

Financial Review 2003

Key figures

CHF in millions, except where indicated

2002

2003

Swisscom Group

Net revenue		14 526	14 581
Operating income before one-time items, depreciation and amortization (EBITDA) ¹⁾		4 413	4 641
As % of net revenue	%	30.4	31.8
Operating income before one-time items (EBIT) ¹⁾		2 408	2 716
Impairment of goodwill		(702)	(280)
Operating income (EBIT)		1 706	2 436
Net income		824	1 569
Shareholders' equity		7 299	7 669
Equity ratio ²⁾	%	43.0	46.4
Number of full-time equivalent employees at end of period ^{3) 4)}	FTE	20 470	19 207
Average number of full-time equivalent employees ⁵⁾	FTE	20 910	19 804
Revenue per employee	CHF in thousands	695	736
EBITDA per employee	CHF in thousands	211	234
Net cash provided by operating activities		3 785	4 732
Equity free cash flow ⁶⁾		1 119	2 913
Capital expenditure		1 222	1 213
Net debt (net funds) ⁷⁾		642	(1 492)

Swisscom AG

Net income		2 724	1 154
Shareholders' equity		5 216	5 046
Dividend		794	861
Capital reduction		530	-

Key figures per share

Par value per share at end of period	CHF	9.00	1.00
Weighted-average number of shares outstanding	in mio.	67.648	66.200
Price per share (high/low)	CHF	519.00 / 360.00	438.50 / 367.00
Closing price at end of period	CHF	400.50	408.00
Net income	CHF	12.18	23.70
Shareholders' equity	CHF	110.25	115.85
Gross dividend	CHF	12.00	13.00
Capital reduction	CHF	8.00	-
Pay-out ratio ⁸⁾	%	164.19	54.85
Market capitalization at end of period		26 514	27 011

¹⁾ In accordance with the proposal of the Board of Directors to the General Meeting of Shareholders.

¹⁾ One-time item in 2002: Impairment of goodwill CHF 702 million. One-time item in 2003: Impairment of goodwill CHF 280 million.

²⁾ Shareholders' equity as a percentage of total assets.

³⁾ Includes 3,299 and 3,123 employees of debitel at December 31, 2002 and 2003, respectively.

⁴⁾ Excludes 252 and 360 full-time equivalent employees of WORK_LINK at December 31, 2002 and 2003, respectively.

⁵⁾ Excludes 218 and 295 full-time equivalent employees of WORK_LINK in 2002 and 2003, respectively. See Note 7.

⁶⁾ Definition of equity free cash flow: net cash provided by operating activities, less net capital expenditure, net proceeds from the sale and purchase of investments, repayment of financial liabilities (excluding leasing liabilities) and dividend payments to minority interests.

⁷⁾ Definition of net debt (net funds): total debt less cash and cash equivalents, current financial assets and financial assets from cross-border tax lease transactions.

⁸⁾ Representing gross dividend and capital reduction as a percentage of net income per share.

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Review of the Group's results

As a result of efficiency improvements and rigorous cost management, Swisscom increased operating income before interest, tax, depreciation and amortization, and impairment of goodwill (EBITDA) in 2003 by 5.2% to CHF 4,641 million. Consolidated net revenue rose by 0.4%. While revenue from Mobile remained stable, Fixnet and Enterprise Solutions reported a decrease of 6.6% and 9.9%, respectively. debitel posted revenue growth of 10.8%. Equity free cash flow rose significantly year-over-year. A dividend of CHF 13 per share will be proposed to the General Meeting of Shareholders. In addition, Swisscom will buy back approximately CHF 2 billion worth of its shares, thereby ensuring that, in line with its stated return policy, the entire equity free cash flow generated in 2003 is paid out to shareholders.

The results of the individual segments are shown in the following table:

CHF in millions	Net revenue ¹⁾			EBITDA ²⁾		
	2002	2003	Change	2002	2003	Change
Fixnet	6 262	5 846	-6.6%	1 874	2 075	10.7%
Mobile	4 112	4 140	0.7%	1 974	1 984	0.5%
Enterprise Solutions	1 522	1 371	-9.9%	97	134	38.1%
debitel	4 111	4 555	10.8%	159	137	-13.8%
Other	1 463	1 304	-10.9%	111	156	40.5%
Corporate	704	703	-0.1%	198	155	-21.7%
Intercompany	(3 648)	(3 338)	-8.5%	-	-	-
Total	14 526	14 581	0.4%	4 413	4 641	5.2%

¹⁾ Includes intersegment revenue.

²⁾ From 2003, revenue from Business Numbers from other providers is reported net of service providers' costs. This change does not affect EBITDA. Prior year has not been restated as the effect was not material. Revenue in 2002 would have been CHF 191 million lower (Fixnet CHF 143 million, Mobile CHF 48 million).

The following table shows the reconciliation from EBITDA to net income:

CHF in millions	2002	2003	Change
EBITDA	4 413	4 641	228
Depreciation	(1 702)	(1 712)	(10)
EBIT before amortization of goodwill	2 711	2 929	218
Amortization of goodwill	(303)	(213)	90
Impairment of goodwill	(702)	(280)	422
EBIT	1 706	2 436	730
Financial expense	(517)	(154)	363
Financial income	206	140	(66)
Income taxes	(361)	(500)	(139)
Equity in net income of affiliated companies	95	(7)	(102)
Minority interest	(305)	(346)	(41)
Net income	824	1 569	745

The increase in EBITDA of CHF 228 million was largely attributable to Fixnet, which contributed CHF 201 million as a result of cost savings and efficiency improvements. EBITDA at Mobile rose by a marginal 0.5%.

Swisscom is currently engaged in discussions concerning the potential disposal of its shareholding in debitel AG. On account of the current estimated value, Swisscom recorded a further goodwill impairment charge of CHF 280 million in 2003.

Financial expense fell as a result of lower interest expense, lower impairments on financial assets and positive foreign exchange effects.

Income tax expense rose in line with income before tax. The previous year's figure included a one-time charge of CHF 115 million relating to changes in income tax rates.

The 90.4% increase in net income is attributable to the improved operating result and financial result as well as lower goodwill amortization and a lower impairment of goodwill. Basic earnings per share amount to CHF 23.7 (2002: CHF 12.2).

Equity free cash flow, which determines the total amount to be paid out to shareholders, stands at CHF 2,913 million (2002: CHF 1,119 million). In addition to the improvement in operating income, the increase in equity free cash flow is attributable to a reduction in the amount of income taxes paid, the sale of the investment in Cesky Telecom and a reduction in debt repayments.

The Board of Directors of Swisscom will propose to the General Meeting of Shareholders that a dividend of CHF 13 per share be paid, corresponding to a total dividend payment of CHF 861 million, or around 50% of net income before impairment of goodwill in respect of debitel. The remainder of the equity free cash flow (some CHF 2 billion) will be paid out to shareholders in 2004 in the form of a share buy-back, in accordance with the Group's stated return policy.

In the face of continuing strong competition, assuming the same regulatory conditions and excluding the debitel Group, Swisscom expects consolidated revenue of around CHF 10 billion and operating income before interest, tax, depreciation and amortization (EBITDA) of approximately CHF 4.3 billion for 2004. Swisscom expects EBITDA from its operating businesses (Fixnet, Mobile, Enterprise Solutions and Other) to remain stable compared with prior year. In the Corporate segment, higher expense in respect of the employment company WORK_LINK AG is expected. Capital expenditure in 2004 will amount to around CHF 1.3 billion.

Review of the Group's results

Fixnet

CHF in millions	2002	2003	Change
Local and long-distance traffic	456	407	-10.7%
Fixed-to-mobile traffic	391	398	1.8%
Internet traffic	189	162	-14.3%
International traffic	189	202	6.9%
Total retail traffic	1 225	1 169	-4.6%
Wholesale traffic	1 004	755	-24.8%
Other traffic	208	247	18.8%
Access	1 581	1 715	8.5%
Other revenue	744	612	-17.7%
Revenue from external customers	4 762	4 498	-5.5%
Intersegment revenue	1 500	1 348	-10.1%
Net revenue	6 262	5 846	-6.6%
Segment expenses (incl. intercompany)	4 388	3 771	-14.1%
EBITDA	1 874	2 075	10.7%
<i>Margin as % of net revenue</i>	29.9	35.5	
Depreciation	1 049	1 076	2.6%
EBIT before amortization of goodwill	825	999	21.1%
Amortization of goodwill	6	7	16.7%
EBIT	819	992	21.1%
Number of lines in thousands	2002	2003	Change
PSTN lines	3 163	3 086	-2.4%
ISDN lines	911	924	1.4%
Total number of lines PSTN / ISDN	4 074	4 010	-1.6%
ADSL retail lines	109	274	151.4%
ADSL wholesale lines	86	213	147.7%
Total number of ADSL lines	195	487	149.7%
Retail traffic volume in millions of minutes	2002	2003	Change
Local and long-distance traffic	7 864	6 985	-11.2%
Fixed-to-mobile traffic	777	825	6.2%
Internet traffic	5 766	4 842	-16.0%
Total national traffic	14 407	12 652	-12.2%
International traffic	808	842	4.2%
Total retail traffic	15 215	13 494	-11.3%
Wholesale traffic volume in millions of minutes	2002	2003	Change
National traffic	18 679	18 103	-3.1%
International incoming traffic	1 854	1 607	-13.3%
International termination traffic	1 878	1 188	-36.7%
Total international traffic	3 732	2 795	-25.1%
Total wholesale traffic	22 411	20 898	-6.8%
CHF in millions or number	2002	2003	Change
Capital expenditure	585	583	-0.3%
Number of full-time equivalent employees at end of period	8 010	7 657	-4.4%

Fixnet posted a year-over-year decline of 5.5% in revenue from external customers to CHF 4,498 million. Revenue from access fees rose due to a large increase in the number of ADSL broadband access lines. By contrast, revenue from retail and wholesale traffic declined. The change in accounting policy for Business Numbers resulted in reductions of CHF 117 million in other revenue and CHF 26 million in revenue from wholesale traffic.

Revenue from retail traffic fell by 4.6% year-over-year. This decline is principally attributable to the new numbering plan introduced in the second quarter of 2002, which resulted in Swisscom's market share in the local area falling to the same level as the long-

distance area. The single national tariff for fixed line telephony introduced on May 1, 2002 had only a slight negative impact on revenue. Traffic volume continued to fall as a result of the ongoing substitution effect from mobile and the migration of Internet traffic to ADSL.

The CHF 249 million drop in revenue from wholesale traffic is attributable to the closure of local sales outlets in several European countries and the sale of business activities of Swisscom North America in the fourth quarter of 2002. The very low margin generated by the business activities concerned had a minimal effect on EBITDA.

Access revenue rose by 8.5% to CHF 1,715 million due to continuing growth in ADSL broadband access lines. At December 31, 2003 there were a total of 487,000 active ADSL lines, of which 274,000 related to Bluewin retail customers and 213,000 to customers of other providers. By contrast, the growth in the number of ISDN lines levelled off, and the number of analog lines (PSTN) fell by 2.4%.

The CHF 132 million drop in other revenue is largely the result of the change in the accounting policy for Business Numbers of other providers. With effect from 2003, these revenues are reported net of service providers' costs. This change has no impact on EBITDA. The prior-year figures were not restated since the effect was not material. Revenue in 2002 would have been CHF 117 million lower.

Intersegment revenue declined by CHF 152 million, due to the fall in revenue from Enterprise Solutions as a result of lower prices and volumes and the change in accounting policy for Business Numbers.

Segment expenses decreased by 14.1% year-over-year to CHF 3,771 million. Due to consistent cost management, savings were primarily achieved in IT expenses, network maintenance and advertising. Personnel expenses also decreased due to lower headcount and a drop in the cost of workforce reduction measures. In addition, segment expenses fell due to the change in accounting policy for Business Numbers and the drop in network costs resulting from the closure of sales outlets and the sale of business activities abroad.

In November 2003, the Federal Communications Commission (ComCom) issued its ruling on two interconnection lawsuits filed by two competitors in 2000. The two ComCom decrees require a reduction of between 25% and 35% in interconnection prices, retroactive for the years 2000 to 2003. The decrees only apply to the two competitors involved. Swisscom has recorded a provision representing managements best estimate. Swisscom has lodged appeals with the Federal Court against the ComCom decrees.

EBITDA rose by 10.7% to CHF 2,075 million due to efficiency improvements and cost savings. EBITDA margin amounted to 35.5% (2002: 29.9%).

Review of the Group's results

Mobile

CHF in millions	2002	2003	Change
Connectivity voice	2 077	2 144	3.2%
Connectivity data and value added services	486	454	-6.6%
Base fees	698	685	-1.9%
Other revenue	112	151	34.8%
Revenue from external customers	3 373	3 434	1.8%
Intersegment revenue	739	706	-4.5%
Net revenue	4 112	4 140	0.7%
Segment expenses (incl. intercompany)	2 138	2 156	0.8%
EBITDA	1 974	1 984	0.5%
<i>Margin as % of net revenue</i>	<i>48.0</i>	<i>47.9</i>	
Depreciation	289	310	7.3%
EBIT	1 685	1 674	-0.7%

Number of subscribers in thousands	2002	2003	Change
Postpaid	2 298	2 387	3.9%
Prepaid	1 307	1 409	7.8%
Total	3 605	3 796	5.3%

	2002	2003	Change
ARPU in CHF	85	81	-4.7%
Number of SMS messages in millions	1 650	1 847	11.9%

CHF in millions or number	2002	2003	Change
Capital expenditure	392	431	9.9%
Number of full-time equivalent employees at end of period	2 358	2 418	2.5%

Mobile posted a year-over-year increase of 1.8% in revenue from external customers to CHF 3,434 million.

The 3.2% growth in revenue from connectivity voice is attributable to expansion of the customer base and an increase in direct traffic termination with other mobile network operators. However, both the average minutes per user (AMPU) and the average revenue per user (ARPU) declined compared with the previous year. The fall in AMPU is due to economic factors, which also affected ARPU. Other reasons for lower ARPU were the ongoing price war in the business customer segment and subscription switching on the part of residential customers.

Revenue from connectivity data and value added services fell by 6.6% year-over-year. The decrease was due to the change in accounting policy for Business Numbers. From 2003, revenue from Business Numbers is reported net of service providers' costs. Revenue in 2002 would have been CHF 48 million lower. This change does not affect EBITDA. The prior-year figures were not restated since the effect was not material. The number of SMS messages sent grew by 11.9%.

Mobile segment expenses rose by 0.8% year-over-year to CHF 2,156 million. Segment expenses in 2003 include costs arising from the new arrangements with Vodafone governing access to its products and services, notably Vodafone live!. The successful rollout of Vodafone live! in the fourth quarter of 2003 generated around 50,000 customers by year-end.

EBITDA rose by 0.5% to CHF 1,984 million. EBITDA margin amounted to 47.9% (2002: 48%).

Capital expenditure increased by 9.9% year-over-year, chiefly due to further expansion of the UMTS and GSM networks.

Enterprise Solutions

CHF in millions	2002	2003	Change
Local and long-distance traffic	230	196	-14.8%
Fixed-to-mobile traffic	213	202	-5.2%
International traffic	118	104	-11.9%
Total traffic	561	502	-10.5%
Networking	568	536	-5.6%
Inhouse and processes	110	90	-18.2%
Other revenue	134	133	-0.7%
Revenue from external customers	1 373	1 261	-8.2%
Intersegment revenue	149	110	-26.2%
Net revenue	1 522	1 371	-9.9%
Segment expenses (incl. intercompany)	1 425	1 237	-13.2%
EBITDA	97	134	38.1%
<i>Margin as % of net revenue</i>	6.4	9.8	
Depreciation	32	33	3.1%
EBIT	65	101	55.4%

Traffic volume in millions of minutes	2002	2003	Change
Local and long-distance traffic	3 218	2 719	-15.5%
Fixed-to-mobile traffic	457	428	-6.3%
Total national traffic	3 675	3 147	-14.4%
International traffic	586	499	-14.8%
Total national and international traffic	4 261	3 646	-14.4%

CHF in millions or number	2002	2003	Change
Capital expenditure	23	13	-43.5%
Number of full-time equivalent employees at end of period	1 410	1 117	-20.8%

Enterprise Solutions posted a year-over-year decrease of 8.2% in revenue from external customers to CHF 1,261 million. Traffic revenue fell by CHF 59 million, largely due to the same combination of factors that affected Fixnet, namely the new numbering plan introduced in the previous year, the single national tariff and loss of market share. Networking revenue declined mainly as a result of the fall in leased line volumes and prices.

The 13.2% reduction in segment expenses is primarily attributable to lower volumes with Fixnet. Segment expenses include CHF 41 million (2002: CHF 10 million) relating to workforce reduction measures.

EBITDA rose by CHF 37 million to CHF 134 million, chiefly as a result of cost savings. EBITDA margin improved by 6.4% to 9.8%.

Review of the Group's results

debitel

CHF in millions	2002	2003	Change
Germany	2 859	3 192	11.6%
International	1 252	1 363	8.9%
Revenue from external customers	4 111	4 555	10.8%
Segment expenses	3 952	4 418	11.8%
EBITDA	159	137	-13.8%
<i>Margin as % of net revenue</i>	3.9	3.0	
Depreciation	62	68	9.7%
EBIT before amortization of goodwill	97	69	-28.9%
Amortization of goodwill	277	172	-37.9%
Impairment of goodwill	702	280	-60.1%
EBIT	(882)	(383)	-56.6%

Number of subscribers in thousands	2002	2003	Change
Germany	7 729	8 300	7.4%
International	2 332	2 044	-12.3%
Total	10 061	10 344	2.8%

CHF in millions or number	2002	2003	Change
Capital expenditure	68	48	-29.4%
Number of full-time equivalent employees at end of period	3 299	3 123	-5.3%

Swisscom holds 93% of debitel's shares, with a call option to purchase a further 2%. debitel represents a financial investment for Swisscom.

Swisscom is currently engaged in discussions concerning the potential disposal of its shareholding in debitel AG. On account of the current estimated value, Swisscom recorded a further goodwill impairment charge of CHF 280 million in 2003. At December 31, 2003 Swisscom had a cumulative currency translation loss of CHF 221 million recorded under other reserves in consolidated shareholders' equity. On disposal of the shareholding, this loss will be removed from equity in 2004 and recognized in the income statement.

debitel posted year-over-year revenue growth in Euro terms of 6.5%, which equates to an increase of 10.8% in Swiss franc terms.

The increase in revenue in Germany is largely due to expansion of the customer base which grew year-over-year by a net total of 571,000 to 8.3 million. The increase relates primarily to postpaid customers. Higher revenue from telephony services was offset by lower merchandising revenue.

In its international business, debitel posted revenue growth of 8.9% (4.7% in euro terms) to CHF 1,363 million, with debitel France accounting for CHF 326 million (+4.2%) and debitel Netherlands for CHF 817 million (+6.8%). debitel's customer base outside Germany dropped by a net 288,000, primarily due to discontinuation of its customer management mandate as outsourcing partner for a network operator in France.

The year-over-year fall in EBITDA of CHF 22 million was mainly attributable to customer acquisition and retention costs associated with the increase in subscribers.

Other

CHF in millions	2002	2003	Change
Swisscom Systems AG	406	345	-15.0%
Swisscom IT Services AG	213	214	0.5%
Swisscom Broadcast AG	162	149	-8.0%
Billag AG	52	52	0.0%
Other revenue	-	1	-
Revenue from external customers	833	761	-8.6%
Intersegment revenue	630	543	-13.8%
Net revenue	1 463	1 304	-10.9%
Segment expenses (incl. intercompany)	1 352	1 148	-15.1%
EBITDA	111	156	40.5%
<i>Margin as % of net revenue</i>	7.6	12.0	
Depreciation	205	164	-20.0%
EBIT before amortization of goodwill	(94)	(8)	-91.5%
Amortization of goodwill	20	34	70.0%
EBIT	(114)	(42)	-63.2%

CHF in millions or number	2002	2003	Change
Capital expenditure	103	119	15.5%
Number of full-time equivalent employees at end of period	4 374	3 921	-10.4%

The „Other“ segment comprises the Group companies Swisscom Systems AG, Swisscom IT Services AG, Swisscom Broadcast AG, Billag AG and Swisscom Eurospot. In December 2003 Billag AG acquired T-Systems Card Services AG (now Billag Card Services AG). The company provides customer loyalty services based on customer cards.

Revenue from external customers in the „Other“ segment fell by 8.6% year-over-year. The fall is chiefly the result of lower revenue generated by Swisscom Systems AG in the field of private branch exchanges due to ongoing competitive pressure and a weak economy. Of the CHF 214 million revenue generated by Swisscom IT Services AG from external customers, CHF 165 million (2002: CHF 174 million) related to minority shareholders. Revenue from external customers amounted to CHF 49 million in 2003, an increase of 25.6% year-over-year.

Intersegment revenue fell largely as a result of the reduction in services provided to other Group companies by Swisscom IT Services AG on account of cost-saving measures.

Operating expenses decreased by 15.1% year-over-year to CHF 1,148 million, due to lower operating costs in line with revenue as well as lower expenses relating to workforce reduction measures. In 2003 these amounted to CHF 48 million (2002: CHF 101 million). Operating expenses also include costs relating to the setting up of Swisscom Eurospot's international PWLAN business.

The CHF 45 million improvement in the segment's EBITDA to CHF 156 million is primarily attributable to lower workforce reduction expenses.

