SWISSCOM AG
Form 20-F
April 30, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number **1-14860**

Swisscom AG

(Exact name of Registrant as specified in its charter)

Switzerland
(Jurisdiction of incorporation or organization)

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

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one-tenth of one Registered Share, Nominal Value CHF 9 per share	New York Stock Exchange
Registered Shares, Nominal Value CHF 9 per share*	New York Stock Exchange

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

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

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

The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2002: 66,203,261 Registered Shares, Nominal Value CHF 9 per share.

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

Yes No

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

Item 17 Item 18

TABLE OF CONTENTS

Back to Contents

INTRODUCTION

Presentation of financial and other information

Swisscom publishes its financial statements in Swiss francs (“CHF”). Unless otherwise indicated, all amounts in this annual report are expressed in Swiss francs. Solely for the convenience of the reader, certain amounts denominated in foreign currencies appearing primarily under the heading *“Item 4: Information on the Company debitel”* and *“Item 4: Information on the Company Participations”* have been translated into Swiss francs. For information concerning applicable exchange rates, see Note 2 to the consolidated financial statements. These translations should not be construed as representations that the amounts referred to actually represent such translated amounts or could be converted into the translated currency at the rate indicated.

Swisscom’s annual audited consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), which differ in certain respects from U.S. GAAP. For a reconciliation of the material differences between IFRS and U.S. GAAP as they relate to Swisscom, see Note 44 to the consolidated financial statements.

As used in this annual report, the term “Swisscom”, unless the context otherwise requires, refers to Swisscom AG and its consolidated subsidiaries. Prior to January 1, 1998, Swisscom operated as a department of the Swiss PTT, the Swiss state postal, telephone and telegraph authority, and as used in this annual report, “Swisscom” also refers to such predecessor. The term “Confederation” refers to the Swiss Confederation.

Cautionary statement regarding forward-looking statements

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

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

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

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

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

Back to Contents

- developments in technology, particularly the timely rollout of equipment, such as UMTS networks for mobile telecommunications;
- evolution of Swisscom's strategic partnerships and acquisitions, including costs associated with possible future acquisitions and dispositions;
- effects of tariff reductions and other marketing initiatives;
- the outcome of litigation in which Swisscom is involved; and
- macroeconomic trends, governmental decisions and regulatory policies affecting businesses in Switzerland and Germany generally, including changes in the level of interest or tax rates.

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

Back to Contents

PART I

ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

Back to Contents

ITEM 3: KEY INFORMATION

SELECTED FINANCIAL DATA

Selected Consolidated Financial and Statistical Data

The selected consolidated financial data below should be read in conjunction with Swisscom's Financial Statements included elsewhere in this annual report. The selected financial data as of December 31, 1998, 1999, 2000, 2001 and 2002 and for each of the years in the five-year period ended December 31, 2002, have been extracted or derived from, and are qualified by reference to, the Financial Statements of Swisscom which have been audited by PricewaterhouseCoopers AG, independent auditors. The Financial Statements were prepared in accordance with IFRS, which differs in certain respects from U.S. GAAP. For a reconciliation of the material differences between IFRS and U.S. GAAP as they relate to Swisscom, see Note 44 to the consolidated financial statements.

CHF in millions	Year Ended December 31,				
	1998	**1999[1]**	**2000[1]**	**2001[1]**	**2002[1]**
Consolidated Income Statement Data:					
Amounts in accordance with IFRS:					
Net revenue	**10,388**	**11,038**	**14,060**	**14,174**	**14,526**
Other operating income	110	88	125	213	266
Total	**10,498**	**11,126**	**14,185**	**14,387**	**14,792**
Goods and services purchased	1,445	1,916	4,423	4,513	4,959
Personnel expenses	2,376	2,531	2,512	2,461	2,593
Other operating expenses	2,164	2,499	3,216	3,004	2,827
Depreciation	1,603	1,612	1,850	1,702	1,578
Amortization	18	91	353	472	427
Total operating expenses	**7,606**	**8,649**	**12,354**	**12,152**	**12,384**
Impairment of goodwill	—	—	—	(1,130)[1]	(702)[1]
Gain on sale of real estate	—	—	—	568[3]	—
Gain on partial sale of Swisscom Mobile AG	—	—	—	3,837[3]	—
Operating income	**2,892**	**2,477**	**1,831**	**5,510**	**1,706**
Financial expense	(407)	(259)	(329)	(771)	(517)
Financial income	93	220	490	416	206
Income before income taxes, equity in net result of affiliated companies and minority interest	**2,578**	**2,438**	**1,992**	**5,155**	**1,395**
Income tax (expense) benefit [4]	(319)	(532)	(640)	15	(361)
Equity in net result of affiliated companies	(212)	301	1,749	32	95
Minority interest	18	(7)	(14)	(238)	(305)
Net income from continuing operations	**2,065**	**2,200**	**3,087**	**4,964**	**824**
Discontinuing operations	(519)	183	69	—	—

Net income	**1,546**	**2,383**	**3,156**	**4,964**	**824**

Back to Contents

CHF in millions except per Share and ADS amounts	Year Ended December 31,				
	1998	1999	2000	2001	2002
Basic earnings (loss) per share[5]					
-on continuing operations	30.42	29.91	41.97	67.50	12.18
-on discontinuing operations	(7.64)	2.49	0.94	—	—
-net income	22.78	32.40	42.91	67.50	12.18
Diluted earnings (loss) per share[5]					
-on continuing operations	30.42	29.88	41.93	67.46	12.17
-on discontinuing operations	(7.64)	2.48	0.94	—	—
-net income	22.78	32.36	42.87	67.46	12.17
Basic and diluted earnings per ADS[5]	2.28	3.24	4.29	6.75	1.21
Amounts in accordance with U.S. GAAP:					
Net revenue	10,421	11,032	14,035	14,192	14,535
Net income (loss) from continuing operations	1,495	1,801	2,257	5,702	786
Extraordinary loss	(63)	—	—	—	—
Cumulative effect of a change in accounting policy	—	—	(169)	—	(1649)
Net income (loss)	**1,432**	**1,801**	**2,088**	**5,702**	**(863)**
Basic earnings (loss) per share					
-before extraordinary item	22.02	24.49	30.69	77.53	11.62
-on extraordinary loss	(0.93)	—	—	—	—
Cumulative effect of a change in accounting policy	—	—	(2.30)	—	(24.38)
-net income	21.09	24.49	28.39	77.53	(12.76)
Diluted earnings (loss) per share					
-before extraordinary item	22.02	24.46	30.66	77.49	11.61
-on extraordinary loss	(0.93)	—	—	—	—
Cumulative effect of a change in accounting policy	—	—	(2.30)	—	(24.35)
-net income	21.09	24.46	28.36	77.49	(12.74)
Basic earnings per ADS[5]	2.11	2.45	2.84	7.75	(1.28)
Diluted earnings per ADS[5]	2.11	2.45	2.84	7.75	(1.27)

Back to Contents

CHF in millions	Year Ended December 31,				
	1998	**1999**	**2000**	**2001**	**2002**
Consolidated Balance Sheet Data:					
(end of period)					
Amounts in accordance with IFRS:					
Cash and cash equivalents	1,759	1,211	2,265	3,788	1,682
Other current assets	2,815	3,762	3,957	6,586	3,511
Property, plant and equipment	11,101	10,723	9,946	8,104	7,536
Investments in affiliated companies	831	713	512	603	691
Other non-current assets	438	4,404	5,323	5,268	3,538
Total assets	**16,944**	**20,813**	**22,003**	**24,349**	**16,958**
Short-term debt	1,264[6]	4,049[6]	2,685[6]	1,757[6]	1,016[6]
Trade accounts payable and other current liabilities	2,698	3,485	4,049	3,507	2,947
Long-term debt and finance lease obligation	4,762[6]	3,605[6]	3,782[6]	3,743[6]	2,697[6]
Accrued pension cost	1,851	2,248	1,925	1,218	1,101
Accrued liabilities and other long-term liabilities	979	727	931	1,272	1,102
Total liabilities	**11,554**	**14,114**	**13,372**	**11,497**	**8,863**
Minority interest	43	31	61	783	796
Shareholders’ equity	**5,347**	**6,668**	**8,570**	**12,069**	**7,299**
Amounts in accordance with U.S. GAAP:					
Total assets	17,635	26,256	25,718	28,098	19,819
Long term debt and finance lease obligation	4,762	5,947	5,622	7,283	6,438
Shareholders’ equity	5,915	9,392	8,110	12,294	5,587
Consolidated Cash Flow Data:					
Amounts in accordance with IFRS:					
Net cash provided by operating activities	3,574	3,716	3,821	3,389	3,785
Capital expenditures:					
Fixed-line networks	503	513	485	470	479
Mobile networks	297	308	286	258	295
UMTS/GSM licenses	—	—	120	—	—
Other intangibles	—	—	118	163	137
Buildings	118	145	18	28	3
Other	387	502	423	315	309
Total capital expenditures	1,305	1,468	1,450	1,234	1,222
Investments in affiliated companies	91	8	113	2	37

Back to Contents

	Year Ended December 31,				
	1998	**1999**	**2000**	**2001**	**2002**
Statistical Data:					
Fixed-line access channels[7] (*end of period, in thousands*)					
PSTN lines	3,883	3,621	3,382	3,240	3,163
ISDN channels	920	1,370	1,776	2,060	2,172
Total fixed-line access channels	**4,803**	**4,991**	**5,158**	**5,300**	**5,335**
Traffic (*in millions of minutes*):					
National fixed-line telephony[8]	18,002	16,849	15,274	14,317	12,316
Outgoing international fixed-line telephony[9]	1,761	1,381	1,306	1,399	1,394
Incoming international telephony	1,779	1,980	2,152	1,966	1,959
Mobile telephony(10)	1,374	2,030	2,977	3,375	3,405
Bluewin on-line service subscribers (*end of period*)[11]	152,519	307,000	549,588	733,763	859,648
Swisscom Mobile subscribers (*end of period, in thousands*)[12]	1,672	2,282	2,961	3,373	3,605
debitel subscribers in Germany (*end of period, in thousands*)[13]	—	3,096	6,374	7,647	7,729
Number of full-time equivalent employees (*end of period*)	21,946	21,777	20,604	21,238	20,470

Notes to Selected Consolidated Financial and Statistical Data

(1) Effective October 1999, Swisscom acquired a total of 74.2% of the shares of debitel AG, the largest network-independent mobile service provider in Germany for CHF 3.4 billion. debitel was fully consolidated for the fourth quarter 1999. As a result, Swisscom's net revenue increased by CHF 922 million, CHF 3,993 million, CHF 3,808 million and CHF 4,111 million and operating expenses increased by CHF 976 million, CHF 4,189 million, CHF 4,059 million and CHF 4,291 million in 1999, 2000, 2001 and 2002, respectively, including amortization of the goodwill which resulted on the acquisition of debitel of CHF 84 million, CHF 324 million, CHF 387 million and CHF 277 million, respectively. In 2001, Swisscom acquired a further 20% for CHF 928 million. In 2002, Swisscom reduced its share in debitel from 94.2% to 93%. At the end of 2001, Swisscom decided that the goodwill associated with the debitel acquisition was impaired and took a charge of CHF 1.1 billion to reflect the impairment. In the fourth quarter of 2002, Swisscom decided to take an additional impairment charge for 2002 in the amount of CHF 702 million.

