasibility and market appeal of offering television over its broadband infrastructure, Swisscom carried out a 3-month field trial ending February 2005 of providing television to 600 of its broadband subscribers. In preparing the market for Swisscom s entry into the TV business, in March 2005 Swisscom launched a first product offering related to TV services which can be used over the cable network.

In March 2002, two of Swisscom s competitors filed a petition with the Competition Commission, alleging that Swisscom is illegally subsidizing Bluewin and abusing its dominant position in both the retail and wholesale market for ADSL services. On May 6, 2002, the Competition Commission issued a provisional order requesting Swisscom to offer its competitors the same discounts as it gives to Bluewin and launched an investigation. On December 15, 2003, the Competition Commission issued a decision, in which it determined abusive behavior by Swisscom of its market-dominant position and enjoined Swisscom from giving any discounts exclusively to Bluewin. In February 2004, Swisscom lodged an appeal against this decision. On January 13, 2005, Swisscom filed a petition to reconsider the provisional order on the grounds that market conditions have changed. See *Item 8: Financial Information Legal Proceedings Other Regulatory Proceedings"*.

Retail Traffic

Swisscom provides comprehensive national and international calling services to residential and business customers. Fixnet considers small and medium sized enterprises, depending on the complexity of their telecommunications needs, to be residential customers. External revenue attributable to national traffic and outgoing international traffic originating on the fixed-line network generated by Fixnet customers amounted to CHF 1,240 million in 2004.

Retail traffic has declined in recent years, mainly due to a significant decline in local area traffic and Internet traffic. Local area traffic declined in 2002 and 2003 mainly as a result of the numbering plan introduced in 2002, which allows subscribers who have pre-selected an alternative carrier to have their local calls automatically routed over that carrier s network. In 2004, the decline in local area traffic was a result of the fact that Internet is increasingly accessed via Internet dial-up numbers, offered by Internet service providers, and ADSL lines, with the result that the associated traffic is no longer included in Swisscom s local area traffic statistics. The migration to ADSL lines is also the reason for the decline in Internet traffic. Swisscom expects retail traffic to continue to decline.

Swisscom believes it is well-positioned to remain the leading provider of national traffic and outgoing international call services in the Swiss market. To this end, Swisscom continues to implement new measures designed to maintain its market share in national and international telephony traffic and to increase customer loyalty. In 2004, Swisscom intensified its efforts to retain and win back customers through direct marketing campaigns and new pricing models.

***Traffic*.** The following table sets forth, for the periods indicated, selected information relating to Fixnet s national and outgoing international fixed voice telephony traffic generated by residential customers.

	Year Ended December 31,		
In millions of minutes(1)	**2002**	**2003**	**2004**
Local and long distance traffic	8,804	7,732	7,205
Fixed-to-mobile traffic(2)	907	950	949
Internet traffic	5,766	4,842	3,323
Total national retail traffic	**15,477**	**13,524**	**11,477**
International retail traffic(3)	961	968	955

Total retail traffic	**16,438**	**14,492**	**12,432**

(1) Includes traffic on courtesy and service lines. Does not include traffic generated from Swisscom-operated public payphones.

(2) Includes traffic from calls from the fixed-line network to private user networks.

(3) Based on minutes of outgoing international traffic as determined for retail customer billing purposes. Does not include international wholesale traffic originating outside Switzerland.

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In 2004, 48% of the outgoing international traffic generated by residential customers (excluding outgoing mobile traffic) was directed toward three countries: Germany, France and Italy.

Tariffs. Swisscom s national traffic charges are calculated on the basis of call duration, time of day and day of the week, and whether the call is fixed-to-fixed or fixed-to-mobile. Recently, Swisscom launched new pricing models, under which customers can opt to pay a monthly subscription fee, allowing them to make both national as well as international calls at reduced rates or even for free at certain off-peak times.

Local area and national long distance calls in Switzerland are billed at the same rate as follows:

CHF/minute(1)	**Peak** (2)	**Off-Peak** (3)
National single tariff	0.08	0.04

(1) Calls are charged in incremental steps of CHF 0.10 without a set-up charge.

(2) Monday to Friday from 8:00 a.m. to 5:00 p.m.

(3) Monday to Friday from 5:00 p.m. to 8:00 a.m., as well as on Saturdays, Sundays and holidays.

The following table sets forth information relating to the tariffs billed for fixed-to-mobile calls:

CHF/minute(1)	**Peak** (2)	**Off-Peak** (3)