Review of the Group's results

Corporate

CHF in millions	2002	2003	Change
Revenue from external customers	74	72	-2.7%
Intersegment revenue	630	631	0.2%
Net revenue	704	703	-0.1%
Segment expenses (incl. intercompany)	506	548	8.3%
EBITDA	198	155	-21.7%
<i>Margin as % of net revenue</i>	<i>28.1</i>	<i>22.0</i>	
Depreciation	65	61	-6.2%
EBIT	133	94	-29.3%

CHF in millions or number	2002	2003	Change
Capital expenditure	51	19	-62.7%
Number of full-time equivalent employees at end of period	1 019	971	-4.7%

The Corporate segment comprises the divisions at Group Headquarters, shared services in respect of Group companies, the real-estate company and the employment company WORK-LINK AG.

Excluding costs relating to workforce reduction measures and net expense in respect of the employment company WORK_LINK AG and the Employment Market Center (EMC), EBITDA in the Corporate segment amounts to CHF 158 million (2002: CHF 119 million).

Termination benefits

Swisscom supports employees affected by workforce reduction measures through three programs set out in its social plan: the Employment Market Centre (EMC), the Co-Motion business start-up program and the employment company (WORK_LINK AG). The EMC program assists employees in their search for a new position or career change and continues to pay their salary for a certain period of time. The Co-Motion business start-up program helps Swisscom employees affected by the job reductions to set up their own companies. The employment company WORK_LINK AG finds temporary positions for older, longer-serving employees for whom no solution can be found in the EMC.

The following table shows workforce reduction expenses by segment:

CHF in millions	2002	2003	Change
Fixnet	86	63	(23)
Enterprise Solutions	10	41	31
Other	101	48	(53)
Corporate	14	42	28
Elimination	(119)	(106)	13
Termination benefits	92	88	(4)

Costs relating to workforce reduction measures are recorded separately for each segment as soon as the employees affected have been informed in person or if the detailed workforce reduction plan has been communicated to the staff. In 2003 these costs amounted to CHF 194 million (2002: CHF 211 million). These include costs of CHF 106 million (2002: CHF 119 million) in respect of employees who under the provisions of the social plan were entitled to transfer to the employment company WORK_LINK AG or who were able to find a new position in another organizational unit within Swisscom. Under IFRS, these costs do not meet the criteria for recognition since the employment relationship was not terminated. These costs, for which a provision cannot be created, were eliminated in the Corporate segment and recognized in the income statement. At December 31, 2003, the amount relating to WORK_LINK participants and other social plan measures, for which provisions cannot be created under IFRS, amounted to CHF 242 million.

Net expenses for EMC and WORK_LINK are broken down as follows:

CHF in millions	2002	2003	Change
Salaries and wages WORK_LINK participants	32	53	21
Other operating expenses	1	24	23
Income from personnel hire	(7)	(10)	(3)
Net expenses EMC / WORK_LINK	26	67	41

Salaries and wages as well as social security expenses for WORK_LINK participants in 2003 amounted to CHF 53 million (2002: CHF 32 million). Other operating expenses relate to personnel and infrastructure costs for the administration of EMC and WORK_LINK as well as pension costs (IFRS) for EMC and WORK_LINK participants.

At December 31, 2003, 723 full-time equivalent employees were participating in the EMC program and 360 in the WORK_LINK program.

Financial expense

Financial expense fell as a result of lower interest expense, lower impairments on financial assets and positive foreign exchange effects.

Interest expense decreased from CHF 246 million to CHF 172 million due to repayment of the Swiss Post loan and other debts.

Impairment charges of CHF 41 million and CHF 33 million were recorded in 2002 and 2003, respectively on Swisscom's investment in Swiss International Airlines Ltd. An impairment charge of CHF 111 million was also recorded in 2002 on the company's investment in Infonet Services Corp.

Provisions are recognized in the balance sheet at their present value, with any change in present value arising from interest rate changes being recorded under financial expense. The present value of a provision for the dismantling of transmitter stations was reduced following an extension of the stations' remaining useful lives. The resultant present value adjustment of CHF 43 million was recorded as a reduction in financial expense.

A net foreign exchange gain of CHF 48 million was recorded in 2003 compared with a net loss of CHF 71 million in the previous year.

Financial income

Interest income decreased by CHF 54 million to CHF 114 million due to the fall in interest rates and a reduction in average cash and cash equivalents and current financial assets.

Review of the Group's results

Pension fund

The obligatory and supplementary retirement provision for Swisscom employees is managed by the company's own comPlan Foundation, which insures employees against the economic consequences of old age, death and disability in accordance with Swiss pension legislation. At December 31, 2003, comPlan's provisional year-end results prepared under Swiss law showed an underfunding of CHF 157 million, or a funding ratio of 97%. The underfunding is the result of losses on the plan's assets in prior years. In 2003 the Board of Trustees agreed upon measures aimed at restoring full coverage. The return on plan assets in 2003 amounted to 7.25%.

The determination of pension fund liability and expense in the consolidated financial statements is based on International Financial Reporting Standards (IFRS). At December 31, 2003, the level of underfunding calculated based on these standards amounted to CHF 2,010 million, of which only CHF 1,113 million is recognized in the balance sheet. In contrast to Swiss law, this calculation takes into account actuarial assumptions for future developments, such as salary increases, indexation of pension benefits and assumptions for early retirement. The unrecognized underfunding of CHF 897 million (2002: CHF 1,066 million) is due primarily to the fact that under IFRS the liability is determined using the expected return on plan assets rather than the actual return. The pension expense for 2003 was calculated on the basis of an expected return on plan assets of 5%.

Income taxes

Income tax expense for 2003 amounted to CHF 500 million (2002: CHF 361 million). This corresponds to an effective tax rate of 20.6% (2002: 25.9%). The transition by Swisscom from a parent company structure to a holding structure was completed in 2002. This led to a revaluation of tax assets and liabilities, resulting in a one-time, additional net tax expense of CHF 115 million. Excluding this exceptional item, the effective tax rate for 2002 would have been 21.6%.

Taxes paid in 2003 of CHF 73 million were significantly lower than the tax expense in 2003 of CHF 241 million. This difference is due to the timing of invoices received and payments made. Advance payments were made in the previous year which were offset against taxes due in 2003. The amount of income tax to be paid in 2004 is likely to be significantly higher than in 2003.

Affiliated companies

Equity in net result of operations of affiliated companies fell by CHF 102 million year-over-year. Swisscom recorded income in the previous year in respect of a fixed-term management agreement between AUCS Communications Services (Netherlands) and Infonet Services Corp. which expired on September 30, 2002. In December 2003, Swisscom and KPN sold their investment in Cesky Telecom, which was held indirectly via TelSource N.V., at a loss of CHF 71 million. Swisscom's share of the net proceeds of the sale amounted to CHF 510 million. Cesky Telecom paid out a special dividend prior to the sale. Swisscom's share of this special dividend was CHF 121 million. Following the sale, the item affiliated companies principally relates to the 49% investment in PubliDirect Holding AG and debitel's 21.1% investment in Dangaard Telecom Holding A/S (Denmark).

Minority interests

Minority interests relates mainly to the 25% shareholding of Vodafone in Swisscom Mobile AG. The share of the net income of subsidiaries amounted to CHF 346 million (2002: CHF 305 million). Dividends of CHF 393 million (2002: CHF 304 million) were paid to minority shareholders in 2003.

Equity free cash flow

Swisscom intends to pay out the equity free cash flow to shareholders. The equity free cash flow results from net cash provided by operating activities, less net capital expenditure, net proceeds from the sale and purchase of investments, repayment of financial liabilities (excluding leasing liabilities) and dividend payments to minority interests.

CHF in millions	2002	2003	Change
EBITDA	4 413	4 641	228
Changes in operating assets and liabilities and other payments or receipts from operating activities	(22)	75	97
Dividends received	9	147	138
Net interest paid	(78)	(58)	20
Income taxes paid	(537)	(73)	464
Net cash provided by operating activities	3 785	4 732	947
Capital expenditure	(1 222)	(1 213)	9
Net (payments) proceeds for investments in financial assets	(141)	506	647
Repayment of Swiss Post loan	(1 000)	(750)	250
Dividends paid to minority interests	(304)	(393)	(89)
Other cash flow from investing and financing activities, net	1	31	30
Equity free cash flow	1 119	2 913	1 794
Investments in and sale of current financial assets, net	2 896	16	(2 880)
Other changes in financial liabilities	(591)	(81)	510
Dividends paid and capital reduction	(1 257)	(1 324)	(67)
Share buy back	(4 264)	-	4 264
Net (decrease) increase in cash and cash equivalents	(2 097)	1 524	3 621

Equity free cash flow rose by CHF 1,794 million year-over-year to CHF 2,913 million. The main reasons for this marked increase are the higher EBITDA figure, a reduction in the amount of income taxes paid, a reduction in debt repayment and proceeds from the sale of, and special dividend from, Cesky Telecom.

On the basis of the equity free cash flow generated, the Board of Directors will propose to the General Meeting of Shareholders that a dividend of CHF 13 per share (CHF 861 million in total) be paid. The remainder of the equity free cash flow (some CHF 2 billion) will be paid out to shareholders in 2004 in the form of a share buy back, in accordance with the Group's stated return policy.

Balance sheet

CHF in millions	2002	2003	Change
Cash and cash equivalents and current financial assets	1 967	3 501	1 534
Trade accounts receivable and other current assets	3 048	3 116	68
Property, plant and equipment and other intangible assets	7 890	7 362	(528)
Goodwill	1 190	857	(333)
Investments in affiliated companies and financial assets	2 275	1 436	(839)
Current and deferred tax assets	588	268	(320)
Total assets	16 958	16 540	(418)
Financial liabilities (including finance lease obligation)	3 713	3 020	(693)
Other current liabilities	2 826	2 754	(72)
Accrued pension cost	1 101	1 113	12
Accrued liabilities and other long-term liabilities	806	712	(94)
Current and deferred tax liabilities	417	521	104
Minority interests	796	751	(45)
Shareholders' equity	7 299	7 669	370
Total liabilities and shareholders' equity	16 958	16 540	(418)

Receivables and other current assets increased by CHF 374 million following the acquisition of T-Systems Card Services AG in December 2003. Operating activities resulted in a fall in current assets.

The carrying value of property, plant and equipment and other intangible assets decreased, as capital expenditure of CHF 1,213 million (2002: CHF 1,222 million) was considerably lower than depreciation of CHF 1,712 million (2002: CHF 1,702 million).

Goodwill increased in 2003 by CHF 81 million and CHF 79 million as a result of acquisitions and translation adjustments, respectively, but decreased by CHF 213 million due to amortization. In addition, an impairment charge of CHF 280 million was recorded on

Review of the Group's results

the goodwill of debitel in 2003. The vast majority of goodwill relates to its investment in debitel, which had a carrying value of CHF 710 million at December 31, 2003.

The sale of the investment in Cesky Telecom resulted in a reduction in investments in affiliated companies and other non-current financial assets.

CHF in millions	2002	2003	Change
Net debt (net funds)			
Swiss Post loan	750	-	(750)
Short-term bank debt	-	256	256
Financial liability from cross-border tax lease arrangements	1 463	1 339	(124)
Finance lease obligation	1 255	1 131	(124)
Other short- and long-term debt	245	294	49
Total financial liabilities	3 713	3 020	(693)
Cash and cash equivalents	(1 682)	(3 237)	1 555
Current financial assets	(285)	(264)	(21)
Financial assets from sale-and-leaseback transactions	(1 104)	(1 011)	(93)
Net debt (net funds)	642	(1 492)	2 134

Net funds at December 31, 2003 stood at CHF 1,492 million, compared to net debt of CHF 642 million in the previous year. The change is largely due to net cash from operating activities exceeding capital expenditure and dividends paid to Swisscom shareholders and minority shareholders of Group companies (notably Swisscom Mobile AG). Swisscom also received CHF 631 million relating to the sale and special dividend from Cesky Telecom. The last Swiss Post loan of CHF 750 million was repaid during 2003. Debt outstanding consists primarily of finance lease obligations and sale and leaseback obligations relating to buildings. The lease obligations are covered by financial assets in the amount of CHF 1,011 million. Finance lease obligations include sale and leaseback obligations in the amount of CHF 719 million for real estate which was sold in 2001 and qualifies as a finance lease obligation under IFRS. The acquisition of T-Systems Card Services AG in December 2003 increased debt by CHF 256 million due to the takeover of an operating credit.

Shareholders' equity

Consolidated shareholders' equity amounted to CHF 7,669 million at December 31, 2003 (2002: CHF 7,299 million). A total of CHF 1,324 million was paid out to shareholders in 2002 in the form of a dividend of CHF 794 million and a capital reduction of CHF 530 million. The equity ratio amounted to 46.4% (2002: 43%). Following the capital reduction in 2003, the shares now carry a par value of CHF 1. At December 31, 2003, shareholders' equity in the statutory financial statements of Swisscom AG amounted to CHF 5,046 million. The difference between this figure and consolidated shareholders' equity is principally due to profits withheld by the Group companies and higher levels of depreciation and amortization under Swiss law. Under Swiss company law, the maximum amount of shareholders' equity that may be distributed is CHF 4,967 million.

Outlook

In the face of continuing strong competition, assuming the same regulatory conditions and excluding the debitel Group, Swisscom expects consolidated revenue of around CHF 10 billion and operating income before interest, tax, depreciation and amortization (EBITDA) of approximately CHF 4.3 billion for 2004. Swisscom expects EBITDA from its operating businesses (Fixnet, Mobile, Enterprise Solutions and Other) to remain stable compared with prior year. In the Corporate segment, higher expense in respect of the employment company WORK_LINK AG is expected. Capital expenditure in 2004 will amount to around CHF 1.3 billion.

Report of Group Auditors

To the Shareholders'
Meeting of Swisscom AG
Ittigen (Berne)

As auditors of the Group, we have audited the consolidated financial statements (income statement, balance sheet, cash flow statement, statement of shareholders' equity and notes) of Swisscom AG and subsidiaries for the year ended December 31, 2003.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Peter Wittwer

Julie Fitzgerald

Berne, March 22, 2004

Consolidated income statement

CHF in millions, except per share amount	Note	Year ended December 31	
		2002	2003
Net revenue	4	14 526	14 581
Other operating income	5	266	256
Total		14 792	14 837
Goods and services purchased	6	4 959	4 834
Personnel expenses	7,8,9	2 593	2 535
Other operating expenses	10	2 827	2 827
Depreciation	21	1 578	1 564
Amortization	23	427	361
Total operating expenses		12 384	12 121
Impairment of goodwill	23	(702)	(280)
Operating income		1 706	2 436
Financial expense	11	(517)	(154)
Financial income	12	206	140
Income before income taxes, equity in net income of affiliated companies and minority interest		1 395	2 422
Income tax expense	13	(361)	(500)
Income before equity in net income of affiliated companies and minority interest		1 034	1 922
Equity in net income of affiliated companies	22	95	(7)
Minority interest	30	(305)	(346)
Net income		824	1 569
Basic earnings per share (in CHF)	15	12.18	23.70
Diluted earnings per share (in CHF)	15	12.17	23.69

The accompanying notes form an integral part of these financial statements.

Consolidated balance sheet

CHF in millions	Note	At December 31	
		2002	2003
Assets			
Current assets			
Cash and cash equivalents	16	1 682	3 237
Current financial assets	17	285	264
Trade accounts receivable	18	2 418	2 219
Inventories	19	180	134
Other current assets	20	450	763
Current tax assets		178	18
Total current assets		5 193	6 635
Non-current assets			
Property, plant and equipment	21	7 536	7 009
Investments in affiliated companies	22	691	53
Goodwill and other intangible assets	23	1 544	1 210
Non-current financial assets	24	1 584	1 383
Deferred tax assets	13	410	250
Total non-current assets		11 765	9 905
Total assets		16 958	16 540
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt	25	1 016	576
Trade accounts payable		1 054	1 045
Current tax liabilities		121	138
Accrued liabilities	26	246	326
Other current liabilities	27	1 526	1 383
Total current liabilities		3 963	3 468
Long-term liabilities			
Long-term debt	25	1 505	1 374
Finance lease obligation	29	1 192	1 070
Accrued pension cost	9	1 101	1 113
Accrued liabilities	26	499	429
Deferred tax liabilities	13	296	383
Other long-term liabilities	28	307	283
Total long-term liabilities		4 900	4 652
Total liabilities		8 863	8 120
Minority interest	30	796	751
Shareholders' equity			
Share capital	31	596	66
Additional paid-in capital		572	572
Retained earnings		6 491	7 296
Treasury stock		(1)	(1)
Fair value and other reserves	33	(359)	(264)
Total shareholders' equity		7 299	7 669
Total liabilities and shareholders' equity		16 958	16 540

The accompanying notes form an integral part of these financial statements.

Consolidated cash flow statement

CHF in millions	Note	Year ended December 31	
		2002	2003
Cash flows from operating activities			
Cash generated from operations	34	4 342	4 727
Interest paid		(228)	(183)
Income taxes paid		(537)	(73)
Interest received		171	114
Dividends received		9	147
Gain from cross-border tax lease transactions		28	-
Net cash provided by operating activities		3 785	4 732
Cash flows from investing activities			
Capital expenditure	21,23	(1 222)	(1 213)
Proceeds from sale of fixed assets		30	34
Acquisition of other subsidiaries, net of cash acquired	14	(45)	(34)
Acquisition of additional shares in debitel		(10)	-
Proceeds from sale of subsidiaries		28	15
Investments in affiliated companies		(37)	(11)
Proceeds from sale of affiliated companies	22	42	510
(Purchase) sale of other financial assets, net		(70)	23
Loans receivable and other non-current assets (granted) repaid, net		(49)	3
Investments in and sale of current financial assets, net	17	2 896	16
Other cash flow from investing activities, net		9	9
Net cash provided by (used in) investing activities		1 572	(648)
Cash flows from financing activities			
Repayment of short-term debt		(620)	(2)
Issuance of long-term debt		94	16
Repayment of long-term debt		(1 036)	(787)
Proceeds from finance lease obligation		8	-
Net repayments of cross-border tax lease transactions		(37)	(58)
Purchase of treasury stock and call options, net		(38)	(12)
Dividends paid	39	(728)	(794)
Dividends paid to minority interests	30	(304)	(393)
Share buy back	31	(4 264)	-
Capital reduction	31	(529)	(530)
Net cash used in financing activities		(7 454)	(2 560)
Net (decrease) increase in cash and cash equivalents		(2 097)	1 524
Cash and cash equivalents at beginning of year		3 788	1 682
Effect of exchange rate changes on cash and cash equivalents		(9)	31
Cash and cash equivalents at end of year		1 682	3 237

The accompanying notes form an integral part of these financial statements.

Consolidated statement of shareholders' equity

CHF in millions	Note	Share capital	Additional paid-in capital	Retained earnings	Treasury stock	Other Reserves *	Total shareholders' equity
Balance at December 31, 2001		1 250	2 395	8 711	(2)	(285)	12 069
Translation adjustments	33	-	-	-	-	(18)	(18)
Transfers to income statement	33	-	-	-	-	5	5
Fair value adjustments	33	-	-	-	-	(61)	(61)
Losses not recognized in income statement		-	-	-	-	(74)	(74)
Net income		-	-	824	-	-	824
Dividend relating to 2001	39	-	-	(728)	-	-	(728)
Share buy back	31	(125)	(1 823)	(2 316)	-	-	(4 264)
Purchase of treasury stock and options	31	-	-	-	(71)	-	(71)
Sale of treasury stock and options	31	-	-	-	72	-	72
Capital reduction	31	(529)	-	-	-	-	(529)
Balance at December 31, 2002		596	572	6 491	(1)	(359)	7 299
Translation adjustments	33	-	-	-	-	120	120
Transfers to income statement	33	-	-	-	-	(26)	(26)
Fair value adjustments	33	-	-	-	-	1	1
Gains not recognized in income statement		-	-	-	-	95	95
Net income		-	-	1 569	-	-	1 569
Dividend relating to 2002	39	-	-	(794)	-	-	(794)
Purchase of treasury stock and options	31	-	-	-	(31)	-	(31)
Sale of treasury stock and options	31	-	-	-	31	-	31
Excercise of IPO LEAPs and SuperShares	8	-	-	30	-	-	30
Capital reduction	31	(530)	-	-	-	-	(530)
Balance at December 31, 2003		66	572	7 296	(1)	(264)	7 669

* See Note 33.

The accompanying notes form an integral part of these financial statements.

Notes to the consolidated financial statements

1 Description of business and relationship with the Swiss Confederation

Description of business

Swisscom AG is a stock corporation incorporated in Switzerland, domiciled in Ittigen (Berne) and 62.7% owned by the Swiss Confederation (Confederation). Swisscom AG and its subsidiaries (referred to as Swisscom) is the principal provider of telecommunication services in Switzerland, offering a comprehensive range of services to residential and business customers. Swisscom's major lines of business include Fixnet, comprising the provision of national and international fixed-line voice telecommunications for residential customers and the reselling of network services to other national and international telecommunications providers; Mobile, comprising the provision of mobile voice communications and other mobile telecommunication services; Enterprise Solutions, comprising national and international voice communications for business customers, leased lines, managed bandwidth services and integrated data communications solutions; debitel, which is the largest network-independent mobile service provider in Germany and sells primarily standardized products and services for residential customers as well as small and medium-sized business customers in the mobile communications market.

Relationship with the Confederation

The Confederation is the majority shareholder of Swisscom. The Telecommunications Enterprise Act (TUG) states that the 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 necessitating action by the Federal Assembly, which in some circumstances may also be subject to a referendum by Swiss voters. As the majority shareholder, the Confederation has the power to control any decisions taken at general meetings including the election of the members of the Board of Directors and the approval of dividend payments.

Transactions with the Confederation

Swisscom supplies telecommunication services to and procures services from various departments and agencies of the Confederation. All such transactions are made within normal customer/supplier relationships on the same terms and conditions as available to independent third parties. In aggregate, the departments and agencies of the Confederation comprise one of Swisscom's largest customers.