(2) Other operating expenses for the year ended December 31, 1998 include a one-time expense of CHF 221 million for stamp tax owed upon Swisscom's incorporation.

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

(4) Prior to its incorporation effective January 1, 1998, Swisscom was not subject to income taxes. Subsequent to its transformation into a stock corporation, Swisscom became subject to normal corporate income taxation and up to the end of 2001, its income was subject to a weighted average statutory rate of 25%. Swisscom's effective tax rate for the year ended December r31, 1998 was reduced by a one-time deferred tax credit arising from the difference between pension cost as calculated for Swiss law purposes, which is applicable for tax purposes, and pension cost for IFRS purposes and by a one-time tax benefit that was recorded on the write down of investments. Excluding the effect of the one-time tax benefits Swisscom's effective income tax rate in 1998 was 25%. Swisscom's effective tax rate for the year ended December 31, 2001 was reduced by three one-time effects: (1) the gain on the sale of Swisscom Mobile was, in effect, not subject to tax; 2) the gain on the sale of real estate, which was only partially subject to tax; and (3) the impairment charge of debitel for tax purposes exceeded that recorded in the consolidated financial statements. In 2002, Swisscom transferred its operations from Swisscom AG to newly formed subsidiaries, which are each subject to individual tax rates. This resulted in a decrease in the weighted average tax rate from 25% to 23%. See Note 16 to the consolidated financial statements.

Back to Contents

(5) Earnings per ADS are based on the ratio of one-tenth of one share to one ADS. Basic weighted-average number of shares outstanding in 1998, 1999, 2000, 2001 and 2002 was 67,887,500, 73,550,000, 73,540,974, 73,543,972 and 67,647,928, respectively. In March 2002, Swisscom repurchased 7,346,739 shares, or 9.99% of its share capital, at a price of CHF 580 per share.

(6) Total debt at December 31, 1998, 1999, 2000, 2001 and 2002 includes debt outstanding to the Swiss Post and the Federal Treasury in the aggregate principal amount of CHF 4.7 billion, CHF 4.2 billion, CHF 3.0 billion, CHF 1.8 billion and CHF 0.8 billion, respectively. Short-term debt at December 31, 1999 includes a loan outstanding of CHF 1.7 billion. This loan was part of the financing measures taken for the acquisition of debitel and was repaid in the first half of 2000.

(7) Based on lines in service, including courtesy and service lines and lines for payphones. Access lines are expressed in the equivalent number of access channels. A PSTN line provides one access channel, a basic ISDN line provides two access channels and a primary ISDN line provides 30 access channels.

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

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

(10) Includes minutes from all outgoing calls made by Mobile subscribers of Swisscom Mobile. Traffic figures for 1998 and 1999 exclude wholesale minutes and include data minutes.

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

(12) Beginning in 2001, Swisscom no longer includes accounts of any prepaid customer with inactivity of more than twelve months in its subscriber figures. In December 2001, this resulted in the deactivation of 207,000 inactive prepaid customers.

(13) debitel subscribers in 1998 not shown as Swisscom acquired debitel in 1999.

Dividend Information

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

	Dividend per Share	
Year Ended December 31,	**(CHF)**	**(USD)**
1998	11	7.22
1999	15	8.88
2000	11	6.17
2001 (1)	11	6.78
2002 (1) (2)	12	N/A

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

(2) The Board of Directors has proposed a dividend of CHF 12 per share in respect of fiscal year 2002 and a distribution of CHF 8 per share in connection with a par value reduction, both of which are subject to shareholder approval.

Back to Contents

Exchange Rate Information

The following table shows, for the years indicated, information concerning the noon buying rate, expressed in Swiss francs per U.S. dollar. The noon buying rate at April 28, 2003 was CHF 1.3695.

Year Ended December 31,	Average Rate(1)
1998	1.4507
1999	1.5139
2000	1.6930
2001	1.6944
2002	1.5497

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

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

Month	High	Low
October 2002	1.5140	1.4793
November 2002	1.4895	1.4434
December 2002	1.4845	1.3833
January 2003	1.4015	1.3512
February 2003	1.3745	1.3493
March 2003	1.4000	1.3247
April 2003 (through April 28, 2003)	1.3995	1.3537

Back to Contents

RISK FACTORS

Risks Related to Swisscom’s Business

Swisscom may not be able to maintain its current level of profitability for traditional telecommunications services provided in Switzerland

Since the entry into force of the Swiss Telecommunications Act on January 1, 1998 (*Fernmeldegesetz*) (the “Telecommunications Act”), the Swiss telecommunications market has been open to full competition. The Telecommunications Act contains numerous provisions designed to facilitate competition, including provisions relating to interconnection, carrier pre-selection and number portability. These provisions primarily affect the traditional telecommunications services Swisscom offers, such as fixed-line voice and mobile telephony and data services. In these core business areas, which continue to account for the majority of Swisscom’s revenues. Margins have come under pressure and profitability has declined. Moreover, in March 2003, the Federal Council adopted amendments to the Telecommunications Ordinance, which are likely to further increase competition in these areas and put additional pressure on margins.

- In the area of fixed network telephony and related services, Swisscom faces intense competition, particularly in the national long distance and international calling markets. Over the last several years, Swisscom has had to significantly reduce its interconnection prices, tariffs have come under pressure and margins have declined substantially. While Swisscom has been able to maintain relatively high margins from the provision of non-regulated access services and from local area calls, margins have also begun to decline in respect of these services and Swisscom expects further margin erosion and loss of market share in the future. Under the recently adopted amendments to the Telecommunications Ordinance, Swisscom is now required to offer unbundled access to its local loop on a cost-oriented basis, which may significantly accelerate this trend.

  Moreover, the traditional fixed-line telephony services sector is declining in importance due to technological developments and the emergence of alternative means of carrying voice traffic. With mobile penetration rates having reached 78% in Switzerland, mobile telephony is increasingly used as a substitute for fixed-line telephony. Recently, new competitors such as cable operators, in particular Cablecom, the largest cable operator in Switzerland, and Internet service providers have begun to offer Internet telephony (known as voice over IP) services. As the quality of Internet telephony improves, it is becoming a viable alternative to traditional fixed-line telephony as well, a trend Swisscom expects to continue and intensify in the future.

- In its mobile business, Swisscom faces competition primarily from the other two mobile licensees in Switzerland, Orange and TDC Switzerland. Competition for business customers is particularly intense, as Orange and TDC Switzerland have been increasing their efforts to win market share in this segment. Moreover, with strong competition and the high rate of mobile penetration in Switzerland, customer retention costs have increased substantially which is putting additional pressure on margins. Swisscom’s profitability may also be affected by regulatory initiatives, which could include regulation of mobile termination tariffs.

- Swisscom faces particularly intense competition in the provision of basic telecommunication services to business customers. Leased lines and conventional data transmission have become a commodity business characterized by low margins. In addition, under the recently adopted amendments to the Telecommunications Ordinance, Swisscom is now required to offer competitors interconnection to leased lines on a cost-oriented basis, which may put additional pressure on margins.

debitel AG depends upon service provider and resale agreements with other telecommunications network operators to offer mobile services and on exclusive agreements with distribution partners to market and distribute those services

As a result of the slow down in the telecommunication market generally, and reduced growth prospects for debitel in particular, Swisscom determined in the fourth quarter of 2001 that the goodwill associated with its acquisition of debitel was impaired and took a charge of CHF 1.1 billion. An additional impairment charge of CHF 0.7 billion had to be taken in the fourth quarter of 2002 as a result of a further decline in future expected growth in the mobile sector. Swisscom continues to carry CHF 1.1 billion of goodwill attributable to the debitel acquisition on its balance sheet. debitel faces a number of significant risks that could affect its business, financial condition and results of operations in the future. If any of these risks materialized, Swisscom could be adversely affected through loss of revenue and consolidation of operating losses. In addition, it is possible that additional write downs could be required in the future.

Back to Contents

As a network-independent service provider, debitel does not operate its own telecommunications networks in either the fixed-line or mobile segments. Rather, its business is based solely on service provider and resale agreements with various telecommunications network operators. These agreements enable debitel to sell access to these networks. The expiration of an agreement, the termination of an agreement by a network operator, or changes to the purchase terms could have material adverse effects on debitel’s business.

Having withdrawn from the German auction for UMTS licenses, debitel will rely on agreements with other service providers for the provision of next generation mobile services as well. While debitel has entered into enhanced service provider agreements with a number of network operators relating to UMTS products that are expected to be developed on their networks, many of the terms and conditions relating to resale of these products have yet to be determined and there can be no assurance that debitel will ultimately gain access to these products on commercially reasonable terms.

debitel also depends very heavily on indirect distribution channels for the marketing of the products and services it resells. debitel’s relationships with its principal indirect distribution partners are governed by cooperation agreements and distribution partner agreements which provide that debitel’s distribution partners will distribute debitel products and services on an exclusive basis. Currently, approximately 60% of debitel’s new customers are acquired through two such distribution partners. If debitel could no longer distribute its products and services through these channels, or could no longer do so on an exclusive basis, debitel’s ability to attract and retain customers would be severely impacted and its results of operations and financial condition would be materially adversely affected.

The level of demand for ADSL services, which Swisscom has identified as a source of future growth in the fixed-line market could be lower than expected

Swisscom believes that the provision of broadband access based on ADSL technology will be a future source of growth. However, Swisscom faces strong competition in the market for broadband access, particularly from cable network operators, including Cablecom. If Cablecom and other cable operators are successful in promoting broadband access over their networks in Switzerland, Swisscom may not be able to grow its broadband business as quickly as it currently anticipates and its fixed-line business would suffer.