In providing services to the departments and agencies of the Confederation, Swisscom deals with them as individual customers. Services provided to any one governmental department or agency or in total do not represent a significant component of Swisscom's revenues.

2 Summary of significant accounting policies

Basis of presentation

The consolidated financial statements of Swisscom have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the legal provisions of the Swiss Code of Obligations. The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, trading and available-for-sale investments and derivative financial instruments are shown at fair value.

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions Swisscom may undertake in the future, actual results ultimately may differ from those estimates.

Principles of consolidation

The consolidated financial statements of Swisscom include the operations of Swisscom AG and all its direct and indirect subsidiaries in which Swisscom AG controls more than 50% of the votes.

Investments and joint ventures where Swisscom exercises significant influence but does not have control are accounted for using the equity method. Under the equity method, investments are disclosed as investments in affiliated companies and present-

Notes to the consolidated financial statements

ed at their fair value as at the date of acquisition adjusted for Swisscom's share in earnings (losses) resulting after the date of acquisition.

A schedule with all significant subsidiaries and investments in affiliated companies is presented in Note 38.

Subsidiaries and investments acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition and excluded from the date of sale respectively.

All intercompany balances, transactions and intercompany profits are eliminated on consolidation.

Significant balances and transactions with investments and joint ventures accounted for using the equity method are separately disclosed as items with affiliated companies.

Goodwill and other intangible assets

Goodwill

Differences between the purchase price of acquisitions and the fair value of net assets acquired are classified as goodwill from acquisitions. Goodwill is amortized on a straight-line basis over the estimated useful life of three to ten years.

Research and development costs

Research and development expenditure is recognized as an expense as incurred.

Software development costs

Generally, costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. However, costs that are directly associated with identifiable and unique software products controlled by Swisscom and have probable future economic benefits are recognized as intangible assets and amortized using the straight-line method over their estimated useful life of three to five years. Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the software.

Other intangible assets

Other intangible assets, which comprise primarily mobile license fees, are capitalized at cost and amortized using the straight-line method over the life of the license, starting when the network becomes operational.

Impairment of intangible assets

If there is an indication that the carrying value of an intangible asset, including goodwill, may be impaired, Swisscom determines the estimated recoverable amount. If the recoverable amount of the asset is less than its carrying amount, the carrying amount is reduced to the recoverable amount, with the difference representing an impairment charge (see Note 23).

Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Assets and liabilities in foreign currencies are translated into Swiss francs at year-end exchange rates; gains and losses are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges.

Assets and liabilities of subsidiaries and affiliated companies accounted for using the equity method reporting in currencies other than Swiss francs are translated at the rates of exchange prevailing on the balance sheet date. Goodwill and fair value adjustments arising on the acquisition of foreign entities are treated as assets of the foreign entities and translated at the rate prevailing on the balance sheet date. Income, cash flows and other transaction positions are translated at the average exchange rates for the period. Translation gains and losses are recorded as cumulative translation adjustments in shareholders' equity. On disposal of a foreign entity, accumulated exchange differences are recognized in the income statement as part of the gain or loss on sale.

Cash and cash equivalents

Cash includes petty cash, cash at banks and cash on deposit. Cash equivalents include term deposits with financial institutions, as well as short-term money market investments with original maturity dates of three months or less.

Financial assets

Investments are classified as available-for-sale or loans and receivables originated by the entity. All purchases and sales of investments are recognised on the trade date, which is the date that Swisscom commits to purchase or sell the asset. Cost of purchase includes transaction costs. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Available-for-sale investments

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These investments are included in non-current financial assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current financial assets. Available-for-sale investments are subsequently carried at fair value. Fair value is determined by reference to stock exchange quoted bid prices or other market prices. Realized gains and losses arising from changes in the fair value of available-for-sale investments are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of available-for-sale investments are recorded directly to equity as fair value reserve until the investment is sold or impaired. If there is an indication that the cost basis is greater than the recoverable amount, Swisscom estimates the recoverable amount of that asset. If the recoverable amount is below the cost basis, Swisscom recognizes an impairment loss. The cumulative net loss that had been recognized directly in equity is removed from equity and recognized in the income statement. When available-for-sale investments are disposed of, the related accumulated fair value adjustments are included in the income statement as gains and losses from investments securities.

Loans and receivables originated by the entity

Loans originated by Swisscom by providing money directly to the borrower or to a sub-participation agent at draw down are categorized as loans originated by Swisscom and are carried at amortized cost. Originated loans and receivables comprise term deposits with maturity dates greater than three months and less than one year. Loans and receivables without a fixed maturity are carried at cost.

Trade accounts receivable

Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off when recognized.

Inventories

Inventories consist primarily of customer premises equipment for resale and supplies used in constructing and maintaining the network. Inventories are valued at the lower of cost and net realizable value using the weighted average method. Allowances are made for obsolete and slow-moving items. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

Property, plant and equipment

Land, buildings, machinery and equipment are recorded at cost less accumulated depreciation.

Leasehold improvements are depreciated over the shorter of their estimated useful life and the remaining term of the lease.

Repairs and maintenance are expensed as incurred, while major renovations and improvements are capitalized as property, plant and equipment and depreciated over

Notes to the consolidated financial statements

their estimated useful lives. Borrowing costs incurred during the construction of property, plant and equipment are expensed as incurred.

Depreciation is computed using the straight-line method based on estimated useful lives:

	Years
Buildings	15 – 40
Cable and ducts	14 – 20
Transmission equipment	4 – 12
Switching equipment	8 – 10
Customer premises equipment	4 – 10
Broadcasting equipment and other network assets	3 – 10
Vehicles	5 – 7
Machinery, office and auxiliary equipment	4 – 15
Information technology equipment	3 – 5
Software for technical equipment	3

Leases

Assets acquired under leasing agreements which effectively transfer substantially all the risks and benefits incidental to ownership from the lessor to the lessee are classified as finance leases. Finance leases are recorded at amounts equivalent to the estimated net present value of the future minimum lease payments, which approximate the fair value at the inception of the lease. The estimated net present value of the future minimum lease payments are recorded correspondingly as a finance lease obligation. Assets under finance leases are amortized over their estimated useful lives. Gains on sale and leaseback transactions resulting in finance leases are deferred and amortized over the term of the lease, while losses on sale and leaseback transactions are recognized immediately. Gains and losses on sale and leaseback transactions resulting in operating leases are recognized immediately.

Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets whose carrying values exceed their recoverable amount are written down to an amount determined using discounted net future cash flows expected to be generated by the asset.

Provisions

Provisions are recognized when Swisscom has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Termination benefits

Costs relating to special termination plans for headcount reduction are recorded in the income statement in the period when management commits itself to a plan, it is probable that a liability has been incurred and the amount can be reasonably estimated. Such benefits are recognized only after an appropriate public announcement has been made specifying the terms of redundancy and the number of employees affected, or after individual employees have been advised of the specific terms.

Dismantlement and restoration costs

Swisscom has a legal obligation to dismantle transmitter stations and to restore the property owned by third parties on which the stations are situated. The cost associated with the dismantling of these sites are recorded under property, plant and equipment and depreciated over the life of the asset. The total provision required to dismantle and restore these sites, discounted to its present value, is recorded under accrued liabilities.

Revenue recognition

Revenue consists principally of monthly subscription fees charged for providing access services, revenue from installation and connection fees, charges to customers for calls from the fixed and mobile networks, revenue generated by Swisscom's Business Num-

bers, including charges for Internet services, revenue from providing network services to other telecommunications companies, revenue from national and international leased lines, as well as revenue from private network services and intranet services and the sale and maintenance of subscriber equipment.

Revenue from subscription fees is recognized rateably over the subscription period. Revenue from installation and connection activities is recognized at the time of installation or connection, as the direct costs associated with these activities exceed the revenue.

Revenue from telephony is recorded at the time the call is made. Revenue from prepaid call cards is deferred and recognized at the time the customer makes a call. Revenue from leased lines is recognized over the rental period.

Revenue from the sale of equipment is recognized at the point of sale. Revenue from the maintenance of equipment is recognized rateably over the life of the contract.

When Swisscom acts as principal in a transaction, revenue is recorded on a gross basis. However, when Swisscom acts as an agent or broker on behalf of third parties, revenue is reported net of direct costs.

Revenue received in advance

Revenue received in advance consists of rentals of private branch exchange systems received from customers in advance and prepaid telephone cards. Such revenue received in advance is deferred and recognized when services are provided.

Capitalized cost

Swisscom's consolidated statement of operations is prepared using the nature of expense method commonly used in Switzerland. Costs to be capitalized and expensed in future periods, such as costs capitalized on construction projects, are classified in the statement of operations as other operating income with a corresponding amount included in expenses, such that the net effect on income is zero.

Stock-based compensation

Compensation cost for shares issued to employees, members of the Executive Board and members of the Board of Directors is measured at the date of transaction, this being the date the shares are issued, as the excess of the quoted market price of Swisscom's stock over the purchase price. These costs are recorded as personnel expenses in the period the distribution is approved.

Stock options and stock appreciation rights are valued at market value on the grant date and recorded over the vesting period under personnel expenses, with the effect that personnel expenses reflect all costs of compensating employees and members of the Executive Board. There is no effect on the income statement when the options are exercised.

Retirement benefits

The majority of Swisscom's employees are covered by defined benefit pension plans.

Swisscom contributes to the defined benefit scheme of comPlan for the majority of its employees in Switzerland. comPlan covers the risks of old age, death and disability in accordance with Swiss pension legislation. The cost and obligations relating to the defined benefit plan are determined on an actuarial basis using the projected unit credit method, which reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees projected salaries. The pension cost in each period is calculated on the basis of a yearly actuarial valuation. The latest actuarial valuation was performed using base data as at December 31, 2003. Current service costs are charged to income in the periods in which the services are rendered. The effects of changes in actuarial assumptions are systematically charged or credited to income over a period approximating the average expected remaining working lives of participating employees. The portion of actuarial gains and losses recognized is defined as the excess of the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period over the greater of 10% of the present value of the defined benefit obligation at that date (before deducting plan assets) or 10% of the fair value of any plan assets at that date. Past service cost attributable to plan

Notes to the consolidated financial statements

amendments is recognized as an expense on a straight-line basis over the average period until the benefits become vested. To the extent the benefits immediately vest, the costs associated with the amendment are recognized immediately.

Customer acquisition costs

Swisscom pays commissions to dealers for the acquisition and retention of mobile subscribers. The amount of commission payable is dependent on the type of subscription. Customer acquisition costs are recorded immediately in the income statement.

Income taxes

Deferred income taxes are determined using the comprehensive liability method whereby deferred tax is recognized on all temporary differences. Temporary differences between the carrying value of an asset or liability used for tax purposes and that used for financial reporting purposes arise in one period and reverse in one or more subsequent periods. Deferred tax assets and liabilities are determined using the tax rates that are expected to apply when the asset is realized or the liability is settled. The deferred tax assets or liabilities are disclosed as long-term assets or liabilities with those changes being recorded in the income statement or directly to the statement of shareholder's equity. Deferred tax assets are recognized if it is probable that benefits will be realized in the future.

Transactions with related parties

Under IFRS, transactions with the Confederation, including with its departments and agencies, are not subject to the disclosure requirements for related parties.

AGI Holding AG holds 28.9% of Swisscom IT Services AG. The shareholders of AGI Holding AG comprise eight cantonal banks, which are considered related parties under IFRS. Swisscom IT Services AG renders IT services to these banks.

Vodafone plc holds 25% of Swisscom Mobile AG and is therefore a related party. Swisscom renders services to, and buys services from, Vodafone plc on an arms length basis.

Through debitel, Swisscom holds 21.1% of DANGAARD Telecom Holding A/S (Dangaard), a distributor of mobile equipment. debitel delivers prepaid products and hardware to Dangaard and makes payments for Dangaard's logistics services as well as commissions for hardware and advertising-cost refunds. These services are provided on an arms length basis.

Earnings per share

Basic earnings per share is computed by dividing net income by the weighted-average number of shares outstanding for the year. The weighted-average number of shares outstanding excludes any treasury shares. Diluted earnings per share is similar to basic earnings per share, except that the weighted-average number of shares outstanding is increased to include the number of additional shares that would have been outstanding if potential dilutive shares had been issued.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Financial risk management

Swisscom's activities expose it to a variety of financial risks, including the effects of foreign currency exchange rates and interest rates. Swisscom's overall risk management program seeks to minimize potential adverse effects on the financial performance of Swisscom. Swisscom uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain exposures resulting from the Group's commercial activities.

Financial risk management is carried out by the Group Treasury department under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units. Group Treasury has guidelines approved by the Board of Directors for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk management, cash management, interest rate risk, credit risk, use of counterparties, use of derivative financial instruments and investing excess liquidity.

Foreign exchange risk

Swisscom is exposed to foreign exchange risk, being the transaction risk arising from various currency exposures primarily with respect to USD and EUR. The transaction risk is the risk arising due to currency fluctuations between the date of agreement and the actual cash flow. Swisscom uses various forward exchange contracts and options to hedge their exposure to foreign currency. Swisscom hedges its long-term leasing commitments in USD. Hedge accounting is applied where appropriate.

Interest rate risk

Swisscom is subject to interest rate risks due to fluctuations in market rates. Swisscom's cash balances on the money market are exposed to interest rates risk arising from changes in interest rates, which may have a negative impact on net income. Substantially all of Swisscom's long-term debt is in the form of fixed-rate Swiss franc loans with original maturities of up to five years. Accordingly, movements in interest rates could lead to fluctuations in the fair-value of such debt instruments. Swisscom hedges the interest rate risk arising from its long-term leasing commitments with interest rate derivatives.

Credit risk

Swisscom has no significant concentrations of credit risk. The Group has policies in place to ensure that products and services are sold to creditworthy customers. Swisscom also has policies that limit the amount of credit exposure to any one financial institution.

Accounting for derivative financial instruments

Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss is dependent on the nature of the item being hedged and the intention regarding its purchase or issue. On the date a derivative contract is entered into, Swisscom designates certain derivatives as either a hedge of the fair value of a recognized asset or liability (fair value hedge) or a hedge of a forecasted transaction or of a firm commitment (cash flow hedge).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognized in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the same periods during which the hedged firm commitment or forecasted transaction affects the income statement.

Changes in the fair value of derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the income statement.

Notes to the consolidated financial statements

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the committed or forecasted transaction ultimately is recognized in the income statement. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Swisscom documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. Swisscom also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair value of foreign exchange options is determined using option pricing models.

	CHF in millions	
	2002	2003
4 Net revenue		
Fixnet	4 762	4 498
Mobile	3 373	3 434
Enterprise Solutions	1 373	1 261
debitel	4 111	4 555
Other	833	761
Corporate	74	72
Total net revenue	14 526	14 581

Included within Other is CHF 174 million and CHF 165 million in 2002 and 2003, respectively, of revenue recorded by Swisscom IT Services AG from eight cantonal banks, which qualifies as related parties.

	CHF in millions	
	2002	2003
5 Other operating income		
Capitalized cost	139	180
Gain on sale of property, plant and equipment	14	21
Other operating income	113	55
Total other operating income	266	256

Capitalized cost includes labour costs related to the construction of technical equipment and the development of software, with no interest allocation included.

Other income for 2002 includes CHF 70 million resulting from the elimination of a liability which was established in 1997 for payments to a third party. This liability is no longer legally owed, as the rights to payment expired in 2002.

	CHF in millions	
	2002	2003
6 Goods and services purchased		
Raw material, supplies and services purchased	140	128
Customer premises equipment	1 240	1 272
National traffic fees	563	383
International traffic fees	780	716
Network fees for debitel and other international subsidiaries	2 235	2 314
Services purchased from affiliated companies	1	21
Total goods and services purchased	4 959	4 834

Notes to the consolidated financial statements

7 Personnel expenses

CHF in millions	2002	2003
Salaries and wages	1 952	1 899
Termination benefits	92	88
Social security expenses	203	183
Pension cost. See Note 9.	203	257
Employee stock ownership program. See Note 8.	39	12
Other personnel expenses	104	96
Total personnel expenses	2 593	2 535

Employees affected by the headcount reduction who meet certain criteria relating to age and number of years of service are entitled to transfer to WORK_LINK AG, an entity that operates external job placement programs, after these employees have participated in the outplacement program. Employees who were born in 1950 or earlier and who have worked with Swisscom since January 1, 1989 or before are guaranteed a salary at WORK_LINK until the age of 60. Employees who only meet one of these criteria are guaranteed a salary for a maximum period of 24 months. WORK_LINK seeks to hire these employees out on a temporary basis. The employees receive a minimum of 50% of their final salary from Swisscom, irrespective of whether work can be found for them. The total payment to these employees of CHF 32 million in 2002 and CHF 53 million in 2003, of which CHF 8 million and CHF 13 million was paid to the employees during their stay in the outplacement program in 2002 and 2003, respectively, is recognized as personnel expenses as incurred. No provision has been recorded for these employees for their stay in the outplacement program or in WORK_LINK as these costs do not meet the criteria for recognition under IFRS. The average number of participants (in full-time positions) in WORK_LINK in 2002 and 2003 was 218 and 295 employees, respectively.

Termination benefits

Measures initiated by Swisscom to reduce headcount resulted in total termination charges of CHF 92 million and CHF 88 million in 2002 and 2003, respectively. The costs of the program include the following:

CHF in millions	2002	2003
Outplacement program (EMC)	94	82
Partial retirement program	-	18
Revision of prior provision	(2)	(12)
Total termination benefits	92	88

Outplacement program

In the outplacement program, employees are trained for new jobs and receive assistance in finding new employment within Swisscom or outside the Group. Employees who reach the age of 50 or who are medically unfit to work more than 60% are entitled to stay in the outplacement program for 18 months. For all other employees this period is limited to 12 months. In 2002, 985 full-time equivalent employees participated in the program, of which 958 had left the program by the end of 2003. In 2003, 838 full-time equivalent employees participated in this program, of which 101 had left by the end of 2003. In connection with this program, Swisscom incurred expenses of CHF 94 million and CHF 82 million in 2002 and 2003, respectively. The amount of the expense relates only to the costs for those employees that are not expected to continue working with Swisscom.

Partial retirement

The partial retirement expense relates to a voluntary plan that was established for employees born between 1946 and 1950. Those employees that entered into an agreement with Swisscom prior to year-end will work 50% for a period of 5 years and will receive approximately 75% of their previous salary. A total of 160 employees participated in this program and an expense of CHF 18 million was recorded. This expense represents the discounted present value, using a rate of 2,5%, of the difference between the 75% salary these employees receive and the 50% they actually work for the 5-year period.

8 Stock based compensation

Swisscom offers a number of stock based plans to its non-management employees, management, members of the Executive Board and Board of Directors, as detailed below.

TopShare

TopShare is a share purchase scheme available to non-management staff. The Board of Directors determines the conditions of the scheme on an annual basis. Each year, employees are generally offered up to ten shares at preferential conditions. The shares purchased are subject to a one-year vesting period from the grant date, after which time they can be freely disposed of. The difference between the market value and the consideration received from employees has been recognized under personnel expenses.

The number of shares allocated, the exercise price and the expense recorded in 2002 and 2003 is:

Year of allocation	Exercise price in CHF	Number of allocated shares	Cost in CHF millions
2002	240	119 372	34
2003	300	44 946	7

Leveraged Executive Plan (LEAP)

The LEAP was offered only to members of the Board of Directors and Executive Board until 2002. Members of the Executive Board had to invest 25% of their bonus in the LEAP each year. Members of the Board of Directors had to, with the exception of 2002, invest 25% of their annual compensation in the LEAP.

Each LEAP package comprises one share and ten options and provides stock appreciation rights whereby the participant will receive additional shares if the market price of a share during the exercise period is greater than 120% of the share price at the grant date. Each LEAP vests immediately at grant date. The options can be exercised or sold for a two-year period following a blocking period of three years from the grant date.

Management Incentive Plan (MIP)

The MIP is available for members of management, whereby they can voluntarily invest 25% of their annual bonus. For members of management who participate in this program, Swisscom makes a contribution of 50% of the amount invested by management. Starting in 2003, the members of the Board of Directors and Executive Board participate in this program and must invest annually 25% of their compensation or bonus, respectively.

Each MIP package comprises one Swisscom share and 1,000 options, where 100 options give an entitlement to one Swisscom share at the exercise price. The exercise price corresponds to the share price at the grant date. Each MIP vests immediately at grant date. The options can be exercised or sold for a two-year period following a blocking period of three years from the grant date.

Notes to the consolidated financial statements

In 2002, allocated shares and options are the following:

Participant	Number of options allocated	Exchange ratio ¹⁾	Number of allocated shares	Exercise price of options	Ended Blocking period	Maturity of options
Board of Directors	-	-	-	-	-	-
Group Executive Board	5 620	1:1	562	569.10	09.04.05	09.04.07
Management	5 656 000	1:100	5 656	467.37	25.04.05	16.04.07

¹⁾ Exchange ratio: number of options required to purchase a share.

In 2003, allocated shares and options are the following:

Participant	Number of options allocated	Exchange ratio ¹⁾	Number of allocated shares	Exercise price of options	Ended Blocking period	Maturity of options
Board of Directors	643 000	1:100	643	417.90	30.04.06	25.04.08
Group Executive Board	884 000	1:100	884	417.90	30.04.06	25.04.08
Management	7 166 000	1:100	7 166	417.90	30.04.06	25.04.08

¹⁾ Exchange ratio: number of options required to purchase a share.