In order to compete with other broadband access operators more effectively, Swisscom has had to reduce its ADSL access tariffs significantly. In connection with the tariff reduction introduced in March 2002, two of Swisscom’s competitors filed a petition with the Competition Commission, alleging that Swisscom is illegally subsidizing Bluewin, which offers ADSL services to retail customers, and abusing its dominant position in both the retail and wholesale market for ADSL services. On May 6, 2002, the Competition Commission issued a provisional order requiring Swisscom to offer its competitors the same discounts as it gives to Bluewin and launched an investigation based on Article 27 of the Cartel Act. Swisscom and its competitors have been unable to agree on the appropriate discount. Swisscom expects the Competition Commission to issue a final decision in the course of 2003. If Swisscom were to be required to lower the wholesale prices for ADSL services it charges to its competitors, the revenues and profitability of its Fixnet business would be adversely affected. In addition, Swisscom may be subject to monetary penalties in connection with these proceedings.

The level of demand for UMTS services, which Swisscom has identified as a source of future growth in its mobile business, may be lower than expected and Swisscom may not be able to recoup the substantial investment required to upgrade its existing network

The future success of Swisscom’s mobile business, which in recent years has been Swisscom’s most profitable operating segment, depends on, among other things, the capabilities and widespread market acceptance of UMTS technology. UMTS is a third generation mobile radio system that creates additional mobile radio capacity and enables broadband media applications while also providing high speed Internet access.

Back to Contents

Swisscom has begun to build out its UMTS network and to develop related products and services and expects to incur substantial capital expenditures in connection with this process. However, the development of UMTS technology is taking longer than anticipated and deficiencies continue to exist both with respect to handsets and network components, which may further delay the introduction of commercial UMTS services. For instance, network operators are currently experiencing difficulty in “handing over” calls between the UMTS network and the GSM network due to technical problems which have to be resolved before commercial UMTS services can be introduced on a wide scale. Once commercial services based on UMTS technology are introduced, there is also a risk that they will not meet with market acceptance. Market acceptance will depend on a number of factors, including the availability of applications which exploit the potential of the technology and the breadth and quality of available content. If the introduction of UMTS services is further delayed or UMTS fails to achieve the expected advantages over existing technologies, Swisscom’s mobile business will suffer and Swisscom may be unable to recoup its investment in UMTS technology.

The level of demand for integrated communication solutions and IT services, which Swisscom has identified as a source of future growth, may not increase as quickly as anticipated

As the provision of basic telecommunication services to business customers has become a commodity business characterized by low margins, Swisscom believes that future growth in this market lies in the provision of enhanced business solutions. Accordingly, it has invested in upgrading its data networks, including its IP multiservice platform based on multi-protocol label switching technology, which is capable of providing integrated data and voice services with greater flexibility, scalability and performance. However, demand for such integrated communications solutions may not develop as quickly as Swisscom had anticipated. The slowdown of the global economy has led to a decline in corporate spending which has been particularly pronounced in the IT area. While Swisscom expects corporate spending in this area to pick up as the economy improves, the timing of any such improvement in the level of demand cannot be predicted with assurance. Moreover, Swisscom faces intense competition from other players in the market for integrated communication solutions and IT services, some of which have more experience than Swisscom and there can be no assurance that Swisscom will benefit proportionately from any upturn in the market.

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

Swisscom’s ability to provide and roll out reliable, high quality and secure products and services, depends upon, among other things, the adequate and timely supply of transmission and switching, routing and data collection systems and related software and other network equipment. If Swisscom were unable to obtain adequate supplies of equipment in a timely manner, or if there were significant increases in the costs of such supplies, Swisscom’s operations would be adversely affected. This is particularly true with respect to network equipment and services that Swisscom requires to upgrade its existing fixed and mobile networks to support next generation technologies, such as ADSL and UMTS. While Swisscom seeks to diversify its suppliers, it currently has only one supplier of ADSL and one supplier of UMTS equipment. Due to the current strong demand for ADSL throughout Europe and short-term orders, Swisscom’s ADSL supplier has been unable to keep up with the demand for new equipment which has resulted in a large backlog of orders from customers wanting to upgrade to ADSL. In the case of UMTS, Swisscom expects that there will be intense demand for UMTS equipment as UMTS licensees compete to build out their UMTS networks. Because Swisscom is relatively small in comparison with other UMTS licensees in Europe, it may be more strongly affected in case there are supply shortages or delays. Swisscom would be adversely affected if its UMTS supplier were to delay shipment of network components as this could enable its competitors to rollout services before Swisscom is able to do so. Swisscom also depends on the timely supply of mobile handsets which can be used in the UMTS network.

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

Modern telecommunication networks are vulnerable to damage or interruption caused by system failures, hardware or software failures, computer viruses or by external events such as storms, floods, avalanches, fires, power loss or intentional wrongdoing. In July 2001, Swisscom’s mobile network was disrupted for several hours due to a string of contingencies and a software failure, and in August 2001, a part of Swisscom’s fixed-line network was disrupted due to a hardware failure. In response to these events, Swisscom initiated a series of internal and external audits to carefully analyze its networks in order to reduce the probability of network failures in the future as well as to limit the damage in case a network failure does occur. While there were no major network failures in 2002, the risk of network failures can never be entirely eliminated and should such failures occur in the future, this may harm Swisscom's reputation and could result in customer dissatisfaction and reduced traffic and revenues.

Back to Contents

Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to decreased mobile communications usage

Concern has been expressed that the electromagnetic signals from mobile handsets and base stations may pose health risks or interfere with the operation of electronic equipment, including automobile braking and steering systems. Actual or perceived health risks of mobile handsets or base stations and related publicity, regulation or litigation could have a material adversely affect on Swisscom’s mobile communications business and cause its customer base and average usage per customer to decline. Environmental objections may also make it more difficult to find attractive sites for base stations and could thereby impair the build-out of Swisscom’s infrastructure, including primarily the mobile and data networks.

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

Swisscom relies for many of its most important data processing functions on complex IT systems which have been developed over a long period of time. Older systems have been upgraded and adapted on an ongoing basis and new systems introduced. As a result, there is a lack of harmonization and flexibility, which may limit Swisscom’s ability to provide flexible and cost-effective services to its customers and harm its competitive position. In addition, further adaptation and extension of its IT systems, in particular the billing, order management and customer relationship management systems, can be complex and time-consuming and, therefore, hamper Swisscom’s business development.

Swisscom may not be able to attract and retain highly skilled and qualified employees

Competition for highly qualified personnel is intense in the telecommunications industry generally, and in Switzerland in particular. This is particularly true with respect to employees with expertise in the areas Swisscom has identified as strategic, such as IP expertise. These difficulties are exacerbated by relatively low levels of unemployment and high wages generally in Switzerland.

Swisscom may not be able to implement necessary restructuring measures and its relations with the workers’ federations could deteriorate

In view of the scheduled expiration of the current collective bargaining agreement at the end of 2003, Swisscom has been engaged in discussions with the workers’ federations for the purpose of concluding a new agreement. Because Swisscom has spun off its individual business units into independently managed group companies, each of which must be capable of responding to the dynamics of its particular market, Swisscom believes that each group company should have flexibility in establishing working conditions for its employees. However, the workers’ federations have criticized this new approach and, in November 2002, suspended negotiations for a new collective bargaining agreement. If Swisscom’s operating subsidiaries are restricted in their ability to adapt to changing market conditions, this could negatively affect their profitability.

Furthermore, in January 2003, Swisscom announced that it intends to cut approximately 600 jobs mainly in the course of 2003, in addition to the 400 job cuts announced in 2002 for 2003. This decision may have a negative impact on Swisscom’s relationship with its employees, which could in turn impair their morale and productivity.

Swisscom’s pension plan did not achieve the profit goals set for 2002 and further deterioration of the capital markets may result in increased pension expense and could affect Swisscom’s profit

Swisscom contributes to comPlan, a defined benefit plan, which provides retirement benefits for the majority of its employees in Switzerland. comPlan covers the risks of old age, death and disability in accordance with Swiss pension legislation. At December 31, 2002, calculated in accordance with Swiss law, the pension plan was underfunded by CHF 304 million, which corresponds to a funding ratio of 94%.

Back to Contents

The determination of the liability and expense for pension benefits in Swisscom's consolidated financial statements is based on guidelines established by the International Financial Reporting Standards and is dependent on the selection of assumptions, which attempt to anticipate future events, including the discount rate, expected long-term rate of return on plan assets and rates of increase in future compensation levels. These assumptions are regularly reviewed and revised when appropriate, and changes in one or more of them could affect the amount of Swisscom's recorded expenses for these benefits. For instance, at the end of 2002, Swisscom revised its assumption for the expected return on plan assets from 5.5% to 5%, which will result in an additional yearly expense of CHF 25 million beginning in 2003. The total underfunding at December 31, 2002, was CHF 2,167 million, of which CHF 1,101 million is recognized in the balance sheet. The unrecognized loss of CHF 1,066 million is subject to future recognition as described in Note 2 to the consolidated financial statements and will result in an additional yearly expense of CHF 25 million beginning in 2003. For more information on Swisscom's pension plan, see Note 9 to the consolidated financial statements. If actual experience differs from expectations, Swisscom's results of operations and cash outflows in future periods could be affected. Due to the unfavorable development of the capital markets, Swisscom's pension fund did not achieve the profit goals set for 2002. A further deterioration of the capital markets would affect Swisscom's future pension expense and could lead Swisscom to increase its contributions, which would result in lower profits and higher cash outflows.

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

Since its incorporation as a Swiss stock corporation, Swisscom has not been subject to a detailed review by the Swiss tax authorities. Based on the experience of other Swiss companies, Swisscom believes that a review of its direct and indirect taxes may occur in the near future. Audits by the Swiss tax authorities of other Swiss companies in the past have in some cases resulted in substantial additional payments being required of the affected companies. If Swisscom were audited by the Swiss tax authorities and any deficiencies were uncovered, Swisscom may have to make substantial payments for which it has not made any provisions.

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

Swisscom is involved in several legal proceedings that are described in more detail under "*Item 8. Financial Information Legal Proceedings*". Swisscom's position as the principal telecommunications provider in Switzerland has attracted the attention of its competitors in Switzerland and the Swiss regulatory authorities. In addition, Swisscom is regularly involved in legal disputes with competitors as a result of its leading position in the fixed-line and mobile communications market in which it operates. Recently, Swisscom was named as a defendant in a class action suit filed against Infonet alleging that the defendants made misrepresentations and omissions regarding AUCS in Infonet's registration statement and other documents relating to its initial public offering. Although Swisscom believes that most of these proceedings would individually not have a material adverse effect on its results of operations and financial condition, in aggregate these proceedings could have such an effect.

Swisscom's holding company structure may entail costs that are higher than expected or result in a loss in operating efficiency

In 2002, Swisscom completed the process of spinning off its individual businesses into subsidiaries under a holding company which has responsibility for overall strategy and financial management of the group. The operating subsidiaries are managed independently in order to increase competitiveness, transparency and flexibility in their specific markets. The new organization allows for separate strategic partnerships with the possibility of equity stakes being taken by third parties in Swisscom's individual businesses.

While Swisscom believes that this new structure will create shareholder value, there are a number of risks associated with it, including a potential loss of synergies at the group level. The new structure may also prove more costly than expected, as systems, including IT systems, will have to be modified to respond to the needs of the new structure. In addition, corporate governance issues and conflicts of interest may arise which Swisscom will have to address and resolve in the interest of the group as a whole, which could consume management time and resources. It is also possible that the new structure will lead to an increase in Swisscom's effective tax rate in the future as losses of one subsidiary cannot be offset with profits of another.

Back to Contents

Swisscom's strategy of entering into acquisitions, strategic partnerships and joint ventures entails inherent uncertainty

Swisscom actively considers investment opportunities, which may include significant acquisitions, both in Switzerland and abroad. There can be no assurance, however, that Swisscom will be able to identify investment opportunities that meet its investment criteria or that it will be able to successfully enter into any transactions in respect of opportunities it does identify. Moreover, acquisitions are inherently risky because of the difficulties in integrating people, operations, technologies and products that may arise. If Swisscom does enter into an acquisition transaction, these difficulties may result in unanticipated additional costs or failure to achieve anticipated benefits, including synergies, from the transaction. If Swisscom were to find in the future that its expectations concerning future cash flows from an investment are not likely to be met, the carrying value of that investment would be adversely affected. In particular, Swisscom has made small acquisitions in the field of public wireless LAN services, an area which may not grow as fast as Swisscom currently anticipates.

Swisscom will also consider entering into strategic partnerships or joint ventures, particularly at the level of its individual operating subsidiaries, as it did in 2001, when Vodafone acquired a 25% stake in Swisscom Mobile AG. Such transactions are also risky because they require ongoing cooperation between the partners, which may have or may come to have divergent views as to how the business should be managed and which business development objectives to pursue.

Risks Related to Regulatory Matters

Recently adopted amendments to the Telecommunications Ordinance and proposed amendments to the Telecommunications Act could affect the overall profitability of Swisscom's business in the future

In July 2002, the Federal Council proposed significant amendments to the Telecommunications Act and to the Telecommunications Ordinance (*Verordnung über Fernmeldedienste*), which is the principal ordinance on telecommunications services. In March 2003, the Federal Council adopted amendments to the Telecommunications Ordinance and modified its proposed amendments to the Telecommunications Act. Important features of the recently adopted amendments and of the proposed amendments to the Telecommunications Act include:

- **Unbundling of the Local Loop and Interconnection to Leased Lines.** Under the recently adopted amendment to the Telecommunications Ordinance, effective April 1, 2003, Swisscom will be required to offer unbundled access to its local loop, as well as interconnection to leased lines, on a cost-oriented basis. As a result, competitors will have direct access to Swisscom's customers and be able to offer them a full range of services without the need to use Swisscom as an intermediary.

- **Additional Requirements Applicable to Market-Dominant Service Providers.** Under proposed amendments to the Telecommunications Act, market-dominant service providers will be required to offer "access" and not just "interconnection" to its installations and services on a cost-oriented basis. The "access" concept, which is more general than "interconnection", is intended to cover unbundling of the local loop and interconnection to leased lines, but also to provide the legal basis for requiring market-dominant service providers to provide access to any other relevant installation or service on a cost-oriented basis. Expansion of the concept of interconnection would make it easier and more likely for Swisscom to be found to be market dominant with regard to services which weren't currently subject to the interconnection regime.

Although the Federal Council withdrew its proposal to change the regime applicable to market-dominant providers from one of ex-post to ex-ante regulation, it is possible that similar changes may be introduced in the future. Under the original proposal, the Federal Communications Commission or ComCom would have been given the power to define relevant markets for the purpose of determining market dominance and market-dominant providers would have been required to submit offers to ComCom for pre-approval of access prices.

Regulation of mobile termination and mobile roaming may a significant impact on Swisscom's mobile revenues and lead to additional pressure on margins and reduced profitability

Swisscom's mobile termination tariffs and roaming surcharges may become subject to regulation in the future due to a number of developments, including regulatory initiatives in the European Union and ongoing proceedings in which Swisscom is involved.

15

Back to Contents

The European Union has recently published the final part of its new regulatory framework for the telecommunications industry. Among other things, these recommendations, which are to implemented by the member states of the European Union by July 2003, result in the regulation of mobile call termination fees. In addition, the European Union is currently investigating whether operators have been engaged in excessive pricing when entering into roaming agreements. While Switzerland is not a member state of the EU and therefore is not subject to EU legislation, the deregulation of the Swiss telecommunications market has moved in parallel with deregulation in the EU, and EU directives and implementing legislation in various EU countries have served as points of reference for the development of the Swiss regulatory regime.

Swisscom was involved in a legal dispute and is currently subject to a regulatory proceeding, both relating to mobile termination. On November 12, 2002, Tele2 initiated proceedings against Swisscom relating to interconnection pricing with ComCom, alleging that Swisscom’s wholesale prices for termination of transit traffic on the Swisscom mobile network should be reduced retroactively, on the grounds that Swisscom has a dominant position in the mobile termination market. In early 2003, Tele2 withdrew its complaint on procedural grounds, but reserved the right to refile the previous or an amended complaint. Also in November 2002, the Competition Commission initiated proceedings against Swisscom, Orange and Sunrise in connection with mobile termination costs, alleging that each operator has a dominant position with respect to terminating traffic on its own mobile network. In addition, the new “access” concept, described above, may also facilitate the regulator’s authority to impose regulation on mobile termination tariffs as it is intended to provide the legal basis for requiring market-dominant service providers to provide access to any relevant installation or service on a cost-oriented basis.

Regulation of mobile termination fees or roaming surcharges would have a significant impact on Swisscom’s mobile revenues and lead to additional pressure on margins and reduced profitability.

Regulation of radiation emissions from mobile base stations and antennae may result in additional capital expenditures in order to maintain current quality of GSM service and in a delay of the build out of new technologies such as UMTS

In December 1999, the Federal Council adopted an ordinance, known as the NIS Ordinance, which establishes emission standards to protect the population of Switzerland from non-ionizing radiation emitted by various sources, including mobile antennae and base stations. The NIS Ordinance is implemented by the cantons, which until recently have used different methods of measuring radiation emissions to determine compliance with the NIS Ordinance, resulting in significant regional variations in effective emission standards. In order to address this issue, the Swiss Agency for the Environment, Forests and Landscape (“BUWAL”) issued final recommendations in July 2002 which provide guidance for enforcement authorities on the appropriate method for measuring electromagnetic emissions from base stations and masts in the GSM network. These recommendations are generally binding on the cantons, but deviations are permitted under certain circumstances. In order to comply with the applicable emission standards and maintain current quality of service Swisscom will be required to put up additional antennae. However, Swisscom does not expect the associated costs in 2003 to be materially different from those incurred in 2002. While the BUWAL recommendations establish uniform standards for measuring emissions in GSM networks, they do not address emission standards for UMTS networks. Recommendations relating to emission standards for UMTS networks are expected in the course of 2003. Depending on the enforcement recommendations ultimately adopted, it is possible that additional capital expenditures will be required in connection with the build-out of Swisscom’s UMTS network.

Risks Related to the Ownership by the Swiss Confederation

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

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

16

Back to Contents

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

The Swiss Confederation currently holds a 62.7% stake in Swisscom. While any reduction of the Confederation's holding below a majority would require a change in law, future sales by the Swiss Confederation down to the required majority may occur. The Federal Council has indicated that the Confederation's stake may be further reduced as and when appropriate. The sale or potential sale of a significant number of Swisscom's shares by the Swiss Confederation may cause the market price of Swisscom's shares and ADSs to decline significantly.

Risks Related to Swisscom's Shares

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

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

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

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

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

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

Back to Contents

ITEM 4: INFORMATION ON THE COMPANY

OVERVIEW

Swisscom is the principal telecommunications provider in Switzerland, offering a comprehensive range of products and services to residential and business customers. As the leading provider of fixed-line services, Swisscom offers analog and digital access services. In addition, Swisscom offers broadband services over existing subscriber lines using a technology commonly referred to as ADSL. At December 31, 2002, Swisscom provided, in Switzerland, 5.3 million fixed-line telephone access channels, of which 2.2 million were digital or ISDN channels and 0.2 million were being used for ADSL access. In 2002, Swisscom billed an aggregate of 18.9 billion minutes of national transit and interconnection traffic and terminated over 1.9 billion minutes of incoming international traffic on behalf of other telecommunication service providers. Through Swisscom Mobile AG, in which Vodafone holds a 25% stake, Swisscom is the leading mobile telecommunications service provider in Switzerland, with 3.6 million subscribers to its mobile service at December 31, 2002. Swisscom also offers a full range of state-of-the-art data services, from leased lines to integrated solutions for its corporate customers. Swisscom holds a 93% stake in debitel, the largest network-independent telecommunications provider in Europe, with over 10 million customers at the end of 2002. In 2002, Swisscom had consolidated net revenue of CHF 14.5 billion, including revenue of CHF 4.1 billion attributable to debitel.

Swisscom’s state-of-the-art telecommunications networks enable quick and cost-effective introduction of new generation services. Swisscom’s fixed-line network features fully digitalized transmission and local switching and fully integrated ISDN. Swisscom’s digital mobile network also utilizes specific technologies supporting a variety of value-added services. Swisscom’s strategy focuses on the development of broadband services both in fixed-line and mobile communications. To this end, Swisscom continues to invest in capacity enhancement, geographical roll-out and functional upgrades of its fixed-line broadband platform. Swisscom is currently capable of offering ADSL access services to over 95% of the population of Switzerland. With respect to its mobile networks, Swisscom continues to build out its “third generation” UMTS network, while also investing in capacity enhancements and functional upgrades of its existing GSM network, for example to further improve its mobile data services by using general packet radio service, commonly referred to as GPRS, technology. See “ *Networks and Technology*”.