Leveraged Executive Asset Plan (LEAP) and SuperShare Plan relating to the IPO

In conjunction with the initial public offering in October 1998, members of middle and senior management as well as the members of the Board of Directors and Executive Board were able to participate in the LEAP program whereby they could purchase shares with appreciation rights at the IPO price. Employees were able to invest in the SuperShare Plan, which was similar to the LEAP program and enabled them to purchase shares with appreciation rights at the IPO price. In October 2003, 5 years after the issuance date, the participants received 39,300 additional shares and CHF 4 million in cash, which represented the increase between the market price on that date and the base appreciation price. The costs associated with these plans were recognized over the vesting period under personnel expenses and a corresponding liability of CHF 30 million was recorded. This liability was reversed against equity at the time the options were exercised.

Movements in the number of stock options and stock appreciation rights outstanding:

	2002	2003
At beginning of year	312 173	374 345
Granted	62 180	86 930
Lapsed	(8)	(9 552)
Exercised	-	(240 953)
Sold by participants	-	(1 500)
At end of year	374 345	209 270

At December 31, 2002 and December 31, 2003 vested options and appreciation rights totaled 364,793 and 209,270, respectively.

9 Retirement benefits

Effective January 1, 1999, all Swisscom employees, who were members of PUBLICA (former PKB), the pension plan of the Swiss Government, were transferred to a successor plan called comPlan. All retired employees at that date remained members of PUBLICA. Swisscom settled the liability relating to these retired employees as at December 31, 1998, but retained a liability for pension indexation, which was determined based on an assumed payment of 1% over the life of the retired employees. Swisscom must pay PUBLICA the difference between the actual return on plan assets and the Government prescribed discount rate increased by an account maintenance fee. At December 31, 2003, included in the present value of obligations is CHF 338 million for these retired employees. Differences between the actual and estimated payments are deferred as part of the actuarial gain or loss. The present value obligation relating to these retired employees at December 31, 2003 that will be paid by PUBLICA is CHF 3,789 million. In 2003, Swisscom amended the agreement with PUBLICA. Starting from June 1, 2003, Swisscom compensated PUBLICA for their administration costs related to these pensioners, which resulted in CHF 17 million being recognized as an expense, as it was immediately vested.

Net periodic pension cost of the plan in Switzerland includes the following components:

In CHF millions	2002	2003
Current service cost	178	182
Interest cost	261	255
Expected return on plan assets	(248)	(227)
Past service cost	12	22
Amortization of actuarial loss	-	25
Net periodic pension cost	203	257

At December 31, 2002 unrecognized actuarial losses exceeded the present value of the defined benefit obligation by more than 10%. The excess amount of CHF 273 million was recognized as an expense over the expected average remaining working lives of the employees.

The status of the pension plan in Switzerland is as follows:

CHF in millions	2002	2003
Amounts recognized in the balance sheet		
Present value of funded obligations	6 726	6 903
Fair value of plan assets	(4 559)	(4 893)
Benefit obligation in excess of plan assets	2 167	2 010
Unrecognized actuarial losses	(946)	(788)
Unrecognized prior service cost	(120)	(109)
Amounts recognized in the balance sheet	1 101	1 113

Pension plan assets include Swisscom shares with a fair value of CHF 7.0 million (2002) and CHF 6.4 million (2003).

CHF in millions	2002	2003
Movement in the liability recognized in the balance sheet		
At beginning of year	1 218	1 101
Net periodic pension cost	203	257
Contribution paid	(320)	(253)
Acquisition of subsidiaries	-	8
At end of year	1 101	1 113

In 2003, the pension plan obligation and plan assets increased by CHF 22 million and CHF 14 million, respectively as a result of the acquisition of T-Systems Card Services AG. See Note 14.

Notes to the consolidated financial statements

The following weighted average assumptions were used in accounting for the defined benefit plan:

	2002	2003
Discount rate	3.9%	3.75%
Rate of increase in future compensation levels	3.1%	3.1%
Expected long-term rate of return on plan assets	5.5%	5.0%

After a loss of CHF 195 million in 2002, the actual return on plan assets amounted to CHF 341 million in 2003.

The pension plans outside Switzerland are insignificant.

	2002	2003
CHF in millions		
10 Other operating expenses		
Rent	250	274
Repairs and maintenance	264	229
Loss on disposal of fixed assets	67	39
Energy	59	54
Information technology cost	224	212
Advertising and promotion	393	365
Commissions	648	786
Contractors and consultancy expenses	300	246
General and administration	240	283
Miscellaneous operating expenses	382	339
Total other operating expenses	2 827	2 827

	2002	2003
CHF in millions		
11 Financial expense		
Interest on debt and finance lease obligations	246	172
Present value adjustment on accrued liabilities	26	(38)
Loss on disposal of debitel shares	13	-
Fair value losses on available-for-sale investments	152	55
Foreign exchange losses (gains)	71	(48)
Other financial expenses	9	13
Total financial expense	517	154

Swisscom records a provision for the dismantlement of analog transmitter stations, which is based on the present value of future estimated costs. In 2003, Swisscom extended the expected timing of the dismantlement by ten years. This resulted in a reduction of the present value of the provision by CHF 43 million, which was recorded under present value adjustment on accrued liabilities. See Note 26.

Fair value losses on available-for-sale investments include an impairment loss of CHF 41 million and CHF 33 million in 2002 and 2003, respectively, on Swisscom's investment in Swiss International Airlines Ltd. An impairment charge of CHF 111 million was also recorded in 2002 on its investment in Infonet Services Corp. See Note 24. In 2003, an impairment charge of CHF 22 million was recorded on other available-for-sale investments. See Note 17.

12 Financial income

CHF in millions	2002	2003
Interest	168	114
Dividends	8	12
Gain on disposal of financial assets	-	11
Gain on cross-border tax lease transactions. See Note 25.	28	-
Other financial income	2	3
Total financial income	206	140

13 Income tax expense

CHF in millions	2002	2003
Current income tax expense	123	241
Deferred income tax expense	238	259
Total income tax expense	361	500

Current income taxes are calculated based on taxable income of the period and are accrued in the same period as the revenues and expenses to which they relate.

Income tax expense on income before income taxes, equity in net income of affiliated companies and minority interests is reconciled to the reported income tax expense as follows:

CHF in millions	2002	2003
Income before income taxes, equity in net income of affiliated companies and minority interests	1 395	2 422
Weighted-average statutory tax rate	23%	23%
Income tax expense at the weighted-average statutory tax rate	321	557
Increase (decrease) in income taxes resulting from		
Effect of impairment of goodwill of debitel	(46)	(16)
Amortization of goodwill	70	49
Effect on deferred taxes due to change in tax rate	115	-
Effect of different tax rates in other countries	21	14
Income of subsidiaries not taxable	(13)	(30)
Income not taxable	(3)	(8)
Other	(104)	(66)
Income tax expense	361	500

The weighted-average statutory tax rate includes federal, cantonal and local taxes. Taxable income in Switzerland is allocated among the cantons, and each canton has a different tax rate. The allocation of taxable income among the cantons changed in 2002 as a result of the transition from Swisscom AG to a holding structure. The tax rules for inter-cantonal tax allocation were also changed. This resulted in a decrease in the weighted-average tax rate from 25% to 23%. The deferred tax assets and liabilities were adjusted to reflect these changes, resulting in a one-time charge in 2002 of CHF 115 million.

Prior to the impairment, Swisscom's tax basis of its investment in debitel exceeded its carrying basis by CHF 197 million and CHF 68 million in 2002 and 2003, respectively. Accordingly, the impairment charge for tax purposes exceeded that recorded in the consolidated financial statements, resulting in Swisscom recording tax benefits of CHF 46 million and CHF 16 million in 2002 and 2003, respectively.

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. Certain subsidiaries of Swisscom have unrecognized tax losses of CHF 371 million at December 31, 2002 and 516 million at December 31, 2003, for which no deferred tax asset is recognized in the balance sheet. The tax losses will expire mainly after 2009.

Notes to the consolidated financial statements

As at December 31, 2002 and December 31, 2003 the tax effects of temporary differences that give rise to deferred tax assets and liabilities were as follows:

CHF in millions	2002	2003
Deferred tax assets		
Accrued pension cost	119	118
Intangible assets	346	164
Other current and non-current assets	65	79
Tax losses	101	28
Total deferred tax assets	631	389
Deferred tax liabilities		
Property, plant and equipment	(400)	(396)
Non-current financial assets	(23)	(21)
Trade accounts receivable and other current assets	(6)	(5)
Accrued liabilities	(21)	(36)
Other long-term liabilities	(67)	(64)
Total deferred tax liabilities	(517)	(522)
Net deferred tax assets (liabilities)	114	(133)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

CHF in millions	2002	2003
Deferred tax assets	410	250
Deferred tax liabilities	(296)	(383)

The movement in deferred tax assets and liabilities (prior to offsetting) is as follows:

CHF in millions	Intangible assets	Accrued pension cost	Tax loss	Other	Total
Deferred tax assets					
Balance at December 31, 2001	747	127	9	48	931
(Charged) credited to income statement	(401)	(8)	92	16	(301)
Acquisition of subsidiaries	-	-	-	1	1
Balance at December 31, 2002	346	119	101	65	631
(Charged) credited to income statement	(182)	(3)	(77)	6	(256)
Acquisition of subsidiaries	-	2	2	-	4
Credited to equity	-	-	-	4	4
Translation adjustments	-	-	2	4	6
Balance at December 31, 2003	164	118	28	79	389

CHF in millions	Property, plant and equipment	Accrued liabilities	Other long-term liabilities	Other	Total
Deferred tax liabilities					
Balance at December 31, 2001	435	14	75	63	587
Charged (credited) to income statement	(35)	7	(8)	(27)	(63)
Credited to equity	-	-	-	(7)	(7)
Balance at December 31, 2002	400	21	67	29	517
Charged (credited) to income statement	(4)	15	(3)	(5)	3
Charged to equity	-	-	-	2	2
Balance at December 31, 2003	396	36	64	26	522

14 Acquisition of subsidiaries

As of December 19, 2003, Swisscom acquired 100% of T-Systems Card Services AG from T-Systems Schweiz AG. T-Systems Card Services AG was renamed Billag Card Services AG at the time of acquisition. Billag Card Services AG is a general contractor providing customer retention and loyalty concepts based on customer cards, including cards with credit functionality. The company is responsible for managing customer data and receivable accounts on behalf of its customers.

In February 2003, Swisscom Eurospot, Swisscom's European Public Wireless LAN provider, acquired 100% of WLAN AG, Munich (Germany) and Megabeam Networks Ltd, London (UK) followed in April 2003 by a 100% acquisition of Aervik B.V., Amsterdam (Netherlands). The acquisitions form part of Swisscom's strategy to set up a pan-European WLAN business.

In February 2003, debitel France S.A. acquired the remaining 50% shareholding in the retail chain TelecomOption. TelecomOption has since merged with Videlec Distribution S.A.

All acquisitions were recorded in the consolidated financial statements using the purchase method and the resulting goodwill is amortized on a straight-line basis over a period of three to five years. The deferred purchase consideration payment of CHF 15 million will fall due on June 30, 2005.

The following table shows the aggregated fair values of the assets acquired, liabilities assumed and cash flows:

CHF in millions	2003
Cash and cash equivalents	38
Other receivables	373
Other current assets	6
Property, plant and equipment and other intangible assets	14
Goodwill	80
Deferred tax assets	6
Financial liabilities	(259)
Accrued pension cost	(8)
Other short- and long-term liabilities	(163)
Purchase price	87
Less cash acquired	(38)
Deferred purchase price	(15)
Net cash outflow	34

15 Earnings per share

Basic earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding, excluding treasury stock. Basic earnings per share is calculated as follows:

	2002	2003
Net income (CHF in millions)	824	1 569
Weighted-average number of ordinary shares in issue	67 647 928	66 199 789
Basic earnings per share (CHF)	12.18	23.70

The difference between basic and diluted weighted-average shares results from the assumption that dilutive stock options and appreciation rights outstanding were exercised. All outstanding stock appreciation rights were used for the purpose of calculating the weighted-average shares outstanding as they had a dilutive effect. The purchased call options were not included in calculating diluted earnings per share as their effect was antidilutive. Diluted earnings per share is calculated as follows:

Notes to the consolidated financial statements

	2002	2003
Net income (CHF in millions)	824	1 569
Weighted-average number of ordinary shares in issue	67 647 928	66 199 789
Adjustment for stock options and appreciation rights	70 132	40 591
Weighted-average number of ordinary shares for diluted earnings per share	67 718 060	66 240 380
Diluted earnings per share (CHF)	12.17	23.69

16 Cash and cash equivalents

CHF in millions	2002	2003
Cash deposits	988	1 421
Term deposits	694	1 816
Total cash and cash equivalents	1 682	3 237

The weighted-average effective interest rate on short-term deposits was 1.67% in 2002 and 0.26% in 2003. The average maturity for these deposits was 8 days in 2002 and 9 days in 2003.

17 Current financial assets

CHF in millions	Loans and receivables	Available-for-sale investments	Derivative financial instruments	Total
Balance at December 31, 2001	2 950	216	150	3 316
Additions	135	48	-	183
Disposals	(3 011)	(68)	-	(3 079)
Interest	(16)	-	-	(16)
Translation adjustments	-	(5)	-	(5)
Revaluation deficit included in equity. See Note 33.	-	(29)	(8)	(37)
Revaluation deficit included in income statement	(3)	(4)	(70)	(77)
Balance at December 31, 2002	55	158	72	285
Additions	-	8	-	8
Disposals	(11)	(13)	-	(24)
Revaluation surplus included in equity. See Note 33.	-	21	-	21
Revaluation deficit included in income statement	-	-	(26)	(26)
Balance at December 31, 2003	44	174	46	264

Derivative financial instruments comprise cross-currency interest rate swaps, interest rate swaps and forward exchange contracts.

At December 31, 2002, the cost basis of certain of Swisscom's available-for-sale investments exceeded their market value. Based on the short period of time and the amount that the cost basis exceeded the market price, Swisscom concluded that there was no impairment and the excess of CHF 29 million was recorded against equity. At December 31, 2003, the cost basis of a number of these investments continued to exceed the market value. Swisscom believed that the substantial decline in value and the length of time that they were below cost provided objective evidence that these investments were impaired and accordingly, removed CHF 22 million from equity and recorded it under financial expense. See Note 11.

Included within available-for-sale securities at December 31, 2003 are investments whose cost basis of CHF 53 million exceeded their market value by CHF 5 million. Swisscom concluded that these investments were not impaired. The excess, net of unrealized gains, was recorded against equity.

	CHF in millions	2002	2003
18 Trade accounts receivable			
	Trade accounts receivable, gross	2 711	2 514
	Allowance for bad debts	(293)	(295)
	Total trade accounts receivable, net	2 418	2 219

	CHF in millions	2002	2003
19 Inventories			
	Raw material and supplies	77	68
	Customer premises equipment for resale	148	126
	Total inventories, gross	225	194
	Allowance for obsolete and slow-moving items	(45)	(60)
	Total inventories, net	180	134

	CHF in millions	2002	2003
20 Other current assets			
	Other receivables and accrued income	324	307
	Other receivables from collection activities	65	428
	Receivables from affiliated companies	47	20
	VAT receivable	12	7
	Interest receivable	2	1
	Total other current assets	450	763

Other receivables from collection activities contain assets of CHF 336 million that have been pledged against a loan. The outstanding loan balance at December 31, 2003, was CHF 256 million.

Notes to the consolidated financial statements

21 Property, plant and equipment

CHF in millions	Land and buildings	Technical equipment	Vehicles and other equipment	Total
At cost				
Balance at December 31, 2001	3 350	20 780	1 848	25 978
Acquisition/disposal of subsidiaries, net	3	-	6	9
Additions	3	782	300	1 085
Disposals	(19)	(644)	(229)	(892)
Reclassifications	(120)	(283)	406	3
Translation adjustments	-	(5)	(1)	(6)
Balance at December 31, 2002	3 217	20 630	2 330	26 177
Acquisition/disposal of subsidiaries, net	-	(2)	18	16
Additions	6	817	256	1 079
Disposals	(57)	(777)	(223)	(1057)
Reclassifications	(4)	(3)	7	-
Translation adjustments	-	-	11	11
Balance at December 31, 2003	3 162	20 665	2 399	26 226
Accumulated depreciation				
Balance at December 31, 2001	2 156	14 587	1 131	17 874
Acquisition/disposal of subsidiaries, net	2	-	4	6
Additions	48	1 255	275	1 578
Disposals	(13)	(596)	(205)	(814)
Reclassifications	(75)	(121)	196	-
Translation adjustments	-	(1)	(2)	(3)
Balance at December 31, 2002	2 118	15 124	1 399	18 641
Acquisition/disposal of subsidiaries, net	-	(2)	9	7
Additions	44	1 232	288	1 564
Disposals	(50)	(752)	(201)	(1003)
Reclassifications	-	10	(10)	-
Translation adjustments	-	-	8	8
Balance at December 31, 2003	2 112	15 612	1 493	19 217
Net book value				
At December 31, 2001	1 194	6 193	717	8 104
At December 31, 2002	1 099	5 506	931	7 536
At December 31, 2003	1 050	5 053	906	7 009

Property, plant and equipment includes:

CHF in millions	2002	2003
Assets under construction	200	287
Technical equipment acquired under finance leases		
At cost	567	567
Accumulated depreciation	(342)	(399)
Net book value	225	168
Buildings relating to the sales leaseback		
At cost	1 185	1 185
Accumulated depreciation	(474)	(494)
Net book value	711	691

22 Investments in affiliated companies

CHF in millions	Equity in affiliated companies	Goodwill from investments in affiliated companies	Total investments in affiliated companies
Net book value			
Balance at December 31, 2001	574	29	603
Additions	31	6	37
Dividends received	(1)	-	(1)
Equity in net result of operations	100	(1)	99
Disposals	(8)	(34)	(42)
(Loss) gain on disposal	(11)	7	(4)
Translation adjustments	(1)	-	(1)
Balance at December 31, 2002	684	7	691
Additions	17	-	17
Dividends received	(135)	-	(135)
Equity in net result of operations	71	-	71
Disposals	(511)	-	(511)
Loss on disposal	(71)	(7)	(78)
Translation adjustments	(2)	-	(2)
Balance at December 31, 2003	53	-	53

The gross amount of goodwill was CHF 8 million and CHF 0 million at December 31, 2002 and 2003, respectively.

Equity in net income of affiliated companies

CHF in millions	2002	2003
Equity in net income of operations	99	71
Loss on disposal of affiliated companies	(4)	(78)
Total equity in net income of affiliated companies	95	(7)

December 31, 2002

Additions

Additions for 2002 of CHF 37 million comprise primarily an additional investment in AUCS.

Equity in net result of operations

Equity in net result of operations comprises primarily Swisscom's share of net income from Cesky Telecom and income from Swisscom's investment in AUCS. Unisource and its shareholders entered into a three-year management agreement with Infonet Services Corp, which expired on September 30, 2002, whereby they guaranteed minimum losses of AUCS for that period. Swisscom's consideration for this transaction was the purchase of Infonet shares at a reduced price. Swisscom's share of the gain on this transaction of CHF 352 million, which represents the difference between the gain on the shares purchased and the minimum guaranteed losses, was amortized into income over the three-year period. This income was partially offset by Swisscom's share of liquidation costs associated with AUCS.

Notes to the consolidated financial statements

December 31, 2003

Additions

Additions for 2003 of CHF 17 million primarily comprise a capital increase at AUCS.

Dividends received

Dividends received of CHF 135 million comprise primarily an extraordinary dividend of CHF 121 million received from Cesky Telecom prior to its sale.

Equity in net result of operations

Equity in net result of operations comprises primarily Swisscom's share of net income from Cesky Telecom for the period up to its sale in December 2003 and its share of net income from AUCS. At December 31, 2002 Swisscom recorded its share of liquidation costs which were expected to be incurred by AUCS. In 2003, a portion of this liability, which was no longer required, was reversed to income.

Loss on disposal

In December 2003, Swisscom and KPN sold their investment in Cesky Telecom, which was held by Telsource, to international investors, in an accelerated bookbuilding process. The sales price was CZK 255 per share, resulting in Swisscom's share of proceeds of CHF 510 million after transaction costs. Swisscom recorded a loss on disposal of CHF 71 million, after recognizing cumulated translation gains of CHF 41 million. Telsource ceased to operate after the sale of Cesky Telecom.

Selected aggregated key data

The following schedule provides selected aggregated key data of Swisscom's proportionate interest in joint ventures including AUCS and Telsource.

CHF in millions	2002	2003
Income statement		
Net revenue	65	29
Total operating expenses	(79)	(101)
Operating loss	(14)	(72)
Net income (loss)	93	(72)
Balance sheet		
Current assets	23	20
Non-current assets	676	1
Current liabilities	36	9
Long-term liabilities	34	8
Shareholders' equity	629	4

23 Goodwill and other intangible assets

CHF in millions	Goodwill	Internally generated intangible assets	Other intangible assets	Total
At cost				
Balance at December 31, 2001	4 123	202	264	4 589
Additions	-	62	75	137
Disposals	(79)	(2)	(4)	(85)
Acquisition of subsidiaries	54	-	3	57
Reclassifications	-	14	(17)	(3)
Translation adjustments	(74)	(1)	(3)	(78)
Balance at December 31, 2002	4 024	275	318	4 617
Additions	-	50	84	134
Disposals	-	(6)	(4)	(10)
Acquisition of subsidiaries	81	-	4	85
Translation adjustments	296	6	13	315
Balance at December 31, 2003	4 401	325	415	5 141
Accumulated amortization				
Balance at December 31, 2001	1 908	57	62	2 027
Amortization	303	75	49	427
Disposals	(41)	(1)	(3)	(45)
Acquisition of subsidiaries	-	-	1	1
Impairment	702	-	-	702
Reclassifications	-	1	(1)	-
Translation adjustments	(38)	-	(1)	(39)
Balance at December 31, 2002	2 834	132	107	3 073
Amortization	213	88	60	361
Disposals	-	(5)	(3)	(8)
Acquisition of subsidiaries	-	-	1	1
Impairment	280	-	-	280
Translation adjustments	217	2	5	224
Balance at December 31, 2003	3 544	217	170	3 931
Net book value				
At December 31, 2001	2 215	145	202	2 562
At December 31, 2002	1 190	143	211	1 544
At December 31, 2003	857	108	245	1 210

The vast majority of Swisscom's goodwill relates to its 93% ownership in debitel, a network independent telecommunications company, that provides mobile communications, fixed line and internet services. This goodwill is amortized on a straight-line basis over 10 years and at December 31, 2003 has a remaining life of approximately 6 years.

As a result of significant changes in the telecommunications sector, including the expected delay in the implementation of the third generation system, UMTS, and a decline in future expected growth in the mobile sector, Swisscom recorded an impairment charge of its goodwill in debitel in 2002. This impairment charge represents the difference between the carrying value of this investment and the value in use amount. The value in use amount was determined based on projections of future profitability. The total projected cash flow was discounted by debitel's weighted average cost of capital of 10.75 % that was determined using the Capital Asset Pricing Model. This methodology indicated that the value ascribed to Swisscom's share of debitel was CHF 1,200 million compared to a carrying value of CHF 1,902 million at December 31, 2002. The difference of CHF 702 million was recorded as an impairment charge.

Notes to the consolidated financial statements

Swisscom is currently engaged in discussions concerning the potential disposal of its shareholding in debitel AG. Swisscom therefore believes that the value in use for debitel approximates the net amount that would be expected from a sale and recorded an impairment charge of CHF 280 million at December 31, 2003. At December 31, 2003, Swisscom had a cumulative currency translation loss of CHF 221 million recorded under other reserves in shareholders' equity. If Swisscom disposes of debitel, this loss will be removed from equity and recorded under financial expense in the same period in which the disposal is recorded.

The addition to goodwill in 2003 relates primarily to the acquisitions of T-Systems Card Services AG and companies in Germany, the UK and the Netherlands in connection with the set up of a European WLAN business.

24 Non-current financial assets

CHF in millions	Available-for-sale investments	Loans and receivables originated	Financial assets from cross-border tax leases	Other Financial assets	Total
Balance at December 31, 2001	462	111	1 295	27	1 895
Additions	-	72	26	-	98
Disposals	-	(23)	(1)	(10)	(34)
Translation adjustments	-	-	(216)	-	(216)
Write off of loans receivable	-	(4)	-	-	(4)
Revaluation deficit included in equity.	(3)	-	-	-	(3)
Revaluation deficit included in income statement	(152)	-	-	-	(152)
Balance at December 31, 2002	307	156	1 104	17	1 584
Additions	-	9	29	-	38
Disposals	(12)	(38)	(1)	(3)	(54)
Translation adjustments	1	3	(119)	-	(115)
Write off of loans receivable	-	(4)	-	-	(4)
Revaluation deficit included in equity. See Note 33.	(31)	-	-	-	(31)
Revaluation deficit included in income statement	(33)	-	(2)	-	(35)
Balance at December 31, 2003	232	126	1 011	14	1 383

Available-for-sale investments comprise primarily Swisscom's investments in Swiss International Airlines Ltd („Swiss“) and Infonet Services Corp. („Infonet“).

In November 2001, Swisscom subscribed for CHF 100 million worth of new shares in Swiss at a price of CHF 56 per share. The market value amounted to CHF 82 million on January 1, 2002, CHF 38 million on December 31, 2002 and CHF 5 million on March 31, 2003. Swisscom determined that the significant decline in the market value of the investment provided objective evidence that the asset was impaired. Accordingly, in 2002 and the first quarter of 2003 CHF 41 million and CHF 33 million, respectively were removed from equity and recorded under financial expense. At December 31, 2003, the market value exceeded the cost basis by CHF 12 million. This increase was recorded against equity.

At December 31, 2002 the cost basis of Swisscom's investment in Infonet exceeded its market value by CHF 111 million. Swisscom believed that the substantial decline in value and the length of time that it was below cost provided objective evidence that this investment was impaired. Accordingly, Swisscom removed CHF 111 million from equity and recorded it under financial expense. At December 31, 2003, the market value of Infonet decreased by CHF 53 million to CHF 175 million. No impairment was recorded because the market price exceeded the cost basis just before and after year-end. The excess of the cost basis over the market value of CHF 53 million was therefore recorded against equity.

Swisscom entered into cross-border tax lease arrangements in 1999 and 2000. The financial assets of these arrangements are recorded in USD and were valued using the

exchange rate on the balance sheet date. This valuation resulted in a translation adjustment of CHF 119 million. Financial assets from cross-border tax lease arrangements represent those assets that were not offset with corresponding liabilities. See Note 25.

25 Financial liabilities

Short-term debt

CHF in millions	2002	2003
Short-term loans	69	56
Short-term bank credit	-	256
Current portion of long-term debt	750	5
Short-term loans payable to affiliated companies	3	3
Current portion of finance lease obligation. See Note 29.	63	61
Derivative financial instruments. See Note 32.	131	195
Total short-term debt	1 016	576

Long-term debt

Long-term debt consists primarily of financial liabilities from cross-border tax lease arrangements in USD.

CHF in millions	2002	2003
Swiss Post loan	750	-
Financial liability from cross-border tax lease arrangements	1 463	1 339
Other long-term debt	42	40
Total	2 255	1 379
Less current portion	(750)	(5)
Total long-term debt	1 505	1 374

In 1999, 2000 and 2002, Swisscom entered into cross-border tax lease arrangements with foreign investors relating to parts of its fixed and mobile networks. Under the terms of the agreements, with durations ranging from 13 to 30 years, Swisscom received payments and effected investments in financial assets. At December 31, 2003 liabilities and financial assets arising from these transactions amounted to USD 3,899 million (CHF 4,830 million) and USD 3,635 million (CHF 4,502 million), respectively. In accordance with Interpretation SIC-27, „Evaluating the substance of transactions involving the legal form of a lease“, Swisscom concluded that total financial assets of USD 2,819 million (CHF 3,491 million), which were either irrevocably placed with highly rated securities in trusts or non-refundable payment undertaking agreements with financial institutions with minimal credit risk were signed, lacked economic substance and should not be recognized, as the definition of an asset and liability had not been met. Accordingly, these financial assets and liabilities have been eliminated from the consolidated financial statements. Swisscom is not responsible for any performance under these arrangements, other than that which would be done in the normal course of business, and therefore recognized the fees as financial income in the period the transaction was closed. In 2002, Swisscom recorded a fee of CHF 28 million under financial income. Debt of CHF 1,339 million and financial assets of CHF 1,011 million were recorded in Swisscom's balance sheet at December 31, 2003.

Notes to the consolidated financial statements

Future minimum payments resulting from cross-border tax lease arrangements are due as follows:

CHF in millions	2002	2003
Within one year	66	65
Within 1-2 years	72	75
Within 2-3 years	87	64
Within 3-4 years	73	237
Within 4-5 years	77	108
After 5 years	4 041	3 016
Total future payment commitments	4 416	3 565
Less future interest charges	(2 963)	(2 232)
Total liability from cross-border tax lease arrangements	1 453	1 333
Fair value adjustments	10	6
Long-term liability from cross-border tax lease arrangements	1 463	1 339

Weighted-average interest rates are as follows:

	2002	2003
Short-term loans	5.62%	3.24%
Swiss Post loan	3.65%	3.72%
Short-term loans payable to affiliated companies	4.64%	2.13%
Financial liability from cross-border tax lease arrangements	6.78%	6.71%

26 Accrued liabilities

CHF in millions	Termination benefits	Dismantlement and restor- ation costs	Environ- mental	Other	Total
Balance at December 31, 2001	76	349	32	143	600
Additional provisions	94	3	-	125	222
Present value adjustment	3	22	1	-	26
Reversal of unused provisions	(2)	(3)	(5)	(14)	(24)
Utilized during year	(53)	-	-	(25)	(78)
Translation adjustments	-	-	-	(1)	(1)
Balance at December 31, 2002	118	371	28	228	745
Additional provisions	100	4	5	167	276
Present value adjustment	1	(39)	-	-	(38)
Reversal of unused provisions	(12)	(22)	-	(77)	(111)
Utilized during year	(90)	-	-	(38)	(128)
Acquisition of subsidiaries	-	-	-	9	9
Translation adjustments	-	-	-	2	2
Balance at December 31, 2003	117	314	33	291	755
Less current portion	(66)	-	-	(260)	(326)
Total non-current accrued liabilities	51	314	33	31	429

For further information concerning termination benefits see Note 7.

Provisions for dismantlement and restoration costs

Provisions for dismantlement and restoration costs relate to the dismantlement of mobile stations and analog transmitter stations and restoration of property owned by third parties on which the transmitters are located. In 2003, Swisscom extended the expected timing of the dismantlement as a result of a major customer deciding, contrary to previous intentions, to continue to use these stations for a longer period. The dismantlements are now expected to be incurred mainly after 2010. This resulted in a reduction in the present value of CHF 43 million. The provision is based on future estimated costs and is discounted using a discount rate of 3% for analog transmitter stations in 2002 and 2003 and discount rates of 2.5% and 3.1% for mobile stations in 2002 and 2003, respectively. The amount of the present value adjustment arising from the change in the discount rate in 2003 was CHF 4 million. The provision was also reduced by CHF 22 million due to the elimination of the liability resulting from the sale of stations.

Provisions for interconnection lawsuits

Swisscom supplies interconnection services to other telecom companies in Switzerland. Two of these companies filed lawsuits against Swisscom in 2000 on the grounds that the interconnection prices levied by Swisscom for the years 2000 to 2003 were too high. On November 6, 2003, the Federal Communications Commission (ComCom) decreed that Swisscom had to reduce the interconnection prices for these two competitors by 25% to 35%, retroactively for the years 2000 to 2003, which corresponds to the sum of CHF 208 million. Swisscom has lodged an appeal with the Federal Court. The two competitors which filed the lawsuits have also lodged appeals with the Federal Court demanding a further reduction in interconnection prices than decreed by ComCom without specifying an amount. Swisscom has recorded a provision representing management's best estimate, since the lawsuits were filed. Following the ComCom decree, the management of Swisscom revised its estimate and increased the provision. The provision is reported under other accrued liabilities.

Notes to the consolidated financial statements

	CHF in millions	2002	2003
27 Other current liabilities			
Interest payable		2	1
VAT payable		120	111
Social security payable		13	12
Accrual for overtime and unused vacation		72	58
Accrued expense		881	862
Revenue received in advance		438	339
Total other current liabilities		1 526	1 383

Revenue from the sale of telephone cards for the fixed network, which are valid for 3 years, is deferred and recognized either when the services are provided or once the card is no longer valid. Historically Swisscom was not able to reliably track the total amount of unutilized credit for cards that were no longer valid. In 2003, however, Swisscom implemented changes to the system to allow them to reliably track this amount. As a result, Swisscom released CHF 72 million to revenue, of which CHF 39 million relate to 2002 and CHF 29 million to 2001 and prior years. Prior years were not restated as the effect was not material.

	CHF in millions	2002	2003
28 Other long-term liabilities			
Revenue received in advance		23	15
Deposits received from customers		44	36
Deferred gain on sale and leaseback of real estate		232	228
Other long-term liabilities		8	4
Total other long-term liabilities		307	283

29 Finance lease obligations

In 2001, Swisscom entered into two agreements for the sale of real estate and at the same time entered into agreements to lease back part of the sold property space. A number of the leaseback agreements qualify as finance leases. The gain of CHF 239 million on the sale of these properties has been deferred and will be released to income over the individual lease terms. The liability relating to these finance leases is included in the table below. The remaining buildings have been leased back under operating leases over periods ranging from 5 to 20 years.

Swisscom entered into several cross-currency interest rate swaps and forward foreign exchange contracts as hedges of USD denominated leases in 1996 and 1997. The future minimum lease payments relating to these transactions are included in the following table:

CHF in millions	2002	2003
Within one year	133	121
Within 1-2 years	129	223
Within 2-3 years	243	84
Within 3-4 years	87	99
Within 4-5 years	104	177
After 5 years	2 276	2 092
Total future payment commitments	2 972	2 796
Less future interest charges	(1 787)	(1 712)
Total finance lease obligation (net present value)	1 185	1 084
Fair value adjustments	32	18
Accrued interest	38	29
Total finance lease obligation	1 255	1 131
Less current portion. See Note 25.	(63)	(61)
Long-term finance lease obligation	1 192	1 070

The present value of finance lease liabilities is as follows:

CHF in millions	2002	2003
Within one year	63	61
Within 1-2 years	60	148
Within 2-3 years	164	30
Within 3-4 years	32	46
Within 4-5 years	50	129
After 5 years	816	670
Total finance lease obligation	1 185	1 084

The weighted-average effective interest rates for finance lease obligations amounted to 4.93% in 2002 and 5.16% in 2003.

Payments for operating leases amounted to CHF 123 million and CHF 127 million in 2002 and 2003, respectively. Future minimum lease payments in respect of operating lease contracts fall due as follows:

CHF in millions	2002	2003
Within one year	113	147
Within 1-5 years	340	306
After 5 years	342	280
Total future payment commitments	795	733

Notes to the consolidated financial statements

	CHF in millions	2002	2003
30 Minority interests			
	Balance at beginning of year	783	796
	Share of net profits of subsidiaries	305	346
	Effect of acquisitions and divestitures	12	-
	Dividends paid to minority interests	(304)	(393)
	Translation adjustments	-	2
	Balance at end of year	796	751

31 Shareholders' equity

Shares outstanding at December 31, 2002 and December 31, 2003 totaled 66,203,261, with a par value of CHF 9 and CHF 1, respectively. All issued shares are fully paid. Each share entitles the holder to one vote. A reduction in par value of CHF 8 per share, amounting to CHF 529 million, was approved at the General Meeting of Shareholders on April 30, 2002. In the first half of 2002, Swisscom bought back 7,346,739 of its own registered shares for CHF 4,264 million. As a result, share capital was reduced by 9.99%. A further reduction in par value of CHF 8 per share, amounting to CHF 530 million, was approved at the General Meeting of Shareholders on May 6, 2003. The number of treasury shares outstanding at December 31, 2002 and December 31, 2003 totaled 1,605 and 2,272 respectively.

In 2002 and 2003, Swisscom acquired 125,442 and 53,660 of its own shares, respectively, through purchases on the market. The total amount paid to acquire the shares was CHF 63 million in 2002 and CHF 23 million in 2003. The total amount paid was deducted from shareholders' equity.

In 2002, 119,372 shares were sold to employees at a price of CHF 240 per share. In addition, 5,896 shares were issued to members of management and members of the Executive Board. The market value of these shares on the date of issuance in 2002 was CHF 63 million. The difference between the market value and the consideration received from employees has been recognized under personnel expenses. Swisscom also purchased CHF 8 million worth of stock options on the market for its Management Incentive Plan. See Note 8.

In 2003, 44,946 shares were sold to employees at a price of CHF 300 per share. In addition, 8,693 shares were issued to employees and members of the Executive Board and the Board of Directors. The market value of these shares on the date of issuance in 2002 was CHF 23 million. The difference between the market value and the consideration received from employees has been recognized under personnel expenses. Swisscom also purchased CHF 8 million worth of stock options on the market for its Management Incentive Plan. See Note 8.

Net fair values of derivative financial instruments

CHF in millions	2002	2003
Contracts with positive fair values		
Fair value hedge	33	18
Cash flow hedge	-	(1)
Non-qualifying derivative financial instruments	39	29
Total. See Note 17.	72	46
Contracts with negative fair values		
Fair value hedge	-	(6)
Cash flow hedge	29	20
Non-qualifying derivative financial instruments	102	181
Total. See Note 25.	131	195

Included in the derivative financial instruments are primarily cross-currency interest rate swaps, interest rate swaps and foreign exchange forwards to hedge interest rate risks and foreign exchange risks with respect to USD relating to the cross-border lease arrangements entered into in 1996, 1997, 2000 and 2002. The maximum length of time hedged is 5 years for cross-border lease arrangements entered into in 1996 and 1997, 25 years for arrangements entered into in 2000 and 10 years for arrangements entered into in 2002.

Also included are foreign exchange forwards for EUR and USD contained in derivative instruments designated to hedge future transactions in connection with the procurement of mobile equipment and obligations arising from international telephone traffic. These hedging transactions are reported in the category „no hedge accounting applicable“ as they do not qualify as cash flow hedges.

Notes to the consolidated financial statements

Fair value of financial instruments

The following table presents the carrying amounts and fair values of Swisscom's financial instruments outstanding at December 31, 2002 and 2003. The carrying amounts in the table are included in the balance sheet under the indicated captions. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidated sale.

CHF in millions	Carrying amount 2002	Fair value 2002	Carrying amount 2003	Fair value 2003
Financial assets				
Cash and cash equivalents	1 682	1 682	3 237	3 237
Current financial assets	285	285	264	264
Trade accounts receivable	2 418	2 418	2 219	2 219
Other current assets	450	450	763	763
Non-current financial assets *	1 584	2 126	1 383	1 787
Financial liabilities				
Short-term debt *	1 016	1 026	576	576
Trade accounts payable	1 054	1 054	1 045	1 045
Other current liabilities	1 526	1 526	1 383	1 383
Long-term debt *	1 505	2 110	1 374	1 830
Finance lease obligation *	1 192	1 670	1 070	1 480
Accrued liabilities	745	745	755	755
Other long-term liabilities	307	307	283	283

* The difference between net carrying value and net fair value relates principally to interest-rate movements.

Estimation of fair values

Trade accounts receivable, trade accounts payable, other current assets and other current liabilities

The carrying amounts are a reasonable estimate of the fair value because of the short maturity of such instruments.

Cash and cash equivalents, current financial assets and non-current financial assets

The carrying amounts of cash and loans receivable correspond to fair value. The fair value of available-for-sale investments is based on stock exchange quoted bid prices or other market prices. The fair value of financial assets from cross-border tax lease arrangements included in non-current financial assets is calculated using the expected future payments discounted at market interest rates.

Finance lease obligations, accrued liabilities and other long-term liabilities

The fair value of finance lease obligations is estimated using the expected future payments discounted at market rates. The carrying amounts of accrued liabilities and other long-term liabilities correspond to fair value.

Debt

The fair value of fixed rate debt is estimated using the expected future payments discounted at market interest rates.

33 Fair value and other reserves

CHF in millions	Hedging reserve	Fair value reserve	Cumulative translation adjustments	Total
Balance at December 31, 2001	2	1	(288)	(285)
Translation adjustments	-	-	(18)	(18)
Transfers to income statement	4	-	-	4
Tax effect on transfers to income statement	1	-	-	1
Revaluation	(37)	(32)	-	(69)
Tax on revaluation	7	1	-	8
Balance at December 31, 2002	(23)	(30)	(306)	(359)
Translation adjustments	-	-	120	120
Transfers in equity	-	(7)	7	-
Transfers to income statement	-	20	(46)	(26)
Revaluation	9	(10)	-	(1)
Tax on revaluation	-	2	-	2
Balance at December 31, 2003	(14)	(25)	(225)	(264)

In 2003, transfers to income statement comprise primarily an impairment charge of CHF 22 million relating to certain of Swisscom's available-for-sale investments (see Note 17) and the realization of cumulated translation gains of CHF 41 million on the sale of Cesky Telecom. See Note 22.

Revaluation comprises primarily the fair value adjustments relating to the cross-currency interest rate swaps, interest rate swaps and foreign exchange forwards for the cross-border tax lease transactions and to the current and non-current available-for-sale investments. See Notes 17 and 24.

34 Cash generated from operations

CHF in millions	Note	2002	2003
Net income		824	1 569
Adjustments for			
Minority interest	30	305	346
Equity in net income of affiliated companies	22	(95)	7
Income tax expense	13	361	500
Depreciation	21	1 578	1 564
Amortization	23	427	361
Impairment of goodwill	23	702	280
Issuance of shares and options to management and employees	7	39	12
Net loss on disposal of fixed assets	5, 10	53	18
Financial expense	11	517	154
Financial income	12	(206)	(140)
		4 505	4 671
Change in operating assets and liabilities, net of effects of acquisitions and disposals of subsidiaries			
Decrease in trade accounts receivable		101	200
Decrease in inventories		77	47
Decrease in other current assets		42	54
Decrease in trade accounts payable		(176)	(145)
Decrease in other current and accrued liabilities		(63)	(80)
Decrease in other long-term liabilities		(27)	(25)
(Decrease) increase in accrued pension cost		(117)	5
Cash generated from operations		4 342	4 727

35 Commitments and contingencies

Contractual commitments for future capital expenditures at December 31, 2003 amounted to CHF 222 million, of which CHF 211 million will be due in 2004.

36 Segment reporting

The Fixnet segment comprises primarily access services to residential and business customers, fixed retail telephony traffic in respect of residential customer, wholesale traffic services offered to national and international telecommunication providers and payphone services, operator services and prepaid calling cards. Fixnet also provides leased lines, sells customer equipment and operates a directories database.

Mobile consists principally of mobile telephony, which includes domestic and international traffic for calls made in Switzerland or abroad by Swisscom's customers and roaming by foreign operators whose customers use their GSM mobile telephones over Swisscom's networks. It also consists of value-added services numbers, data traffic as well as the sale of mobile handsets.

„Enterprise Solutions“ comprises primarily national and international fixed-line voice telephony services to business customers, networking which includes primarily national and international leased lines, intranet services as well as national and, through Infonet Switzerland, international private network services, revenue from inhouse and processes, which include primarily business numbers and revenue from a variety of other services, including consulting, business internet services and public data network services.