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

CHF in millions	**Year Ended December 31,**		
	2000	**2001**	**2002**
Fixed-line network	485	470	479
Mobile network	286	258	295
Other	679	506	448
Total	**1,450**	**1,234**	**1,222**

Prior to January 1, 1998, Swisscom was the state monopoly service provider and was subject only to limited competition. On January 1, 1998, the Swiss telecommunications market was opened to full competition with the implementation of the Telecommunications Act. Since then, a large number of competitors have entered the Swiss market, with intense competition in both fixed-line and mobile telephony and in services provided to business customers. Although Switzerland is not a member of the EU, the Swiss market has been liberalized on the schedule and in the manner set forth in the EU directives mandating the liberalization of telecommunications services in member states, and Swisscom anticipates that recent amendments to EU regulations and future EU initiatives will influence the development of the Swiss telecommunications regulatory regime. In March 2003, the Federal Council adopted amendments to the Telecommunications Ordinance that require Swisscom to offer unbundled access to its local loop, as well as interconnection to leased lines, on a cost-oriented basis, with effect of April 1, 2003. See *” Regulation Unbundling of the Local Loop and Interconnection to Leased Lines”.*

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

Back to Contents

Historically, Swisscom's operations were a part of the Swiss PTT, a dependent agency of the Swiss Government. The Telecommunications Enterprise Act of 1997 (the "TUG") established Swisscom as a special statutory stock corporation. The TUG provides that the Swiss Confederation must hold a majority of the capital and voting rights of Swisscom and as of December 31, 2002, the Confederation held 62.7% of Swisscom' outstanding share capital. Any reduction of the Confederation's holding below a majority would require a change in law.

In 2002, Swisscom completed the process of spinning off individual businesses into subsidiaries under a holding company which has responsibility for overall strategy and financial management of the group. The operating subsidiaries are managed independently in order to increase competitiveness, transparency and flexibility in their specific markets. The new organization allows for separate strategic partnerships with the possibility of equity stakes being taken by third parties in Swisscom's individual businesses, as occurred in 2001, when Vodafone acquired its 25% stake in Swisscom Mobile AG.

Swisscom's objective is to remain a leading and innovative multi-service provider of telecommunication services in Switzerland. In its home market, Swisscom believes that the mobile business has growth potential, while the fixed-line business is, in spite of increasing broadband penetration, likely to erode over time. Accordingly, Swisscom seeks to optimize its free cash flow from its existing businesses, while exploring other opportunities to create value by acquisition. In this regard, Swisscom continues to actively consider investment opportunities both in Switzerland and abroad. Swisscom has recently made small acquisitions in the field of public wireless LAN services. Swisscom may also consider other investments, including potentially large acquisitions, in the future. However, Swisscom's investment criteria are strict and, therefore, should no suitable investment opportunity arise, Swisscom will return capital it does not require to its shareholders in line with its return policy. See "*Item 8. Financial Information Dividend Policy*".

In March 2002, Swisscom repurchased 7,346,739 shares, or 9.99% of its share capital, at a price of CHF 580 per share in a share buy back designed to return cash to its shareholders. In order to effect the share buy back, Swisscom issued put options to its shareholders, which could either be sold over the Swiss Exchange or exercised at the end of a trading period. The Confederation exercised options to sell 6,644,050 shares to Swisscom. At the Annual General Meeting on April 30, 2002, Swisscom's share capital was reduced by an amount corresponding to the total number of shares repurchased in the share buy back. As a result, the Confederation's stake declined from 65.5% to 62.7%.

Swisscom's principal executive offices are located at Alte Tiefenaustrasse 6, 3050 Bern, Switzerland. For a list of Swisscom's subsidiaries and affiliated companies, see Note 41 to the consolidated financial statements.

Overview of Revenue by Business Segment

In 2002, Swisscom operated in the following business segments:

- **Fixnet** provides access services to residential and business customers and a comprehensive range of other fixed network telecommunication services to residential customers. In addition, Fixnet provides a wide range of wholesale network services. Fixnet also offers a variety of other services, including the sale of customer equipment, Internet access and directories services.

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

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

- **debitel** comprises the activities of debitel, a German provider mainly of mobile communications and value-added services.

Back to Contents

- **Other** covers mainly the sale of corporate voice communications equipment through Swisscom Systems and the provision of certain IT services through Swisscom IT Services AG.
- **Corporate** includes Swisscom's headquarter functions, group-company shared services and property rentals through the real estate company Swisscom Immobilien AG.

The following table sets forth external revenue generated by Swisscom's segments for the periods indicated based on the segment structure in effect in 2002. Prior years have been restated accordingly.

CHF in millions	Year Ended December 31,		
	2000	**2001**	**2002**
Fixnet	4,788	4,921	4,888
Mobile	2,730	3,127	3,255
Enterprise Solutions	1,518	1,486	1,365
debitel	3,993	3,808	4,111
Other	919	742	833
Corporate	112	90	74
Total	**14,060**	**14,174**	**14,526**

Back to Contents

FIXNET

Through Fixnet, Swisscom is the leading provider of fixed network telecommunication services in Switzerland, which it provides to residential, business and wholesale customers. In 2002, Fixnet generated total revenue of CHF 6.4 billion, including sales of CHF 1.5 billion to other Swisscom business segments. With external revenues of CHF 4.9 billion, Fixnet accounted for 33.7% of Swisscom’s consolidated net revenue in 2002.

Services provided by Fixnet include:

- **Access.** Fixnet provides access services, including traditional analog access and ISDN access services, to residential and business customers. At December 31, 2002, Fixnet provided 5.3 million fixed-line telephone access channels, including 2.2 million ISDN channels and offered ADSL access over 195,000 subscriber lines.

- **National and International Traffic.** Fixnet provides national and international fixed-line voice telephony services to residential customers. In 2002, Fixnet carried an aggregate of 8.6 billion minutes of national telephony traffic and 0.8 billion minutes of outgoing international traffic generated by residential customers.

- **Value-Added Services.** Fixnet offers value-added services, including Internet dial-up numbers as well as toll-free, cost shared and premium rate numbers, to residential customers. In 2002, Fixnet generated a total of 8.2 billion minutes of value-added services traffic.

- **Wholesale National and International.** Fixnet provides a wide range of wholesale network services to Swisscom’s other segments (which results in the recognition of inter-segment revenue) and to other national and international telecommunications providers. In 2002, Fixnet billed a total of 18.9 billion minutes of national interconnection and transit traffic and terminated 1.9 billion minutes of international traffic.

- **International Carriers’ Carrier Services.** As an international carriers’ carrier, Fixnet offers termination of incoming international traffic. In 2002, Fixnet terminated over 1.9 billion minutes of incoming international telephony traffic.

- **Other.** Fixnet also offers a variety of other services, including the sale of customer equipment, the provision of Internet access and the operation of a directories database.

The following table sets forth external revenue generated by Fixnet for the periods indicated based on the segment structure in effect in 2002. Prior years have been restated accordingly.

CHF in millions	**Year Ended December 31,**		
	2000	**2001**	**2002**
Access	1,388	1,441	1,473
National and international traffic	1,171	1,102	1,037
Value-added services	258	333	317
Wholesale national and international	785	968	1,032
International carriers’ carrier services	509	331	322
Other	677	746	707
Total	**4,788**	**4,921**	**4,888**

In order to strengthen its competitive position in the retail fixed-line market, Swisscom aims to maintain usage at its current level and to strengthen customer loyalty. In line with this strategy, Swisscom seeks to optimize product distribution and to promote customer care through direct and indirect sales channels, such as Swisscom shops and specialized outlets. Swisscom also operates a direct marketing center. In the wholesale market, Swisscom believes that the increasing demand for broadband connectivity services will be a future source of growth and an effective means to compete with cable operators. Swisscom is also actively marketing broadband connectivity to its Internet subscribers through Bluewin.

Back to Contents

ACCESS

Fixnet provides homes and businesses in Switzerland with analog access lines, digital access lines and a variety of supplementary services.

Swisscom’s analog access service, provided over the public switched telephone network (PSTN), consists of providing connections between a customer’s premises and the PSTN for the provision of basic voice, facsimile and Internet services. Each PSTN access line provides a single telecommunications channel. Swisscom offers its PSTN customers a wide range of supplementary services including call forwarding, call waiting, engaged line callback, three-party conference calling and caller identification suppression services. In 2002, PSTN services comprised 61.5% of access revenue.

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

Because ISDN penetration in Switzerland is high by international comparison, ISDN growth has slowed. Swisscom expects this trend to continue. In order to promote ISDN use by residential customers, Fixnet now offers, in cooperation with Bluewin, a bundled product consisting of basic ISDN access and Internet access.

Swisscom believes that future growth in the access area will come from asynchronous digital subscriber line (ADSL) technology. ADSL increases transmission speed at least four-fold compared to ISDN, depending on a customer’s choice. Because ADSL may be offered over a traditional PSTN line, ADSL growth may lead to a further decline in the rate of ISDN growth. Fixnet offers ADSL to retail customers through Bluewin, and accounts for such revenue within Fixnet-Other. Revenue from ADSL services provided to wholesale customers is accounted for within Fixnet-Wholesale.

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

In thousands of channels(1)	**As of December 31,**		
	2000	**2001**	**2002**
PSTN[2]	3,382	3,240	3,163
ISDN[3]			
Basic access channels	1,423	1,690	1,797
Primary access channels	353	370	375
Total ISDN	1,776	2,060	2,172
Total access channels	**5,158**	**5,300**	**5,335**

(1) Based on lines in service, including courtesy lines and service lines. Restated for the years 2000 and 2001 to reflect the transfer of access channels from Enterprise Solutions to Fixnet at the beginning of 2002.
(2) Each PSTN line provides one access channel.
(3) ISDN lines expressed in equivalent number of access channels. A basic ISDN line provides two access channels and a primary ISDN line provides 30 access channels. Since April 2002, ISDN primary customers have been able to choose the number of channels to be activated up to this maximum.

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

Back to Contents

The following table sets forth information relating to Swisscom's charges in effect in 2002 for the provision of access services.

CHF (including VAT)	Activation Fee	Monthly Fee
PSTN	N/A	25.25
ISDN	170.20	43.00
ISDN Primary (1)	914.60	538.00

(1) Rate in effect for 30 channels. Since April 2002, Swisscom has offered primary ISDN access with the monthly rate depending on the number of channels chosen by the customer.

Due to a revision in the Ordinance on Telecommunication Services, effective January 1, 2003, Swisscom reduced the activation fee for ISDN access from CHF 170.20 to CHF 43.00 and began to levy an activation fee of CHF 43.00 for PSTN access.

In June 2002, ComCom renewed Swisscom's national license for the provision of Universal Service for another five year term. Under the terms of the new license, the provision of ISDN access is now included within Swisscom's Universal Service obligation and is subject to a price ceiling of CHF 40.00 (excluding VAT). PSTN access remains subject to the current price ceiling of CHF 23.45 (excluding VAT), which Swisscom believes does not allow it to recover the cost of providing this service. Additional charges may be levied for the provision of supplementary services. See " *Regulation Universal Service*"and" *Regulation Price Ceilings for Universal Service*".

In March 2003, the Federal Council adopted amendments to the Telecommunications Ordinance that require Swisscom to offer unbundled access to its local loop on a cost-oriented basis, with effect from April 1, 2003. See " *Regulation Unbundling of the Local Loop and Interconnection to Leased Lines*".