The „debitel“ segment reflects the business activities of the debitel Group.

The segment „Other“ mainly comprises Swisscom Systems AG, Swisscom IT Services AG, Swisscom Broadcast AG, Billag AG and Billag Card Services AG.

„Corporate“ covers the costs of headquarters, the real-estate company, the employment company WORK-LINK and costs not directly allocable to a segment.

Intersegment revenue is determined on the basis of annually agreed internal transfer prices. Costs are allocated to the individual segments based on various factors determined by management and commensurate with the level of usage. Costs relating to termination benefits are calculated per segment for the employees participating in one of the workforce reduction programs and are recorded as part of that segment's expense. Not all of the costs relating to termination benefits recorded by the segments meet the criteria for recognition under IFRS, and consequently CHF 119 million and CHF 106 million was eliminated in 2002 and 2003, respectively in the „Corporate“ segment in the consolidated financial statements.

Segment assets include all operating assets used by a segment and comprise receivables, inventories, other current assets, property, plant and equipment and intangibles. While most of these assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities include all operating liabilities and comprise primarily accounts payable, accrued pension costs, accrued liabilities and other liabilities.

Although Swisscom's segments are managed on a worldwide basis, they operate primarily in two geographical regions. In Switzerland, its home country, Swisscom provides a full range of telecommunication services. In Germany, debitel primarily sells standardized mobile communications products and services to residential customers and small and medium-sized businesses.

2002 CHF in millions	Fixnet	Mobile	Enterprise Solutions	debitel	Other	Corporate	Elimi- nation	Total
Net revenue from external								
customers	4 762	3 373	1 373	4 111	833	74	-	14 526
Intersegment net revenue	1 500	739	149	-	630	630	(3 648)	-
Net revenue	6 262	4 112	1 522	4 111	1 463	704	(3 648)	14 526
Segment expenses								
Segment expenses	(4 388)	(2 138)	(1 425)	(3 952)	(1 352)	(506)	3 648	(10 113)
Operating income before								
depreciation (EBITDA)	1 874	1 974	97	159	111	198	-	4 413
<i>Margin in %</i>	29.9	48.0	6.4	3.9	7.6	28.1	-	30.4
Depreciation and								
amortization	(1049)	(289)	(32)	(62)	(205)	(65)	-	(1 702)
Operating income before								
amortization of goodwill	825	1 685	65	97	(94)	133	-	2 711
Amortization of goodwill	(6)	-	-	(277)	(20)	-	-	(303)
Impairment of goodwill	-	-	-	(702)	-	-	-	(702)
Operating income (EBIT)	819	1 685	65	(882)	(114)	133	-	1 706
Segment assets								
Segment assets	8 813	3 760	497	2 068	1 165	5 144	(5 180)	16 267
Affiliated companies	43	-	9	10	-	629	-	691
Total assets	8 856	3 760	506	2 078	1 165	5 773	(5 180)	16 958
Segment liabilities								
Segment liabilities	7 388	1 104	451	861	847	3 392	(5 180)	8 863
Total liabilities	7 388	1 104	451	861	847	3 392	(5 180)	8 863
Capital expenditure								
Capital expenditure	585	392	23	68	103	51	-	1 222
Depreciation, amortization								
and impairment	1 055	289	32	1 041	225	65	-	2 707
Gain (loss) on disposal								
of assets, net	(50)	(3)	(1)	-	(7)	8	-	(53)

Geographical segments

	Net revenue	Carrying amount of assets	Additions to property plant and equipment and intangi- ble assets
Switzerland	10 180	14 436	1 125
Germany	2 888	1 707	76
Other international activities	1 458	815	21
Total	14 526	16 958	1 222

Notes to the consolidated financial statements

2003 CHF in millions	Fixnet	Mobile	Enterprise Solutions	debitel	Other	Corporate	Elimi- nation	Total
Net revenue from external customers								
	4 498	3 434	1 261	4 555	761	72	-	14 581
Intersegment net revenue	1 348	706	110	-	543	631	(3 338)	-
Net revenue	5 846	4 140	1 371	4 555	1 304	703	(3 338)	14 581
Segment expenses								
	(3 771)	(2 156)	(1 237)	(4 418)	(1 148)	(548)	3 338	(9 940)
Operating income before depreciation (EBIDTA)								
	2 075	1 984	134	137	156	155	-	4 641
<i>Margin in %</i>	35.5	47.9	9.8	3.0	12.0	22.0	-	31.8
Depreciation and amortization								
	(1 076)	(310)	(33)	(68)	(164)	(61)	-	(1 712)
Operating income before amortization of goodwill								
	999	1 674	101	69	(8)	94	-	2 929
Amortization of goodwill								
	(7)	-	-	(172)	(34)	-	-	(213)
Impairment of goodwill								
	-	-	-	(280)	-	-	-	(280)
Operating income (EBIT)	992	1 674	101	(383)	(42)	94	-	2 436
Segment assets								
	9 398	3 707	502	1 666	1 518	4 895	(5 199)	16 487
Affiliated companies	39	-	-	13	-	1	-	53
Total assets	9 437	3 707	502	1 679	1 518	4 896	(5 199)	16 540
Segment liabilities								
	7 243	1 146	379	810	1 215	2 526	(5 199)	8 120
Total liabilities	7 243	1 146	379	810	1 215	2 526	(5 199)	8 120
Capital expenditure								
	583	431	13	48	119	19	-	1 213
Depreciation, amortization and impairment								
	1 083	310	33	520	198	61	-	2 205
Gain (loss) on disposal of assets, net								
	(14)	(10)	(4)	-	(5)	15	-	(18)

Geographical segments

	Net revenue	Carrying amount of assets	Additions to property plant and equipment and intangi- ble assets
Switzerland	9 993	14 268	1 149
Germany	3 192	1 286	36
Other international activities	1 396	986	28
Total	14 581	16 540	1 213

37 Executive Board and Board of Directors

Total compensation paid by Swisscom to the Board of Directors in 2002 and 2003 amounted to 1.7 million and CHF 1.9 million, respectively. Total compensation paid by Swisscom to Executive Board members in 2002 and 2003 amounted to CHF 9.2 million and CHF 9.9 million, respectively, including CHF 0.5 million and CHF 0.7 million relating to contractual commitments for departing members. Total compensation includes fees, salary, bonuses, special pension fund contributions and other contractual obligations. In addition, for the benefit of its Board of Directors Swisscom made social security contributions of CHF 0.2 million in 2002 and CHF 0.3 million in 2003. For the benefit of its Executive Board members Swisscom made social security and ordinary pension fund contributions and insurance payments of CHF 1.1 million in 2002 and CHF 1.4 million in 2003. The Executive Board comprised 13 members in 2002 and 12 in 2003. 25% of the Executive Board's bonus was paid in stock and stock options. In 2003, 25% of the Board of Directors' compensation was also paid in stock and stock options. No stock and stock options were paid to the Board of Directors in 2002. See Note 8.

Notes to the consolidated financial statements

38 Significant subsidiaries and affiliated companies

Company	Location, country	Interest in percent	Consolidation method	Share capital in thousands	Segment
Switzerland					
Billag AG	Fribourg, Switzerland	100	Full	CHF 100	Other
Billag Card Services AG ¹⁾	Brüttisellen, Switzerland	100	Full	CHF 350	Other
Bluewin AG	Zurich, Switzerland	100	Full	CHF 20 000	Fixnet
cablex AG	Berne, Switzerland	100	Full	CHF 5 000	Fixnet
Infonet Schweiz AG	Berne, Switzerland	90	Full	CHF 1 500	Enterprise Sol.
PersPec Personal Perspectives AG ²⁾	Berne, Switzerland	100	Full	CHF 500	Corporate
PubliDirect Holding AG	Zurich, Switzerland	49	Equity	CHF 10 000	Fixnet
SICAP AG ³⁾	Köniz, Switzerland	75	Full	CHF 2 000	Mobile
Swisscom Broadcast AG	Berne, Switzerland	100	Full	CHF 25 000	Other
Swisscom Directories AG	Berne, Switzerland	51	Full	CHF 1 500	Fixnet
Swisscom Enterprise Solutions AG	Berne, Switzerland	100	Full	CHF 75 000	Enterprise Sol.
Swisscom Eurospot S.A. ⁴⁾	Geneva, Switzerland	100	Full	CHF 10 000	Other
Swisscom Fixnet AG	Berne, Switzerland	100	Full	CHF 1 000 000	Fixnet
Swisscom Immobilien AG	Berne, Switzerland	100	Full	CHF 100 000	Corporate
Swisscom IT Services AG	Berne, Switzerland	71.1	Full	CHF 150 000	Other
Swisscom Mobile AG	Berne, Switzerland	75	Full	CHF 100 000	Mobile
Swisscom Systems AG	Biel-Bienne, Switzerland	100	Full	CHF 70 000	Other
WORK_LINK AG	Berne, Switzerland	40	Full	CHF 100	Corporate
Other countries					
AUCS Communications					
Services v.o.f. ⁵⁾	Hoofddorp, Netherlands	33.33	Equity	EUR -	Corporate
debitel Group	Stuttgart, Germany	93	Full	EUR 89 000	debitel
DANGAARD Telecom Holding A/S	Padborg, Denmark	21.09	Equity	DKK 100 000	debitel
debitel Danmark A/S	Albertslund, Denmark	78.25	Full	DKK 149 200	debitel
debitel France S.A.	Chaville, France	100	Full	EUR 500	debitel
debitel Nederland B.V.	Hoofddorp, Netherlands	100	Full	EUR 68	debitel
debitel Shop B.V.	Amersfoort, Netherlands	100	Full	EUR 20	debitel
debitel telekomunikacije					
Slovenia d.d.	Ljubljana, Slovenia	52	Full	SIT 463 423	debitel
debitel Vertriebs GmbH	Stuttgart, Germany	100	Full	EUR 26	debitel
debitel Mobile Services					
Holding GmbH ²⁾	Stuttgart, Germany	100	Full	EUR 25	debitel
DGS (Dansk GSM Service A/S)	Padborg, Denmark	100	Full	DKK 500	debitel
MIDRAY GmbH	Cologne, Germany	100	Full	EUR 511	debitel
Videlec Distribution S.A.	Paris, France	100	Full	EUR 1 000	debitel
Swisscom (Belgium) N.V.	Brussels, Belgium	100	Full	EUR 62	Fixnet
Swisscom Carrier Services S.p.A.	Milan, Italy	100	Full	EUR 300	Fixnet
Swisscom (Deutschland) GmbH	Stuttgart, Germany	100	Full	EUR 26	Fixnet
Swisscom Deutschland					
Holding GmbH	Frankfurt, Germany	100	Full	EUR 26	Corporate
Swisscom (France) S.A.	Paris, France	100	Full	EUR 50	Fixnet
Swisscom Finance Ltd.	St. Helier, Jersey	100	Full	EUR 64 468	Corporate
Swisscom (Netherlands) B.V.	Amsterdam, Netherlands	100	Full	EUR 45 000	Fixnet/Corp.
Swisscom North America, Inc.	Washington, DC, USA	100	Full	USD -	Fixnet
Swisscom Re AG	Vaduz, Liechtenstein	100	Full	CHF 1 000	Corporate
Swisscom (UK) Ltd.	London, UK	100	Full	GBP -	Fixnet
TelSource N.V. ⁵⁾	The Hague, Netherlands	49	Equity	EUR 91	Corporate

¹⁾ Acquisition by Billag AG as of December 19, 2003.

²⁾ Incorporation in 2003.

³⁾ Fully owned subsidiary of Swisscom Mobile AG.

⁴⁾ Formerly European PWLAN AG. Swisscom Eurospot S.A. represents companies purchased or incorporated in Germany, France, the Netherlands, Belgium, Luxembourg, the UK, Spain and Italy.

⁵⁾ Joint venture.

In 2003, the fully consolidated Telecom FL AG, Liechtenstein, and the shareholding in Cesky Telecom, Czech Republic, were sold; the business activities of conextrade AG were transferred to Swisscom IT Services AG; Unit.net AG discontinued its operations and went into liquidation; and debitel DANGAARD France SAS and debitel France S.A. as well as Videlec Distribution S.A. and Videlec S.A. merged their operations.

39 Post balance sheet events

Dividend

At the General Meeting of Shareholders on April 27, 2004, a dividend of CHF 13 per share, amounting to a total income distribution of CHF 861 million, is to be proposed for 2003. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders equity as an appropriation of retained earnings in the year ending December 31, 2004. The dividends declared in respect of 2001 and 2002 were CHF 728 million and CHF 794 million, respectively.

Report of the Statutory Auditors

To the Shareholders' Meeting
of Swisscom AG
Ittigen (Berne)

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes) of Swisscom AG for the year ended December 31, 2003.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records, the financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Peter Wittwer

Julie Fitzgerald

Berne, March 22, 2004

Swisscom AG

Income statement

CHF in millions	Year ended December 31	
	2002	2003
Net revenue	335	312
Other operating income	6	6
Gain on sale of property, plant and equipment	20	2
Total	361	320
Goods and services purchased	3	-
Personnel expenses	162	152
Other operating expenses	227	184
Depreciation and amortization	19	20
Total operating expenses	411	356
Operating income	(50)	(36)
Financial expense	(190)	(68)
Financial income	282	164
Income from investments	2 673	1 094
Income before income taxes	2 715	1 154
Income tax expense	9	-
Net income	2 724	1 154

Swisscom AG

Balance sheet

CHF in millions	Note	At December 31	
		2002	2003
Assets			
Current assets			
Cash and cash equivalents		821	2 246
Current financial assets		55	44
Trade accounts receivable		11	11
Other receivables from subsidiaries		149	64
Dividend receivable from subsidiaries		1 158	1 147
Other current assets		137	14
Total current assets		2 331	3 526
Non-current assets			
Property, plant and equipment	3	49	42
Investments	4	3 379	2 649
Loans from third parties		88	83
Loans from subsidiaries		3 910	3 769
Total non-current assets		7 426	6 543
Total assets		9 757	10 069
Liabilities and shareholders' equity			
Current liabilities			
Short-term debt		752	-
Current liabilities to subsidiaries		2 135	3 420
Trade accounts payable		18	14
Other liabilities to subsidiaries		32	13
Other current liabilities		131	121
Total current liabilities		3 068	3 568
Long-term liabilities			
Long-term liabilities to subsidiaries		718	716
Accrued liabilities		721	708
Other long-term liabilities		34	31
Total long-term liabilities		1 473	1 455
Total liabilities		4 541	5 023
Shareholders' equity			
Share capital		596	66
General reserves		298	298
Retained earnings	6	4 322	4 682
Total shareholders' equity	5	5 216	5 046
Total liabilities and shareholders' equity		9 757	10 069

Notes to the financial statements

- 1 General** The financial statements of Swisscom AG, the parent company, comply with the legal provisions of the Swiss Code of Obligations.
- 2 Contingent liabilities** Total guarantees and pledged securities in favor of third parties on behalf of Group companies at December 31, 2002 and December 31, 2003 amounted to CHF 290 million and CHF 244 million, respectively. Swisscom is severally liable with two other shareholders to cover future losses of an affiliated company.
- 3 Fire insurance values of property, plant and equipment** The fire insurance values of property, plant and equipment are generally based on replacement or fair values of such assets.
- 4 Investments** Swisscom AG has investments in Swiss International Airlines Ltd. and Infonet Services Corp. These are recorded at their respective year-end share price. As a result of developments in the capital markets, Swisscom recorded impairment charges of CHF 41 million (2002) and CHF 21 million (2003) relating to Swiss and CHF 111 million (2002) and CHF 53 million (2003) relating to Infonet. The impairment charges for 2002 (CHF 152 million) and 2003 (CHF 74 million) were recorded under income from investments.
- In December 2003 Swisscom AG and KPN sold their investment in Cesky Telecom held indirectly through TelSource B.V. and recorded a loss of CHF 26 million.
- In 2003 Swisscom sold its remaining shares in the satellite company Inmarsat, resulting in a gain of CHF 9 million.
- 5 Treasury stock** At the beginning of 2002, Swisscom bought back 7,346,739 (or 9.99%) of its own registered shares for CHF 4,264 million for capital reduction purposes. The shares acquired under the buy-back program were cancelled in the third quarter of 2002.
- In 2003 and 2002 Swisscom AG acquired 53,660 and 125,442 of its own shares for an average price of CHF 434 and CHF 500, respectively, and recorded them under securities available for sale. In 2003 and 2002, Swisscom AG sold 44 946 and 119 372 shares to employees for a price of CHF 300 and CHF 240, respectively. A further 8,693 shares (2002: 5,896) were issued to employees and members of the Executive Board and Board of Directors under the Group's Management Incentive and Leveraged Executive Asset Plans. The costs relating to these programs are recorded under personnel expenses. In 2002, a further 2,000 shares were sold on the market at a price of CHF 474. In 2003, Swisscom AG also purchased CHF 8 million (2002: CHF 8 million) worth of stock options on the market for its Management Incentive Plan.
- At December 31, Swisscom had 1,605 (2002) and 2,272 (2003) treasury shares outstanding. See Note 31 to the consolidated financial statements.

6 Additional information

Major shareholders

On December 31, 2003 the Swiss Confederation (the „Confederation“) as majority shareholder held 62.7% of the shares of Swisscom AG. Under the 1997 Telecommunications Enterprise Act („Telekommunikationsunternehmungsgesetz“, TUG“), the Confederation must hold a majority of the capital and voting rights of Swisscom. In addition, Chase Nominees Ltd, London, registered in the share register as a shareholder, held 6.5 % of the shares at December 31, 2003.

Recording of dividends payable by subsidiaries

As from fiscal 2002 dividends from the fully consolidated subsidiaries of Swisscom AG are recorded in the year the dividend is proposed. The respective dividends have been approved at the subsidiaries' Shareholder Meetings. This change in reporting method resulted in an increase in income from investments in 2002 of CHF 1,158 million.

Par value repayment

A reduction in par value of CHF 8 per share, amounting to a total of CHF 529 million, was approved at the General Meeting of Shareholders on April 30, 2002. A further par value repayment of CHF 8 per share, amounting to a total of CHF 530 million, was approved at the General Meeting of Shareholders on May 6, 2003.

Proposed appropriation of retained earnings

Proposal of the Board of Directors

The Board of Directors proposes to the General Meeting of Shareholders the following appropriation of retained earnings of CHF 4,682 million for the year ended December 31, 2003:

CHF in millions	2003
Dividend on registered shares *	861
Balance to be carried forward	3 821
Total retained earnings	4 682

* Excluding treasury stock

Subject to the approval of this proposal, the dividend will be paid out to shareholders on April 30, 2004 as follows:

Per registered share	CHF
Gross dividend	13.00
Less 35% withholding tax	4.55
Net dividend	8.45

1 Group structure and shareholders

Swisscom is a corporate group with independently-operating subsidiaries. The aim of this group structure is to increase transparency for management and shareholders while allocating clear responsibilities to the subsidiaries for their respective submarkets. Autonomy also allows them to enter into strategic partnerships – as Swisscom Mobile AG did with the mobile phone operator Vodafone in 2001.

Swisscom AG, a company governed by Swiss law and headquartered in Ittigen (Canton of Berne, Switzerland), is the holding company with responsibility for overall management as well as strategic and financial management of the Swisscom Group. Strategic and financial management of the independently operating Group companies is assured by the fact that powers and responsibilities are aligned to the Group as a whole. Furthermore, the CEO of Swisscom AG chairs the strategic subsidiaries' Boards of Directors, of which the CFO and CSO are also members. The five strategic Group companies are Swisscom Fixnet AG, Swisscom Mobile AG, Swisscom Enterprise Solutions AG, Swisscom IT Services AG and Swisscom Systems AG. Debitel is a financial participation but managed as a strategic Group company. The role of Chairman of the Board of Directors of the other Group companies is exercised by the CEO of a strategic Group company or the head of a Group Headquarter's division (GHQ division). The five GHQ divisions are Group Finance & Controlling, Strategy & Group Steering, Group Communications, Group Operations & Related Businesses and Group Human Resources.

Swisscom AG is listed on the main market of the SWX Swiss Exchange (Securities No. 874251, ISIN CH0008742519) and on the New York Stock Exchange (Ticker Symbol: SCM). At December 31, 2003, Swisscom AG's stock market capitalization was CHF 27,011 million. Swisscom also has a 93% holding in Debitel AG, headquartered in Stuttgart, Germany, with a call option to acquire an additional 2% of the shares. Debitel AG is listed on the Frankfurt Stock Exchange (Securities No. 540800), and at December 31, 2003 had a stock market capitalization of EUR 846 Million (CHF 1,319 million).

The strategic Group companies, with the exception of Swisscom Systems and Swisscom IT Services, which are included under the segment „Other“, are reported as individual segments in the consolidated financial statements. A diagram of the Group structure is shown in the „Organization“ chapter of the Annual Report. Note 38 to the consolidated financial statements contains a list of the major subsidiaries.

Significant shareholders

Under the Telecommunications Enterprise Act (TUG), the Swiss Federal Government has a majority holding in the company in terms of both capital and votes. As at December 31, 2003, it held 62.7% of the shares of Swisscom AG.

There were no disclosures in the year under review. The last disclosure concerned „The Capital Group Companies, Inc. (CGC)“, which at February 5, 2002, held 3,703,716 registered shares of Swisscom AG, or 5.04% of the voting rights. Please refer to the publication of the disclosure in the Swiss Commercial Gazette of February 19, 2002.

Cross-shareholdings

No cross-shareholdings exist between Swisscom AG and other public limited companies.

2 Capital Structure

At December 31, 2003 Swisscom AG's share capital amounted to CHF 66,203,261, divided into 66,203,261 registered shares with a par value of CHF 1 per share. The shares are fully paid-up.

Authorized and conditional capital

There is no authorized or conditional share capital.

Changes in Capital

Changes in shareholders' equity of Swisscom AG in the individual financial statements under commercial law in the years 2001 to 2003:

In CHF millions	Share capital	General reserves	Retained earnings	Total shareholders' equity
Balance at January 1, 2001	1 839	2 712	3 779	8 330
Net income	-	-	1 081	1 081
Dividend	-	-	(809)	(809)
Capital reduction	(589)	-	-	(589)
Balance at December 31, 2001	1 250	2 712	4 051	8 013
Net income	-	-	2 724	2 724
Dividend	-	-	(728)	(728)
Capital reduction	(529)	-	-	(529)
Share buy back	(125)	(2 414)	(1 725)	(4 264)
Balance at December 31, 2002	596	298	4 322	5 216
Net income	-	-	1 154	1 154
Dividend	-	-	(794)	(794)
Capital reduction	(530)	-	-	(530)
Balance at December 31, 2003	66	298	4 682	5 046

A resolution to reduce capital through repayment of part of the par value (CHF 8 per share, CHF 589 million in total), in addition to the dividend, was adopted at the General Meeting of Shareholders on May 29, 2001.

In March 2002, as part of a share buy-back scheme, Swisscom purchased 7,346,739 treasury shares, representing 9.99% of all outstanding shares. Shareholders were allocated one free put option per share. Ten put options represented an entitlement to sell one share at a gross price of CHF 580, less 35% withholding tax. The scheme resulted in Swisscom buying back a total of CHF 4,264 million worth of treasury shares. A resolution to reduce the share capital from CHF 1,250 million to CHF 1,125 million by voiding the shares acquired under the buy-back scheme was adopted at the General Meeting of Shareholders on April 30, 2002. The number of shares was thus reduced from 73,550,000 to 66,203,261.

A resolution to reduce capital through repayment of part of the par value (CHF 8 per share, CHF 529 million in total), in addition to the dividend, was adopted at the General Meeting of Shareholders on April 30, 2002. The share capital was thus reduced from CHF 1,125 million to CHF 596 million.

A resolution to reduce capital through the repayment of part of the par value (CHF 8 per share, CHF 530 million in total), in addition to the dividend, was adopted at the General Meeting of Shareholders on May 6, 2003. The share capital was thus reduced from CHF 596 million to CHF 66 million.

Shares, participation certificates and profit-sharing certificates

Each of the 66,203,261 registered shares of Swisscom AG has a par value of CHF 1. All registered shares are eligible for dividends, with the exception of treasury shares held by Swisscom AG. There are no preferential rights.

The registered shares of Swisscom AG are not issued in certificate form but are held as uncertificated securities in the holdings of SIS SegalnterSettle AG (registered shares with no right to printed certificates). Shareholders can at any time request free confirmation from Swisscom AG of the registered shares they own. However, shareholders have no right to have their shares printed and physically delivered to them. Swisscom

AG may print uncertificated shares at any time. If registered shares are printed, Swisscom AG may issue certificates for multiple registered shares. Registered shares bear the signatures of two members of the Board of Directors; these may be facsimile signatures.

Swisscom AG has issued neither participation certificates nor profit-sharing certificates.

Convertible bonds and options

Swisscom AG has no outstanding convertible bonds as at December 31, 2003. The stock-based compensation programs of Swisscom AG are described in Note 8 to the consolidated financial statements.

3 Board of Directors

Members of the Board of Directors

The Board of Directors of Swisscom AG comprises nine members, none of whom has an executive role within the Swisscom Group or has held one in any of the three business years prior to the period under review. The board members have no substantial commercial links with Swisscom AG or the Swisscom Group.

Members of Board of Directors on December 31, 2003: ¹⁾

Name	Year of birth	Position	Appointed	Expire of the terms of office
Markus Rauh ²⁾³⁾⁴⁾	1939	Chairman	1998	2005
André Richoz ²⁾	1947	Deputy Chairman	1998	2005
Jacqueline Françoise Demierre ³⁾	1954	Member, employee representative	1998	2005
Michel Gobet ³⁾	1954	Member, employee representative	2003	2005
Torsten G. Kreindl ²⁾	1963	Member	2003	2005
Peter K�pfer ⁴⁾	1944	Member	1998	2005
Felix Rosenberg ³⁾	1941	Member, government representative	1998	2005
Richard Roy ⁴⁾	1955	Member	2003	2005
Helmut Woelki ²⁾	1949	Member	1998	2005

¹⁾ The following members left the Board of Directors in financial year 2003: Franco Ambrosetti, Ernst Hoffmann and Rose Gerrit Huy.

²⁾ Member of the Finance Committee.

³⁾ Member of the Personnel and Organization Committee.

⁴⁾ Member of the Audit Committee.

Cross-involvement

There is no cross-involvement of the Board of Directors of Swisscom AG and the Board of Directors with any other listed company. Positions held by members of the board of Swisscom AG in the management committees of other listed companies are listed in the information on each individual board member.

Markus Rauh

Swiss citizen

Education: Degree in mechanical engineering and doctorate (Dr. sc. tech) from the Swiss Federal Institute of Technology (ETH) in Zurich

Career: Sperry Univac, Philips, CEO of Wild Leitz / Leica Group, independent management consultant

Other mandates: Chairman of the Boards of Directors of Synthes AG, Chur and Anova Holding AG; Vice-Chairman of the Boards of Directors of Leica Geosystems AG, Dietiker AG and Leica Camera AG (Germany), Member of the Boards of Directors of Unaxis Holding AG, The Generics Group AG, Madison Management AG and St.Galler Kantonalbank AG; Member of the Executive Board of Economiesuisse; President of the Board of Trustees of the Institute for Technology Management at the University of St. Gallen, Chairman of the Board of Directors of the AO ASIF Foundation

André Richoz

Swiss citizen

Education: Doctor of physics and MBA from INSEAD

Career: National Scientific Fund, Credit Suisse, Sulzer Group, Head of the Agie Charmilles Group (former Charmilles Group), CEO of the SIKA Group, CEO of the Rockland Group

Other mandates: Member of the Boards of Directors of BBL-ING (Switzerland) and Batigroup AG; Member of the Swiss Academy of Engineering Sciences

Jacqueline Françoise Demierre

Swiss citizen

Education: Swiss diploma in sales management, diploma in reflex zone massage

Career: Berne Telegraph Office, General Directorate of the PTT, various positions at Swisscom, including responsibility for Key Account Projects, Business Customer Management, Relationship Manager for Mobile Communications and the Environment

Other mandates: Member of the unions Transfair/PVB and CASC, Member of the board commission for the deactivation fund for nuclear power plants (StiF KA) and disposal fund for nuclear power plants (EntsF KKW).

Michel Gobet

Swiss citizen

Education: Degree in history

Career: Central Secretary and Deputy General Secretary of the PTT Union, Secretary of the Communications Union

Other mandates: Member of Union Network International (UNI); Member of the World Executive Committee, Vice President of the European Executive Committee for Telecommunications

Torsten G. Kreindl

Austrian citizen

Education: Degree in industrial engineering (Dr. techn.)

Career: Chemie Holding AG, W.L. Gore & Associates Inc., Member of the Management Board of Booz Allen & Hamilton, Germany, Deutsche Telekom, CEO of MSG Media Services GmbH, Copan (Munich, Germany)

Other mandates: Partner of the American Venture Capital Company Copan Inc.

Peter Küpfer

Swiss citizen

Education: Certified public accountant

Career: Revisuisse, CFO of Financière CSFB and CS First Boston, Member of the Management Board of CS Holding, Bank Leu AG, independent management consultant

Other mandates: Chairman of the Boards of Directors of Valora Holding AG and Pilatus Flugzeugwerke AG; Member of the Boards of Directors of Bank Julius Baer AG, Karl Steiner Holding AG, Unaxis Holding AG, Holcim AG and until June 2003 Swiss Steel AG.

Felix Rosenberg

Swiss citizen

Education: Degree in law (lic. iur.)

Career: Clerk to the local court in Baden, Member of the Cantonal Government of Thurgau, Member of the PTT Executive Board, CEO of Telecom PTT and until end of March 1998 of Swisscom

Other mandates: Chairman of the Board of Directors of Voigt AG and De Martin AG; Member of the Board of Directors of Huser & Peyer AG; President of the Board of Trustees of the Swiss Pro Patria Foundation

Richard Roy

German citizen

Education: Degree in engineering (university of applied sciences)

Career: Hewlett Packard GmbH (Böblingen, Germany), Member of the Board of Directors of Siemens Nixdorf Informationssysteme AG, CEO of Microsoft GmbH (Germany), Vice-President of the Corporate Strategy Division of Microsoft EMEA (Paris, F), independent management consultant

Other mandates: Vice-President of the Board of Directors of Ixos Software AG and Realtech AG; Member of the Board of Directors of Lion Bioscience AG, consultant to Permira Beteiligungsberatungs GmbH

Helmut Woelki

German citizen

Education: Degree in business administration

Career: Fegro Handelsgesellschaft, SAS Service Partner, CEO of LSG Lufthansa Service Holding AG, independent consultant to international companies

Other mandates: CEO of Onex Kino GmbH (Hamburg, Germany); Member of the Board of Directors of Client Logic GmbH (Düsseldorf, Germany); consultant to Onex corporation (Toronto), K10 Europe Ltd and consultant to Lufthansa until November 2003; judge at the Commercial Court in Frankfurt/Main

Composition, election and term of office

With the exception of the government representative, the Board of Directors of Swisscom AG is elected by the General Meeting of Shareholders. It currently comprises nine members but according to the terms of the Articles of Incorporation may comprise between seven and nine. The members are elected for two years and may be re-elected. The maximum term of office is eight years. By beginning the process of replacing members of the Board of Directors in 2003, Swisscom AG has eliminated the need to elect a completely new Board in 2006, when the existing members' terms of office are due to expire. Members who reach the age of seventy retire from the Board on the date of the next General Meeting.

Under the Articles of Incorporation of Swisscom AG, the Federal Government is entitled to appoint two representatives to the Board of Directors of Swisscom AG. Felix Rosenberg is currently the sole government representative. Under the Swiss Telecommunications Enterprise Act (TUG), the employees must have appropriate representation on the Board of Directors of Swisscom AG. The Articles of Incorporation state that the Board of Directors must include two employee representatives. These are currently Jacqueline Françoise Demierre and Michel Gobet.

Internal organization, powers and responsibilities, controlling information and instruments

The Swiss Telecommunications Enterprise Act (TUG) makes reference to the Swiss Code of Obligations in respect of the non-transferable and irrevocable duties of the Board

of Directors of Swisscom AG. The Board of Directors is thus responsible for overall management and for supervision of the Executive Board of Swisscom AG. It determines strategic, organizational, budgeting and accounting guidelines. The Board of Directors has delegated day-to-day business management to the CEO in accordance with the TUG, the Articles of Incorporation and the Organizational Regulations.

The Board of Directors convened on nine occasions in fiscal 2003, for meetings lasting one to two days. The Board of Directors is convened by the Chairman. Should the Chairman be unavailable, the Deputy Chairman convenes the meeting. The Chairman sets the agenda for the meetings of the Board of Directors. Any board member may request the inclusion of further items on the agenda. Board members receive documents prior to the meetings to allow them to prepare their responses to items on the agenda. The Board of Directors may invite members of the Executive Board, senior employees of Swisscom AG, auditors or other specialists to participate in its meetings, thereby ensuring appropriate reporting to the members of the board. Furthermore, the Chairman of the Board of Directors and the CEO report to each meeting of the Board of Directors on the general course of business and major business transactions, as well as on any measures implemented. The CEO also reports to the Board of Directors at the beginning of each month on the main events of the previous month, broken down by function (functional reporting). The CEO must submit interim reports with appropriate comments and other relevant figures to the Board of Directors after the end of each quarterly reporting period. Any member of the Board of Directors may also demand information about other Swisscom AG matters.

The Board of Directors has three standing and two ad hoc committees to carry out detailed examinations of important issues. Each committee comprises two to four members. Each member of the Swisscom Board of Directors also sits on one of the standing committees. The Chairman is a member of all three standing committees; these are chaired by other board members. The duties and responsibilities of the standing committees are laid down in regulations. All minutes of the standing committee meetings are distributed to all members of the Board of Directors in order to ensure transparency.

Finance committee: This committee is chaired by Helmut Woelki. The other members are Torsten G. Kreindl, Markus Rauh and André Richoz. The committee, which met on two occasions in fiscal 2003, deals with all financial transactions, such as the establishment or winding up of major subsidiaries, the formation or termination of strategic alliances, medium-term budgeting, and major investments or disposals.

Personnel and organization committee: This committee is chaired by Felix Rosenberg. The other members are Jacqueline Françoise Demierre, Michel Gobet and Markus Rauh. The committee, which met on five occasions in fiscal 2003, deals with all organizational issues concerning the Group structure and matters relating to corporate policy, personnel and salary policy, the collective employment agreement and major restructuring projects.

Audit committee: This committee is chaired by Peter Küpfer. The other members are Markus Rauh and Richard Roy. The committee, which met on six occasions in fiscal 2003, covers all internal and external audit work and thus constitutes the central controlling instrument of the Board of Directors. It is responsible for ensuring that appropriate accounting policies, internal financial controls and compliance measures regarding budget and strategic objectives are in place. It is also responsible for reviewing quarterly statements and forecasts, appointing the auditors and commissioning analyses from Swisscom Risk Management.

Compensation committee and nomination committee: These committees are formed on an ad hoc basis to determine the compensation of the Executive Board and to propose new members of the Board of Directors and the Executive Board. In fiscal 2003 the two committees met jointly on two occasions.

Board of Directors' supervisory and controlling instruments

Every quarter, the Board of Directors receives detailed information on the course of business and on the assets, financial and earning position of the Group, the segments and the major Group companies. The reporting also includes key non-financial information for controlling and steering purposes. Limited monthly reporting is also carried

out. Forecasts of the income statement, cash flow statement and balance sheet for the current fiscal year are produced on a quarterly basis. Internal financial reporting is carried out in accordance with the same accounting principles and standards as external reporting.

Swisscom AG has also decided to set up a comprehensive risk management system within the scope of corporate governance. This is intended to enhance risk transparency and risk awareness, thereby ensuring that opportunities can be consistently utilized and risks controlled. To this end, Swisscom AG set up an independent competence center at the beginning of 2001 to examine and monitor key risks on behalf of the Chairman of the Board of Directors, the audit committee or the CEO.

In addition to its risk management responsibilities, the internal audit department also has a supervisory and controlling function. Its purpose is to identify weaknesses in the internal controlling system, propose appropriate measures and contribute to improving the efficiency and effectiveness of the supervisory and controlling processes. With a view to achieving maximum independence, the internal audit function is outsourced to an external audit company. The Head of Risk Management is responsible for operational coordination of the internal audit function and for ensuring that the internal auditors are aware of all major operations, projects, etc. on an ongoing basis.

4 Executive Board

Under the Articles of Incorporation, the Executive Board must comprise one or more members, who may not simultaneously be members of the Board of Directors. In exceptional circumstances only, temporary membership of the Board of Directors is permitted. Accordingly, the Board of Directors has delegated responsibility for overall executive management of Swisscom AG to the CEO. The CEO is entitled to delegate his powers to a subordinate, in particular to other members of the Executive Board.

The members of the Executive Board are appointed by the Board of Directors. The Executive Board comprises the CEO of Swisscom AG, the CEOs of the strategic Group companies and the heads of the GHQ divisions.

Members of the Executive Board at December 31, 2003 ¹⁾

Name	Year of Birth	Position	Appointed
Jens Alder	1957	CEO of Swisscom AG	December 1999
Adrian Bult	1959	CEO of Swisscom Fixnet AG	October 2001
Ueli Dietiker	1953	CFO (Chief Financial Officer) and Deputy CEO of Swisscom AG as well as Acting Head of Group Human Resources of Swisscom AG. ²⁾	April 2002
René Fischer	1965	CEO of Swisscom Systems AG	August 2002
Stefan Nünlist	1961	Head of Group Communications of Swisscom AG	July 2001
Hanspeter Quadri	1953	CEO of Swisscom Enterprise Solutions AG	January 2002
Jürg Rötheli	1963	Head of Group Operations & Related Businesses of Swisscom AG	July 2001
Carsten Schloter	1963	CEO of Swisscom Mobile AG	March 2001
Michael Shipton	1956	CSO (Chief Strategy Officer) of Swisscom AG	July 2001
Urs Stahlberger	1946	CEO of Swisscom IT Services AG	January 2002
Peter Wagner	1953	Chairman of the Executive Board of debitel AG	July 2001

¹⁾ The following members left the Executive Board in 2003: Esther Häberling (June, 30) and Mauro Santona (January, 31).

²⁾ Following the departure of Esther Häberling in June 2003, Ueli Dietiker, in addition to his function as CFO, took over as Acting Head of Group Human Resources. In January 2004 the Board of Directors appointed Günter Pfeiffer as the new Head of Group Human Resources beginning on July 1, 2004.

Jens Alder

Swiss citizen

Education: Degree in electrical engineering from the Swiss Federal Institute of Technology (ETH) in Zurich, MBA from INSEAD

Career: Standard Telephone & Radio AG, Alcatel STR AG, Motor Columbus AG, Alcatel Schweiz AG, Head of Network Services and since January 1998 Member of the Executive Board of Swisscom AG

Other mandates: Chairman of the SGK Swiss society for market research, Chairman of the Management Board of the Swiss Information and Communications Technology Association (SICTA), Member of the Management Board of the Swiss Employers' Federation

Adrian Bult

Swiss citizen

Education: Degree in business administration (lic. oec.)

Career: IBM Switzerland, Telecom PTT, Head of IT and since January 1998 Member of Executive Board of Swisscom AG

Ueli Dietiker

Swiss citizen

Education: Fiduciary agent and Swiss certified public accountant

Career: ATAG Ernst & Young, Motor Columbus AG, Cablecom Holding AG and from September 2001 until March 2002 Head of Strategic Growth and Related Businesses at Swisscom AG

Other mandates: Member of the Board of Directors of Zuckermühle Ruppelwil AG

René Fischer

Swiss citizen

Education: Degree in business administration (lic. oec. publ.), Effective Management Program for Executives (St. Gallen Business School)

Career: Bank Leu AG, Telekurs AG, SIG Pack Systems AG, from December 1998 until July 2002 Head of Finance and Controlling at Swisscom Fixnet AG

Stefan Nünlist

Swiss citizen

Education: Degree in law (lic. iur.) / attorney and notary

Career: Federal Department of Foreign Affairs (DFA), Federal Department of Economic Affairs (DEA), Atel AG, since January 2001 Head of Group Communications at Swisscom AG.

Other mandates: Member of the Management Board of the Swiss Advertisers' Federation, Member of the Swiss Tourism Council, Member of the FDP Party Leadership in the Canton of Solothurn, Member of Olten Municipal Council

Hans-Peter Quadri

Swiss citizen

Education: Degree in mathematics and information technology (lic. phil. nat), IBM International Management School (La Hulpe, Belgium), Swiss Management courses (SKU)

Career: IBM Switzerland, IBM EMEA, Head of Large Accounts at Swisscom AG, Head of Major Accounts at Swisscom AG, since 2001 CEO of Swisscom Enterprise Solutions AG

Other mandates: Until July 2003 Chairman of the Board of Directors of Unit.net AG (since July 2003 in liquidation), Member of the Board of Directors of Infonet Services Corporation Inc., El Segundo, California, USA

Jürg Rötheli

Swiss citizen

Education: Doctorate in law (Dr. iur.), attorney and notary, Wharton Advanced Management Program (University of Pennsylvania, Philadelphia, USA)

Career: Stampfli, Keller & Partner, Interdiscount Holding AG, Simeco Holding AG, from January 1999 to June 2001 Head of Legal Services (General Counsel), Swisscom AG

Carsten Schloter

German citizen

Education: Degree in business administration

Career: Mercedes Benz France SA, debitel France SA, debitel Germany, Head of Public Com, Head of Mobile Com and since March 2000 Member of the Executive Board of Swisscom AG

Other mandate: Chairman of the „Forum Mobil“ Association

Michael Shipton

British and Swiss citizen

Education: BSc, PhD

Career: British Telecom plc, Hasler AG, Ascom AG, Telecom PTT, Head of Business Steering Network Services, Swisscom AG and since January 2001 Chief Strategy Officer, Swisscom AG

Urs Stahlberger

Swiss citizen

Education: Commercial diploma, IT specialist

Career: Credit Suisse, AGI IT Services AG

Other mandate: Judge at the commercial court in Zurich

Peter Wagner

German citizen

Education: Degree in mathematics and physics

Career: Standard Elektrik Lorenz AG (Alcatel SEL AG), Wandel & Goltermann GmbH, Wavetek Wandel Goltermann Inc., since June 2000 CEO of debitel AG.

Other mandates: Member of the Board of Directors of Acterna Corp., Germantown, USA, Member of the Supervisory Board of Deutsche Messe AG, Hanover, Germany, Member of the Management Board of the German Association for Information Technology, Telecommunications and New Media e.V., Berlin, Germany, Member of the Advisory Board of the Landesverband der Baden-Württembergischen Industrie e.V., Stuttgart, Germany, Member of the Board of Directors of MTS GmbH, Munich, Germany, and Member of the Board of Directors of DEKRA e.V., Stuttgart, Germany.

Management contracts

The Swisscom Group has not entered into any management contracts with third parties on behalf of subsidiaries belonging to the consolidated group.