NATIONAL AND INTERNATIONAL TRAFFIC

National Traffic

Swisscom provides comprehensive national calling services to residential customers throughout Switzerland. Fixnet considers certain small and medium sized enterprises, depending on the complexity of their telecommunications needs, to be residential customers. Revenue attributable to national traffic generated by Fixnet customers amounted to CHF 848 million in 2002.

Swisscom's national traffic charges are calculated on the basis of call duration, time of day and day of the week, and whether the call is fixed-to-fixed or fixed-to-mobile. Until the introduction of a single national tariff zone in May 2002, it also depended on whether the call was to the local area or long distance.

At the end of March 2002, a new numbering plan was introduced in Switzerland. Under the new numbering plan, all phone numbers in Switzerland consist of ten digits (in Zurich of nine digits), with the former area code having become an integral part of a subscriber's phone number. Whereas in the past most local phone calls were routed automatically over the Swisscom network, under the new numbering plan subscribers who have pre-selected an alternative carrier have their local calls routed automatically over that carrier's network. As a result, local area traffic declined in 2002. Also contributing to this trend is the fact that Internet access is increasingly being offered via so-called ISP numbers, with the result that the associated traffic is no longer included in Swisscom's national traffic statistics.

In April 2002, Swisscom began to offer number portability to customers relocating within the same area code. Prior to this, number portability was offered only within a very limited access area. See " *Regulation Carrier Selection and Number Portability*".

Swisscom believes it is well-positioned to remain the leading provider of national traffic service in the Swiss market. To this end, Swisscom continues to implement new measures designed to maintain national telephony traffic and to increase customer loyalty. On May 1, 2002, Swisscom introduced a new tariff under which all calls, whether local or long distance, are billed at the same uniform rate. Due to the increased price transparency and the fact that the single tariff made national long distance calls less expensive, Swisscom was able to win back customers through introduction of this measure.

Back to Contents

Traffic. The following table sets forth, for the periods indicated, selected information relating to Swisscom’s national fixed voice telephony traffic generated by residential customers.

In millions of minutes	Year Ended December 31,		
	2000	**2001**	**2002**
National traffic [(1)]			
Local area traffic	8,185	7,466	5,901
Long distance traffic	2,004	1,968	1,963
Fixed to other network traffic [(2)]	667	724	777
Total national traffic	**10,856**	**10,158**	**8,641**

(1) Includes traffic on courtesy and service lines. Local area, national long distance and fixed to other network traffic do not include traffic generated from Swisscom-operated public payphones or traffic generated by residential customers using Fixnet’s value-added services.
(2) Includes traffic for fixed to mobile calls and calls from the fixed-line network to private user networks.

Tariffs. The following table sets forth selected information relating to Fixnet’s local and long distance tariffs for residential customers as effective until April 30, 2002. All tariffs include VAT.

CHF/minute (1)	February 28, 2001 to April 30, 2002		
	Peak(2)	**Off-Peak**(3)	**Night**(4)
Local area	0.067	0.033	0.017
Long distance	0.120	0.100	0.063

(1) Equivalent CHF/minute rate. Telephone traffic charges are actually fixed at CHF 0.10 per full or partly-used units of time, with the unit of time varying inversely with the cost of the call.
(2) Monday to Friday from 8:00 a.m. to 5:00 p.m.
(3) Monday to Friday from 6:00 a.m. to 8:00 a.m., 5:00 p.m. to 10:00 p.m., as well as on Saturdays, Sundays and holidays from 6:00 a.m. to 10:00 p.m.
(4) Daily from 10:00 p.m. to 6:00 a.m.

Effective May 1, 2002, Swisscom combined the local area and national long distance zones into a single national tariff zone. Under the new plan, all calls in Switzerland, whether local or long distance, are billed at the same rate as follows:

CHF/minute(1)	Effective May 1, 2002	
	Peak(1)	**Off-Peak**(2)
National single tariff	0.08	0.04

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

Swisscom offers a variety of promotions, such as discounts for evening and weekend calls and for Internet access, designed to improve price perception and reduce churn.

Under its Universal Service obligation, Swisscom is required to provide comprehensive local and national long distance calling service throughout Switzerland until December 31, 2007. In order to ensure that Universal Service is affordable, ceilings have been placed on the rates Swisscom can charge for local and national long distance calls. Since the introduction of the new numbering plan on March 29, 2002, a single price ceiling has been applicable to all national traffic. Swisscom’s peak national tariffs are well below the applicable ceiling. See “ *Regulation Price Ceilings for Universal Service”.*

24

Back to Contents

Outgoing International Traffic

Swisscom also provides a full range of international fixed-line calling services to residential customers. Revenue from international outgoing calls originating from mobile handsets is allocated to Swisscom’s mobile telecommunications revenue. See “ *Mobile*”. External revenue attributable to outgoing international traffic originating on the fixed-line network and generated by residential customers totaled CHF 189 million in 2002.

Traffic. The following table sets forth, for the periods indicated, information relating to Fixnet’s outgoing international traffic (excluding mobile traffic) by residential customers.

In millions of minutes	Year Ended December 31,		
	2000	**2001**	**2002**
Outgoing international fixed-line traffic (1)	732	778	808

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

In 2002, 52% of outgoing international traffic generated by residential customers (excluding outgoing mobile traffic) was directed toward three countries: Germany, France and Italy.

Swisscom believes it is well positioned to remain the leading provider of outgoing international call services in Switzerland. In 2002, Swisscom continued its efforts to maintain international traffic by reducing international calling rates and by promoting discount schemes for high volume customers.

Tariffs. Swisscom’s international calling charges are generally based on duration, destination and day of the week. In recent years, Swisscom has substantially reduced its international calling charges, both through tariff reductions and volume discounts. Swisscom has a weekday rate applicable from Monday to Friday and a weekend rate for Saturday and Sunday and five tariff groups. In October 2002, mainly due to increased price pressure, Swisscom reduced its tariffs for calls to more than 50 countries. At the same time, Swisscom increased the surcharge for calls to foreign mobile networks from CHF 0.30 to CHF 0.40.

The following table sets forth information relating to Swisscom’s international tariffs as effect at the end of December 2002 for calls to the countries generating the most outgoing international traffic.

In CHF/minute, including VAT	**Weekday**	**Weekend**
Germany, Austria, France, Italy, United Kingdom, United States	0.12	0.10
Portugal, Spain, Netherlands	0.25	0.20
Serbia, Montenegro	0.65	0.50

Effective April 1, 2003, Swisscom introduced further discounts for weekend calls to a variety of countries.

VALUE-ADDED SERVICES

Fixnet’s value-added services consist primarily of numbers which are used for dialing up the Internet (“ISP Numbers”) and toll-free, cost-shared and premium rate numbers (”Business Numbers”). Most of the external revenue is generated by Bluewin subscribers and by subscribers to other Internet service providers who use ISP Numbers to access the Internet. Fixnet also generates internal revenue from the sale of Business Numbers to Enterprise Solutions, which markets them to business customers. Effective January 1, 2003, the development and administration of Business Numbers, other than ISP Numbers, were transferred to Enterprise Solutions. For a description of Business Numbers, see “ *Enterprise Solutions Value-Added Services*”.

Back to Contents

The following table sets forth the total traffic generated by Fixnet value-added services for the periods indicated.

In millions of minutes	Year Ended December 31,		
	2000	**2001**	**2002**
Value-added services traffic	6,129	8,294	8,187

In 2002, traffic declined principally due to the increased use of ADSL for Internet services and a change of the billing methodology for customers that have pre-selected a different carrier. Since the end of 2001, alternative telecommunication providers have been able to bill their customers directly for the use of ISP Numbers and Business Numbers and, as a result, Fixnet has lost revenue income it previously generated for billing those customers. This decline could only partially be offset by increased traffic due to a reclassification of the number used by customers of other Internet service providers to dial-up the Internet, namely from a Business Number accounted for in Enterprise Solutions to an ISP Number. Traffic from this number is now accounted for in Fixnet.

WHOLESALE NATIONAL AND INTERNATIONAL

Swisscom provides various national and international wholesale services to other telecommunications providers, including network operators, service providers and resellers. Swisscom’s portfolio of national wholesale services includes basic interconnection services, which Swisscom offers to all licensed operators, registered service providers and others entitled to interconnection under the Telecommunications Act. See “ *Regulation Interconnection by a Market-Dominant Provider*”. In addition to its standard interconnection offer, Swisscom offers a portfolio of wholesale products, such as leased lines and broadband connectivity services. As part of its international portfolio, Swisscom offers wholesale services, such as international voice termination, international leased lines and managed bandwidth services.

Wholesale National

Swisscom has a standard interconnection offer which it markets to all licensed operators, registered service providers and others eligible for interconnection under the Telecommunications Act, and complements this standard offer with a portfolio of extended interconnection services and wholesale products. In 2002, external revenue from national wholesales services amounted to CHF 741 million.

The following table sets forth information relating to Fixnet’s national interconnection and transit traffic for the periods indicated.

In millions of minutes	Year Ended December 31,		
	2000	**2001**	**2002**
National wholesale traffic (1)	13,193	17,125	18,939

(1) Based on minutes as determined for customer billing purposes. Includes traffic related to third party revenues for access, termination and transit services.

Swisscom’s standard interconnection offer encompasses a set of basic interconnection services which Swisscom is required to offer under the Telecommunications Act. The standard offer comprises interconnection between access points on the Swisscom network and competitors’ points of presence, originating, terminating and transit services, access to Swisscom’s emergency, national and international directory enquiry services as well as access to value-added services of Swisscom and other service providers.

Under the Telecommunication Act, the interconnection rates charged by a market dominant provider must be cost oriented, but may include an appropriate return on capital. Until January 1, 2000, interconnection rates could include a proportional charge for the provider’s historical cost base. Since January 1, 2000, interconnection rates have been based on long run incremental costs (“LRIC”) of an efficient operator and may no longer include historical costs. See “ *Regulation Interconnection by a Market Dominant Provider*”. Since the introduction of LRIC pricing in January 2000, Swisscom has substantially reduced its standard interconnection rates.

26

Back to Contents

The following table sets forth information relating to Fixnet's interconnection prices for the periods indicated.

CHF/minute (1)	Year Ended December 31,		
	2000	**2001**	**2002**
Regional termination	0.0160	0.0143	0.0130
National termination	0.0243	0.0218	0.0203
Regional carrier selection	0.0160	0.0144	0.0130
National carrier selection	0.0243	0.0219	0.0203

(1) Includes set-up charge. Calculated based on the weighted average price of a call of four minutes duration, whereby the traffic split in peak, off-peak and night calls was taken into consideration.