Content and method determining the compensation and the share-ownership programs

The members of the Board of Directors are entitled to reimbursement of any expenses incurred in the interests of the company as well as to compensation commensurate with their work and responsibility, as specified by the Board of Directors itself in accordance with the Articles of Incorporation. The Board of Directors has issued a compensation plan based on a recommendation made by the Personnel and Organization Committee as part of its constitutive work in January 1998. This remained in force without amendment for four years. The first change in compensation levels was made on January 1, 2002. The compensation plan provides for a basic fee together with al-

5 Compensation, shareholdings and loans of the Board of Directors and the Executive Board

lowances for specific duties. Meeting attendance fees are also paid. Expenses are paid on the basis of actual expenditure.

The pay for members of the Executive Board consists of a basic salary component and a performance-related component (bonus). This is based on the market rate for the position, the respective grade and the employee's performance and experience. Targets reflect the general requirement to continuously increase the value of the company per share and improve the corporate result in terms of productivity compared to the previous year, on a like-for-like basis, and generally cover net revenue, EBITDA margin, the operating free cash flow and the perception of Swisscom as a customer-friendly company. The size of the bonus paid depends on the degree to which targets have been met and the total amount specified annually by the Board of Directors for bonuses. If targets are met, the full bonus is paid. If targets are exceeded additional remuneration up to a maximum of double the bonus figure may be paid. The basis for the wording of the individual target agreement, the performance appraisal and the size of the bonus are the bonus regulations issued by the Board of Directors. The Board of Directors defines the targets for the Swisscom Group at the request of the CEO, who agrees said targets with the members of the Executive Board.

The share option compensation programs of Swisscom AG are described in Note 8 to the consolidated financial statements.

Compensation for acting members of governing bodies

Compensation for the members of the Board of Directors in 2002 and 2003 amounted to CHF 1.7 million and CHF 1.9 million respectively. Compensation for the members of the Executive Board in the same business years amounted to CHF 9.2 million and CHF 9.9 million respectively. This includes CHF 0.5 million and CHF 0.7 million, respectively, arising from other contractual obligations in respect of members of the Executive Board who left the company. The total compensation paid to the CEO amounted to CHF 1.4 million in 2002 and CHF 1.5 million in 2003. This includes 217 shares and 2,170 call options allocated in 2002 as well as 215 shares and 215,000 call options allocated in 2003 (exchange ratio 100:1).

The figures shown include fees, salary payments, bonuses, additional payments, staff pension plan contributions and other contractual obligations. 25% of the bonuses for members of the Executive Board were paid in the form of shares and options. 25% of the fixed fees for the Board of Directors are usually paid out in the same way. Since 2003, the same program has been used for both the Board of Directors and the Executive Board.

Compensation for former members of governing bodies

Total compensation of CHF 100,000 was paid in 2002 to a former member of the Executive Board who left in 2001. There were no compensation payments to former members of the Board of Directors and the Executive Board in fiscal 2003.

Share allotment in the year under review

During fiscal 2003, a total of 643 shares were allotted to members of the Board of Directors and 884 shares to members of the Executive Board. Swisscom did not allocate any shares to persons, i.e. third parties, closely associated with members of the Board of Directors or the Executive Board.

Share ownership

At December 31, 2003, the members of the Board of Directors and persons close to them held a total of 4,499 shares, while the members of the Executive Board and persons close to them held a total of 4,194 shares as at the same date.

Stock options allocated and held by the Board of Directors at December 31, 2003: ¹⁾

	2000	2001	2002	2003
Maturity	10.10.2005	09.10.2006	-	25.04.2008
Blocking period	10.10.2003	09.10.2004	-	30.04.2003
Exercise period	11.10.2003 – 10.10.2005	10.10.2004 – 09.10.2006	-	01.05.2006 – 25.04.2008
Exchange ratio ²⁾	1:1	1:1	-	100:1
Number of options allocated	3 210	2 390	-	492 000
Number of options held at 31.12	1 710	2 390	-	492 000
Exercise price in CHF	472.50	503.60	-	417.90

¹⁾ This table only contains options held by the Board of Directors who were in office at December 31, 2003.

²⁾ Exchange ratio: number of options required to purchase one share.

Stock options allocated and held by the Executive Board at December 31, 2003: ¹⁾

	2001	2002	2003
Maturity	30.05.2006	09.04.2007	25.04.2008
Blocking period	30.05.2004	09.04.2005	30.04.2006
Exercise period	31.05.2004 – 30.05.2006	10.04.2005 – 09.04.2007	01.05.2006 – 25.04.2008
Exchange ratio ²⁾	1:1	1:1	100:1
Number of options allocated	4 070	5 290 ¹⁾	862 000
Number of options held at 31.12	4 070	5 290	862 000
Exercise price in CHF	475.80	569.10	417.90

¹⁾ This table only contains those options held by members of the Executive Board who were in office at December 31, 2003. In addition to the options listed above, members of the Executive Board still hold 271,000 options (exchange ratio 100:1) which they acquired under other management stock option schemes prior to their election to the Executive Board.

²⁾ Exchange ratio: number of options required to purchase one share.

Additional fees and remuneration

Neither the members of the Board of Directors and persons close to them nor the members of the Executive Board and persons close to them received fees or other remuneration in fiscal 2003 for additional services performed for the benefit of Swisscom.

Loans to members of governing bodies

During 2003 Swisscom did not provide guarantees or grant loans, advances or credit facilities of any kind either to members of the Board of Directors and persons close to them or to members of the Executive Board and persons close to them. Nor are there any receivables of any nature whatsoever outstanding.

Maximum total compensation paid to the Board of Directors

Total compensation paid to the Chairman of the Board of Directors in 2003 amounted to CHF 509,000. This included the allocated shares and options. In the year under review he was allocated 192 shares and 192,000 options (exchange ratio 100:1).

Voting-rights and representation restrictions

Each registered share entitles the holder to one vote. Voting rights can only be exercised if the shareholder has been entered with voting rights in the Swisscom share register. The Board of Directors may refuse to recognize an acquirer of shares as a shareholder or beneficial owner with voting rights if the latter's total holding, when the new shares are added to any voting shares already registered in its name, would then exceed the limit of 5% of all registered shares entered in the commercial register. The acquirer is entered in the register as a shareholder or beneficial owner without voting rights for the remaining shares. This restriction of voting rights also applies to registered shares acquired through the exercise of subscription, option or conversion rights. A group clause applies to the calculation of the percentage restriction.

The Board of Directors may recognize an acquirer of shares with more than 5% of all registered shares as a shareholder or beneficial owner with voting rights, in particular in the following exceptional cases:

- where shares are acquired as a result of an amalgamation or corporate merger
- where shares are acquired as a result of a contribution in kind or exchange of shares
- where shares are acquired to establish a long-term collaboration or strategic alliance

To facilitate the tradability of the shares on the stock market, the Board of Directors may also, by means of regulations or agreements, permit the fiduciary entry of registered shares with voting rights which exceed the above-mentioned percentage restriction by fiduciaries, provided that the latter disclose their fiduciary capacity (nominees, ADR banks). Fiduciaries must be subject to supervision by a banking or financial market supervisory authority or otherwise offer the necessary assurances of proper business conduct, and must act for the account of one or more unrelated parties. They must also be able to provide evidence of the names, addresses and holdings of the beneficial owners of the shares. In accordance with this provision, the Board of Directors has issued regulations governing the entry of fiduciaries and nominees in the Swisscom share register. The entry of fiduciaries and nominees as shareholders with voting rights is subject to application and the conclusion of an agreement specifying the entry restrictions and the disclosure obligations of the fiduciary or nominee. In particular, each fiduciary or nominee undertakes, within the percentage limit of 5%, not to request entry as a shareholder with voting rights for the account of an individual beneficial owner for any more than 0.5% of the registered share capital of Swisscom AG entered in the commercial register.

No exceptions for fiduciary entry of registered shares with voting rights above the aforementioned percentage limit were granted in fiscal 2003.

In addition to the percentage restriction on voting rights, the Board of Directors may refuse to recognize and enter as a shareholder or beneficial owner with voting rights any acquirer of shares who fails to expressly declare upon request that it has acquired the shares in its own name and for its own account. Should an acquirer of shares refuse to make such a declaration, it will be entered as a shareholder without voting rights.

In addition, where an entry has been made on the basis of false statements by the acquirer, the Board of Directors may, after consulting the party concerned, delete their share register entry as a shareholder with voting rights and enter it as a shareholder without voting rights. The acquirer must be notified of the deletion immediately.

Statutory quorum requirements

The General Meeting of shareholders' of Swisscom AG adopts its resolutions and holds its elections by absolute majority of valid votes cast. In addition to the specific quorum requirements under the Swiss Code of Obligations, the Articles of Incorporation require a two-thirds majority in the following cases:

- introduction of restrictions on voting rights
- conversion of registered shares to bearer shares and vice versa
- changes to the above-mentioned statutory quorum requirements

The statutory restrictions on voting rights may be lifted by resolution of the General Meeting, for which an absolute majority of valid votes cast would be required.

Convocation of shareholders

The Board of Directors must convene the General Meeting at least 20 days prior to the date of the meeting by means of an announcement in the Swiss Commercial Gazette. The meeting can also be convened via unregistered or registered letter to all registered shareholders.

Shareholders representing shares with a par value of at least CHF 40,000 may request that an item be placed on the agenda. This request must be submitted to the Board of Directors at least 45 days prior to the General Meeting, stating the agenda item and the proposal.

Representation at the General Meeting

Shareholders may be represented at the General Meeting by another shareholder with voting rights who has a written power of attorney. Shareholders may also be represented by a custody proxy, the corporate proxy or an independent voting proxy required by Swiss company law and appointed by Swisscom AG.

Voting entitlement at the 2003 General Meeting

Shareholders entered in the share register at 4.00 pm on April 25, 2003 were entitled to vote at the General Meeting on May 6, 2003. Shareholders who had sold their shares prior to the General Meeting were no longer entitled to vote. Shareholders had sold a portion of their shares were required to exchange their admission card at the information desk on the day of the meeting.

7 Clauses on changes of control

Provision is made in the Telecommunications Enterprise Act (TUG) for the Swiss government to hold the capital and voting majority in Swisscom AG. A takeover bid within the meaning of the Federal Act on Stock Exchanges and Securities Trading (SESTA) would thus not be possible without an amendment to the TUG. As a result, there are no regulations concerning „opting out“ or „opting up“ (SESTA Art. 22).

In addition to the benefits in their employment contract, members of the Executive Board are entitled to a termination payment equal to their annual salary (including bonus) if a new majority shareholder and/or a new Chairman of the Board of Directors terminates the employment relationship within twelve months of the takeover. Those members who were elected to the Executive Board as CEO of a strategic Group company are, in addition to the benefits in their employment contract, entitled to such a termination payment if a new majority shareholder and a new Chairman of the Board of Directors of the Group company in question terminates the employment relationship within twelve months following the takeover.

8 Auditors

The statutory and Group auditors are appointed annually by the General Meeting.

PricewaterhouseCoopers AG have been the statutory and Group auditors of Swisscom AG since January 1, 1998. Peter Wittwer, the senior auditor at PricewaterhouseCoopers AG responsible for the audit work, has held the post since January 1, 1998. The audit fees for services provided by PricewaterhouseCoopers AG in 2003 amounted to CHF 7.2 million. The fees for additional audit-related services, tax and other consulting services provided by PricewaterhouseCoopers AG amounted to CHF 4.2 million.

The Audit Committee of the Board of Directors has specified that the auditors may not provide Swisscom with any of the following services, due to legal restrictions:

- Accounting services
- Payroll administration
- Actuarial services
- Valuation and assessment services, fairness opinions
- Management tasks
- Financial services (broker dealer services)
- Internal auditing
- Development and introduction of financial information systems
- Legal advice
- Personnel services, executive recruitment

The statutory auditors are permitted to provide other services to the Swisscom Group. However, all additional mandates (audit-services and permitted non audit services) require to be pre-approved by the Audit Committee (pre-approval).

It is the responsibility of the Audit Committee to define the supervisory and controlling instruments needed to evaluate the statutory auditors. These instruments are reassessed yearly. The external auditors participate in the meetings of the Audit Committee, where they report on the performance and results of their activities.

Swisscom's Board of Directors invited applications to tender for the external audit mandate and the outsourced internal audit mandate. Invited were the present statutory auditors PricewaterhouseCoopers AG and the internal auditors KPMG Fides Peat. Aim was to reassess the conceptual framework for internal and external audit and to redefine the conditions. As a result of the offers received, the Board of Directors will propose at the General Meeting of Shareholders that KPMG Klynveld Peat Marwick Goerdeler SA, Muri near Bern, be appointed as the new statutory and Group auditors and decided to appoint the present statutory and Group auditors Pricewaterhouse Coopers AG as the internal auditors.

9 Information policy

Swisscom pursues an active and open information policy vis-à-vis the general public and the financial markets. Swisscom publishes consistent, comprehensive and transparent financial information on a quarterly basis.

Swisscom meets investors regularly throughout the year, presents its financial results at analysts' meetings and roadshows, attends selected conferences for financial analysts and investors, and keeps its shareholders regularly informed about its business through press communiques and shareholders' letters. The company's quarterly and half-yearly reports together with the Annual Report and annual financial statements are available on the Swisscom website under Investor Relations (www.swisscom.com/ir), or can be ordered direct from Swisscom. The website also contains links to all press releases, presentations and the current Swisscom financial calendar.

General information
Swisscom AG
Head Office
CH-3050 Berne
T +41 31 342 11 11
F +41 31 342 25 49
E swisscom@swisscom.com

Financial information:
Swisscom AG
Investor Relations
CH-3050 Berne
T +41 31 342 25 38
F +41 31 342 64 11
E investor.relations@swisscom.com
www.swisscom.com/ir

Shareholder information

2002 2003

Key figures per share

Weighted-average number of shares outstanding	in millions	67.648	66.200
Net income	CHF	12.18	23.70
Dividend	CHF	12.00	13.00 ¹⁾
Capital reduction	CHF	8.00	-

Ratios

Return on equity	%	6.8	21.5
EBITDA as % of net revenue	%	30.4	31.8
EBIT before one-time items as % of net revenue	%	16.6	18.6
Net revenue	CHF millions	14 526	14 581
Pay-out ratio ²⁾	%	164.2	54.9 ¹⁾

¹⁾ In accordance with the proposal of the Board of Directors to the General Meeting of Shareholders.

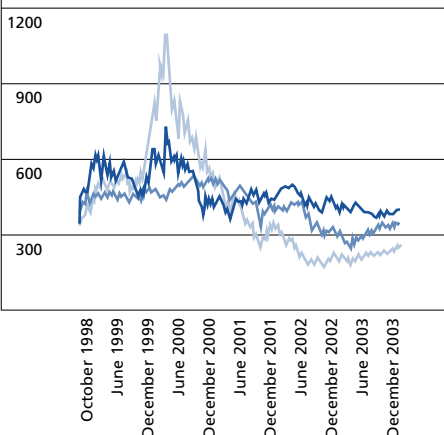
²⁾ Representing gross dividend and capital reduction as a percentage of net income per share.

2002 2003

Swisscom share October 1998 – December 2003

Share performance

Swisscom registered share
Swiss Market Index (indexed)
DJ EU Stoxx Index (indexed)



Swisscom registered shares in 2003

Year-end price ³⁾	CHF	400.50	408.00
Year high ³⁾	CHF	519.00	438.50
Year low ³⁾	CHF	360.00	367.00
Price (loss) gain in the year	%	-12.93	1.87
Total trading volume	Shares	30 848 881	25 195 513
Daily average	Shares	121 932	100 782
Total turnover volume	CHF in millions	14 119.64	9 989.17
Daily average	CHF in millions	55.81	39.96

Paid prices.

Year-end price ³⁾	USD	28.51	32.84
Year high ³⁾	USD	31.31	32.95
Year low ³⁾	USD	24.38	26.65
Price gain in the year	%	2.74	15.19
Total trading volume	ADR	7 729 000	4 853 735
Daily average	ADR	30 671	19 261
Total turnover volume	USD in millions	224.00	143.24
Daily average	USD in millions	0.89	0.57

³⁾ Paid prices.

Stock exchange	Bloomberg	Reuters	Telekurs
virt-x, London	SCMN, VX	SCM, VX	SCMN, VTX
NYSE, New York	SCM	SCM	SCM, NYS

Return Policy

Swisscom's policy is to distribute the freely available funds (equity free cash flow) each year. The funds available for such payments consist of the net cash flow provided by operating activities, less net capital expenditure, net proceeds from the sale and purchase of investments, repayment of financial liabilities (excl. leasing liabilities) and dividend payments to minority interests. The disbursement is made via a dividend which amounts to about half of the years net income adjusted for one-time items, and is supplemented by either a share buy back or – as is the case for the last time in 2003 – a reduction in capital (par value). Share buy back need not take place at the same time as dividend payouts.

Swisscom Group

Five year review

CHF in millions, except where indicated		1999	2000	2001	2002	2003
Net revenue		11 052	14 060	14 174	14 526	14 581
Operating income before one-time items, depreciation and amortization ¹⁾		4 192	4 034	4 409	4 413	4 641
As % of net revenue	%	37.9	28.7	31.1	30.4	31.8
Operating income before one-time items (EBIT) ¹⁾		2 488	1 831	2 235	2 408	2 716
One-time items ¹⁾		-	-	3 275	(702)	(280)
Operating income (EBIT)		2 488	1 831	5 510	1 706	2 436
Net income from continuing operations		2 208	3 087	4 964	824	1 569
Net income		2 391	3 156	4 964	824	1 569
Shareholders' equity		6 685	8 570	12 069	7 299	7 669
Equity ratio ²⁾	%	32.0	38.9	49.6	43.0	46.4
Number of full-time equivalent employees at end of period ^{3) 4)}	FTE	21 777	20 604	21 328	20 470	19 207
Average number of full-time equivalent employees ⁵⁾	FTE	20 393	20 989	20 988	20 910	19 804
Revenue per employee	CHF in thousands	542	670	675	695	736
EBITDA per employee	CHF in thousands	206	192	210	211	234
Net cash from operating activities		3 366	3 821	3 389	3 785	4 732
Equity free cash flow ⁶⁾		n/a	n/a	n/a	1 119	2 913
Capital expenditure		1 468	1 450	1 234	1 222	1 213
Net debt (net funds) ⁷⁾		5 905	2 891	(2 899)	642	(1 492)
Key figures per share						
Par value per share at end of period	CHF	25.00	25.00	17.00	9.00	1.00
Weighted-average number of shares outstanding	in mio.	73.550	73.541	73.544	67.648	66.200
Price per share (high/low)	CHF	656.00 / 445.00	754.00 / 361.00	492.50 / 358.50	519.00 / 360.00	438.50 / 367.00
Net income from continuing operations	CHF	30.02	41.97	67.50	12.18	23.70
Net income	CHF	32.51	42.91	67.50	12.18	23.70
Shareholders' equity	CHF	90.89	116.52	164.09	110.25	115.85
Dividend	CHF	15.00	11.00	11.00	12.00	13.00
Capital reduction	CHF	-	8.00	8.00	8.00	-
Pay-out ratio ⁸⁾	%	46.13	44.21	25.34	164.19	54.85
Market capitalization at end of period		47 366	31 001	33 833	26 514	27 011

* In accordance with the proposal of the Board of Directors to the General Meeting of Shareholders.

¹⁾ One-time items in 2001: Impairment of goodwill CHF 1,130, gain of CHF 568 million on sale of real estate and gain of CHF 3,837 on partial sale of Swisscom Mobile AG. One-time item in 2002: Impairment of goodwill CHF 702 million. One-time item in 2003: Impairment of goodwill CHF 280 million.

²⁾ Shareholders' equity as percentage of total assets.

³⁾ Including at December 31, (1999) 2,523, (2000) 3,145, (2001) 3,544, (2002) 3,299 und (2003) 3,123 employees of debitel.

⁴⁾ Excluding 194, 252 and 360 WORK_LINK full-time equivalent employees at December 31, 2001, 2002 and 2003, respectively.

⁵⁾ Excluding 153, 218 and 295 WORK-LINK full-time equivalent employees at December 31, 2001, 2002 and 2003, respectively. See Note 7.

⁶⁾ Definition of equity free cash flow: net cash provided by operating activities, less net capital expenditure, net proceeds from the sale and purchase of investments, repayment of financial liabilities (excluding leasing liabilities) and dividend payments to minority interests.

⁷⁾ Definition of net debt (net funds): total debt less cash and cash equivalents, current financial assets and financial assets from cross-border tax lease transactions.

⁸⁾ Representing gross dividend and capital reduction as a percentage of net income per share.

**Cautionary statement
regarding forward-looking
statements**

The financial review is published in German and English.
The German version is binding.

This communication contains statements that constitute „forward-looking statements“. In this communication, such forward-looking statements include, without limitation, statements relating to our financial condition, results of operations and business and certain of our strategic plans and objectives.

Because these forward-looking statements are subject to risks and uncertainties, actual future results may differ materially from those expressed in or implied by the statements. Many of these risks and uncertainties relate to factors which are beyond Swisscom's ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behavior of other market participants, the actions of governmental regulators and other risk factors detailed in Swisscom's past and future filings and reports filed with the U.S. Securities and Exchange Commission and posted on our websites.

Readers are cautioned not to put undue reliance on forward-looking statements, which speak only of the date of this communication.

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.

Further copies of the Annual
Report can be ordered from:
Swisscom AG
Group Communications
CH-3050 Berne
T +41 31 342 36 78
F +41 31 342 27 79
E annual.report@swisscom.com

Financial information:
Swisscom AG
Investor Relations
CH-3050 Berne
T +41 31 342 25 38
F +41 31 342 64 11
E investor.relations@swisscom.com
www.swisscom.com/ir