In 2002, Swisscom reduced its standard interconnection rates by an average of 6%. Effective January 1, 2003, Swisscom further reduced its interconnection prices by up to 10%. Swisscom believes that its interconnection rates are in line with the European average and represent a fair, transparent and consistent implementation of the applicable regulatory requirements. Swisscom expects to continue to adapt its interconnection charges from time to time as it realizes further cost savings through network optimization or improvements in efficiency.

Swisscom has regularly been involved in legal proceedings relating to its interconnection obligation. A suit is currently pending in which it is alleged that Swisscom has not properly calculated the long run incremental cost of service that it is required to provide on a cost-oriented basis. For further information on legal proceedings relating to interconnection, see "*Item 8: Financial Information Legal Proceedings*".

By leveraging the investments already made in its interconnection service infrastructure, Swisscom has expanded its wholesale business on a service-by-service basis and can now offer complete solutions geared towards the specific needs of the different operators and service providers. Swisscom offers a full portfolio of leased lines throughout Switzerland, a wide range of bandwidths and a selection of different service levels. The wholesale portfolio is complemented by extended interconnection services, including interconnection to Swisscom's international network. Swisscom has contracts with approximately 100 wholesale customers in Switzerland. In March 2003, the Federal Council adopted amendments to the Telecommunications Ordinance that require Swisscom to offer interconnection to leased lines on a cost-oriented basis, with effect of April 1, 2003. See "*Regulation Unbundling of the Local Loop and Interconnection to Leased Lines*". Swisscom also offers leased lines to business customers on a retail basis. See " *Enterprise Solutions Networking*".

The following table sets forth information relating to Swisscom's leased lines offered as part of its portfolio of national wholesale services.

In thousands of lines	As of December 31,		
	2000	**2001**	**2002**
Leased lines	6,190	7,455	8,475

While the traditional interconnection and leased line business is maturing, Swisscom expects growth in broadband connectivity services. Since 2000, Swisscom has also offered broadband access services both to residential customers through Bluewin, and, as a wholesale product, to other telecommunication service providers in Switzerland. By December 2002, Swisscom had the ability to offer ADSL services over approximately 95% of all access lines. At December 31, 2002, Fixnet offered ADSL access over approximately 195,000 subscriber lines, of which approximately 109,000 were used by Bluewin customers and approximately 86,000 by customers of other Internet service providers.

In March 2002, two of Swisscom's competitors filed a petition with the Competition Commission, alleging that Swisscom is illegally subsidizing Bluewin and abusing its dominant position in both the retail and wholesale market for ADSL services. On May 6, 2002, the Competition Commission issued a provisional order requesting Swisscom to offer its competitors the same discounts as it gives to Bluewin and launched an investigation based on Article 27 of the Cartel Act. See "*Item 8: Financial Information Legal Proceedings Other Regulatory Proceedings*".

Back to Contents

Wholesale International

In the international wholesale market, Swisscom is a recognized provider of high quality voice and data services, including voice termination services and managed bandwidth services. In Europe, Swisscom provides wholesale voice and data services through its European network (EOSNET), which links key European cities along routes with heavy international traffic. In the United States, Swisscom operated in the past through a U.S. subsidiary, Swisscom North America Inc. Following a management buyout in 2002, Swisscom North America Inc. is no longer part of the Swisscom group. For a description of the European network, see " *Networks and Technology Fixed-Line Networks*". In 2002, external revenue from wholesale international services amounted to CHF 291 million.

In the area of international voice termination, Swisscom offers two services: a standard service, which provides least cost routing to a wide range of destinations, and a more expensive premium service, which provides high quality transit services to practically all global destinations. As an outgrowth of market liberalization, Swisscom also provides voice termination of outgoing international traffic to other national network operators and service providers.

The following table sets forth Swisscom's international voice termination in minutes for each of the periods indicated.

In million of minutes	Year Ended December 31,		
	2000	**2001**	**2002**
Total international voice termination	812	1,275	1,878

The substantial volume increase in 2002 reflects continued market growth and the successful roll-out of international sales offices in the course of 2001. However, as this is a low margin business, Swisscom is no longer actively marketing its international termination services and has closed the local sales offices in Europe. As a result, Swisscom expects that international voice termination traffic will decline in 2003.

Swisscom's wholesale managed bandwidth services provide end-to-end monitoring of international leased lines for highly reliable voice, data, image and video transmission. Swisscom's portfolio of international bandwidth services covers various bitrates from 2 MBit/s up to 622 MBit/s and consists of end-to-end managed full circuit services between points on the EOSNET network in Europe and, until the buyout of Swisscom North America, the U.S. and so-called half circuit services with shared management on its bilateral network with more than 120 destinations worldwide. The international bandwidth market is characterized by huge overcapacities, particularly between the main business centers in Europe and to the U.S., which has resulted in sharp price erosion. Sales in 2002 were below expectation. Swisscom expects that prices will remain relatively stable in 2003.

INTERNATIONAL CARRIERS' CARRIER SERVICES

As an international carriers' carrier, Swisscom offers international termination of incoming international traffic.

Swisscom receives payments from other carriers for its role in terminating inbound international traffic under an accounting rate system in which settlement rates are based on a basket of currencies dominated by the U.S. dollar. With growing competition resulting from market liberalization, accounting rate levels have fallen significantly in liberalized markets. This has had the effect of reducing Swisscom's revenue from the termination of inbound international traffic. In 2002, revenue also suffered from a decline in the value of the U.S. dollar relative to the Swiss franc.

Swisscom has jointly invested in over 55,000 circuits which it shares with about 120 other international operators and has a variety of traffic volume agreements with such operators. Under these agreements, the parties agree upon tailor made volume deals to mutually secure the incoming traffic streams.

To bypass the relatively high national interconnection rates for mobile traffic, some of Swisscom's competitors exploit a technique known as "tromboning". Tromboning is a type of arbitrage whereby a Swiss competitor sends Swiss originated calls destined for a Swiss mobile network to a foreign international carrier which then terminates the call through its international relationship with Swisscom. To diminish the incentive to engage in this arbitrage business, Swisscom and several other mobile operators have reduced the differences in national and international mobile termination rates. As a result, there was a noticeable reduction in incoming international traffic to Swisscom's mobile network and a corresponding increase in national interconnection traffic.

Back to Contents

The following table sets forth information relating to Fixnet's incoming international traffic in minutes for the periods indicated.

In millions of minutes	Year ended 31 December,		
	2000	**2001**	**2002**
Incoming international traffic [(1)]	2,152	1,966	1,959

(1) Minutes of incoming traffic terminated in Switzerland as determined for international settlement purposes.

In 2002, 56% of incoming international traffic originated from four countries: Germany, United States, France and Italy.

The volume decrease in 2002 reflects a shift from incoming international traffic to national interconnection due to a decline in tromboning and the build out of alternative international networks.

OTHER

Other services comprise the sale of customer equipment, Internet access offered by Bluewin, the operation of a directories business and a variety of other services.

Customer Equipment

Swisscom is a leading provider of customer equipment to residential customers in the Swiss telecommunications market. Swisscom purchases from third-party suppliers all of the telecommunications equipment that it sells, leases or rents under the Swisscom brand name. Swisscom offers residential customers primarily PSTN and ISDN corded and cordless telephone handsets and facsimile machines, with both also available with e-mail functions. Swisscom also offers mobile handsets and a variety of other products through its Swisscom shops which it accounts for in this business area. In 2002, sales of customer equipment generated external revenue of CHF 235 million, including CHF 76 million from the sale of mobile handsets.

The most important distribution channel for Swisscom's customer equipment is the Swisscom shops. Swisscom aims to reach additional customers through the use of third-party distribution channels. During 2000 and 2001, Swisscom streamlined its wide range of retail products to achieve cost efficiencies.

Bluewin

Through Bluewin, Swisscom is the leading Internet service provider and operates the most popular Internet portal in Switzerland. In 2002, Bluewin generated external revenue of CHF 90 million. The majority of Bluewin's external revenue is generated by subscription fees and sale of starter kits as traffic-based revenue is accounted for in value-added services within Fixnet.

As a result of the termination of a cross shareholding agreement between Bluewin and tamedia at the end of May 2002, Bluewin is once again a wholly-owned Swisscom subsidiary.

As the leading Internet service provider in Switzerland, Bluewin offers residential Internet users and small businesses Internet access service packages facilitating high-quality Internet access using both narrowband and broadband access technologies, IP-based communication services, personal information management services and shared hosting services. Since October 2000, Bluewin has been offering its subscribers broadband access using ADSL technology. Internet access over ADSL is offered on a flat-fee basis. Responding to growing demand and increasing competition for high speed internet access, Swisscom reduced its ADSL tariffs significantly in March 2002. In connection with this tariff reduction two of Swisscom's competitors filed a petition with the Competition Commission. See *"Item 8: Financial Information Legal Proceedings Other Regulatory Proceedings"*.

Back to Contents

Since the launch of its operations, Bluewin has experienced continuous growth in the number of its active access subscribers. The following table provides information about Bluewin's access subscribers and the time spent on-line for the periods indicated:

	Year Ended December 31,		
	2000	**2001**	**2002**
Active access subscribers [(1)] (at period end)	549,588	733,763	859,648
of which ADSL	—	18,378	108,964

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

Given the extensive reach of the Bluewin portal, and the fact that the Bluewin homepage is the point of entry to the Internet for many Bluewin access customers, Bluewin offers a platform for online advertising and electronic-commerce in Switzerland.

Bluewin's strategy is to focus on its core competencies within Switzerland. In particular, Bluewin seeks to increase ADSL access by offering new ADSL services and enhancing the attractiveness of its portal. In addition, Bluewin seeks to increase on-line advertising and electronic-commerce revenue. In order to do so, Bluewin has focused upon building strategic partnerships with content and service providers in Switzerland.

Directories

Swisscom Directories operates, maintains and sells Switzerland's most comprehensive directories database, the *Elektronisches Telefonbuch ETV ®* ("ETV"). ETV includes over 6 million residential and business entries and is updated daily with subscriber information from Switzerland's major telecommunications service providers. Swisscom Directories is also responsible for the production, marketing and distribution of the printed Telephone Books, as well as for the operation, production and development of electronic directories and the Yellow Pages Online. Additionally, Swisscom Directories has primary responsibility for the development and marketing of customized directories solutions for SOHOs, SMEs and the directories industry. In 2002, Swisscom Directories had external revenue of CHF 93 million.

Swisscom and PubliGroupe originally created the directories business joint venture in January 1999. Under the terms of the original joint venture, Swisscom acquired a 49% stake in PubliDirect Holding (the principal PubliGroupe directories entity) and PubliGroupe acquired a 49% stake in Swisscom Directories AG (the Swisscom Group directories company), with Swisscom and PubliGroupe sharing joint management of Swisscom Directories and PubliDirect Holding through a supervisory board. In October 2000, the joint venture agreement was amended and Swisscom gained control of Swisscom Directories. As a result, Swisscom Directories has been fully consolidated in Swisscom's financial statements since the fourth quarter of 2000.

The directories' business is regulated under the Telecommunications Act. In December 2001, the relevant ordinance was amended to the effect that every telecommunication service provider is required to provide its regulated data, including daily data updates, not only to directories publishers, as was the case in the past, but to any interested party and for any use. In 2002, Swisscom Directories was appointed by all major telecommunication providers as their data agent and is now responsible for centrally handling the provision of regulated data.

Other

Fixnet also offers telecommunication services in Liechtenstein and a variety of other services, including public payphones, which Swisscom is required to provide as part of its Universal Service obligation, operator and directory services, and a variety of pre- and postpaid calling cards. In 2002, external revenue from such other services amounted to CHF 289 million.

Back to Contents

Swisscom is active in the Principality of Liechtenstein through its wholly owned subsidiary, Telecom FL AG, a full service provider offering fix and mobile voice, data and multimedia products to private and business customers through network infrastructure owned by the Principality. In 2002, Telecom FL AG generated external revenue of CHF 46 million and net income of CHF 3 million.

Swisscom operates most of its public payphones as part of its Universal Service obligation. As of December 31, 2002, Swisscom operated 8,870 public payphones, including 3,939 managed payphones located on the premises of post offices, railway stations and certain restaurants. In the area of private payphones, Swisscom rented or sold approximately 27,144 private payphones in 2002 to private operators, such as hotels, restaurants and schools. In recent years, the demand for public payphone use has declined, primarily due to the fast growth of mobile telecommunications, and Swisscom expects this trend to continue. In 2002, Swisscom realized external revenue of CHF 81 million from the operation of payphones.

Swisscom provides around the clock operator services, principally directory information, operator assistance and a conference call service, directly to its subscribers. In 2002, external revenue from operator services was CHF 80 million.

Swisscom offers prepaid cards, which can be used from any payphone in Switzerland, any fixed-line phone in Switzerland and in over 100 other countries and from mobile phones. Swisscom’s card products are sold through kiosks, gas stations, post offices, railway stations and restaurants. In 2002, external revenue from the sale of card products was CHF 47 million.

COMPETITION

In the area of fixed network telephony and related services, Swisscom faces intense competition, particularly in the national and international calling markets. In 2002, price competition was less intense due to the general situation in the telecom market in Switzerland which has undergone some consolidation with several niche players closing their operations.

Access. Swisscom does not yet face significant competition in the residential access market mainly due to the fact that until recently Swisscom was not required to unbundle its local loop and cable operators were not able to offer telephony services. In March 2003, the Federal Council adopted amendments to the Telecommunications Ordinance that require Swisscom to offer unbundled access to its local loop on a cost-oriented basis. Unbundling of the local loop gives competitors direct access to Swisscom’s customers and the ability to offer them a full range of services without the need to use Swisscom as an intermediary. In addition to loss of access revenues, unbundling of the local loop is likely to lead to increased competition for national and international traffic as customers would for the first time be able to choose among competing full-service providers of fixed-line telephony. Swisscom faces strong competition in the market for broadband access, particularly from cable network operators. In February 2003, Cablecom, the largest cable operator in Switzerland, launched a test offer of telephony services. Swisscom also faces competition in the market for broadband mobile services and other alternative access technologies. For more information on competition in the market for broadband access, see “*Wholesale*” and “ *Other Bluewin*”.

National Traffic. In the past, Swisscom faced limited competition in the business for local area calls. With the introduction of a new numbering plan in March 2002, this competition has increased significantly.

Under the new numbering plan, all phone numbers in Switzerland consist of ten digits (in Zurich of nine digits), with the former area code having become an integral part of a subscriber’s phone number. Whereas in the past most local phone calls were routed automatically over the Swisscom network, under the new numbering plan subscribers who have pre-selected an alternative carrier will have their local calls routed automatically over that carrier’s network. As a result, local area traffic has declined in 2002 and is expected to decline further in the future.

Swisscom continues to face strong competition in the market for national long distance calls. Over the last several years, tariffs have come under significant pressure and margins have declined substantially. In 2001, the telecommunications market in Switzerland entered a period of consolidation. Currently, Swisscom’s principal competitor in the national long distance market is TDC Switzerland, which resulted from the merger of diAx and Sunrise. Swisscom also faces competition from Tele2, Econo Phone and other low-cost service providers. While pricing pressure was relatively low in 2002, margins will come under renewed pressure in 2003 mainly due to new competitors such as cable TV operators and Internet service providers offering Internet telephony (known as voice over IP) services.

Back to Contents

Tariffs for fixed to mobile calls, which are accounted for in national traffic, are expected to come under particular pressure due to regulatory initiatives in the European Union regarding mobile termination and two proceedings in which Swisscom is involved. See " *Regulation Mobile Telecommunications".*

Swisscom's competitors for national long distance service depend on Swisscom for the provision of wholesale originating and terminating access and transmission services. As a result, the pricing of these services has had an important impact on the development of retail competition. Since January 1, 2000, Swisscom has been required to calculate its interconnection costs in any market in which it is market-dominant on the basis of the long-run incremental cost of an efficient operator and may no longer include historical costs. As a result, interconnection prices have steadily declined. Because interconnection rates calculated on the basis of long-run incremental costs only cover the additional cost to Swisscom of giving other providers access to its network and do not include the historical costs incurred by Swisscom in building out its network, Swisscom's competitors may be able to offer retail services at lower prices than Swisscom while still covering their costs. See " *Regulation Interconnection by a Market Dominant Provider*". A suit is currently pending in which it is alleged that Swisscom has not properly calculated the long run incremental cost of service that it is required to provide on a cost-oriented basis. See "*Item 8: Financial Information Legal Proceedings*".

Outgoing International Traffic. Swisscom also faces strong competition in the outgoing international calling market. Swisscom's principal competitors in the outgoing international traffic market are TDC Switzerland and Tele 2, which focus its marketing on offering reduced rates for calls directed to countries of high traffic volume. While tariffs overall stabilized in 2001, Swisscom increasingly promotes reduced rates for calls directed to countries which generate the most traffic. In doing so, Swisscom is responding to the marketing practice of its competitors. In October 2002, responding to price reductions by competitors, Swisscom reduced tariffs for calls to more than 50 countries. The development of interconnection pricing will also impact competition in the area of outgoing international telephony.

In the longer term, Swisscom expects that additional market share will be lost in the area of international fixed voice telephony due to the increasing use of voice-over-IP technologies and that international rates will come under additional pressure as services based on such technologies begin to proliferate.

Value-Added Services. Swisscom faces significant competition in this market. Some of the new entrants into the domestic market seeking to become full-service providers, such as TDC Switzerland, have begun to offer competing services in this market. Swisscom also faces competition in its Business Numbers services from other providers, including COLT, Worldcom and Global One. Swisscom is required to provide access to the range of numbers used for Business Numbers. In addition, competition has increased since OfCom has taken over responsibility for allocating individual service numbers from a range of numbers used for Business Numbers to end-users.

Wholesale National and International. Swisscom faces increasing competition in the national wholesale market from various network providers such as Colt and Worldcom, as well as TDC Switzerland, currently offering data services between major Swiss cities and international outgoing services to resellers. In March 2003, the Federal Council adopted amendments to the Telecommunications Ordinance that require Swisscom, with effect from April 1, 2003, to offer interconnection of leased lines on a cost-oriented basis which is expected to increase competition.

Swisscom offers broadband access services based on ADSL technology and currently faces stiff competition from cable network operators offering cable modem applications. With the roll out of broadband mobile services based on UMTS technology, Swisscom also expects to face competition in the future from providers of broadband mobile services when they become commercially available.

Competition in the international wholesale market remained fierce in 2002. In this area, Swisscom competes with low-cost operators, which gain customers by offering discount prices that are below cost. In addition, these operators are equipped with advanced technology that allows easy and quick re-routing of calls to take advantage of least-cost routes shortly after they emerge. These trends have resulted in further price erosion, which could only partially be compensated by increased traffic. Swisscom is currently upgrading its switching centers in order to deploy this technology as well, which it expects to have completed by mid-2003.

Back to Contents

International Carriers’ Carrier Services. Within International Carriers’ Carrier Services, Swisscom faces increasing competition from a number of international operators which have completed their pan-European networks. As some of these operators have also installed switches in Switzerland, Swisscom’s revenue from termination of incoming international traffic has declined.

Customer Equipment. In the area of customer equipment, Swisscom competes directly with equipment manufacturers, suppliers and third-party vendors. A number of Swisscom’s principal suppliers of telephones and other customer equipment, including mobile handsets, also compete with Swisscom. Vigorous competition and rapid technological change in the sector, as well as increasing competition from companies also active in other sectors of the telecommunications market, have led to falling prices.

Bluewin. The Swiss and European markets for Internet access services, portal services, online advertising, e-commerce and application services are highly competitive.

Bluewin’s principal competitors in the access market are TDC Switzerland and Cablecom. TDC offers narrowband dial-up access through its own network as well as ADSL broadband access through a reselling agreement with Swisscom Fixnet. Cablecom offers narrowband dial-up access through its subsidiary SwissOnline as well as broadband access over its cable network. Bluewin expects to continue to generate the majority of its revenue from its access business.

In order to compete with other broadband access operators more effectively, Swisscom reduced its ADSL access tariffs significantly in February 2001 and March 2002. In connection with the tariff reduction introduced in March 2002, two of Swisscom’s competitors filed a petition with the Competition Commission, alleging that Swisscom is illegally subsidizing Bluewin and abusing its dominant position in both the retail and wholesale market for ADSL services. See *“Item 8: Financial Information Legal Proceedings Other Regulatory Proceedings*”.

Directories. Swisscom does not face significant competition in the directories market. However, barriers to entry are low, particularly in the online directory market. Swisscom Directories expects to face increased competition from other online directory operators, as well as traditional direct marketing companies expanding into the directories market.

Back to Contents

MOBILE

Overview

Swisscom Mobile is the leading provider of mobile telephony services in Switzerland, with 3.6 million mobile subscribers as of December 31, 2002. In 2002, Swisscom's mobile activities generated total revenue of CHF 4.1 billion, including sales of CHF 857 million to other Swisscom business segments. With external revenues of CHF 3.3 billion in 2002, Swisscom Mobile accounted for 22.4% of Swisscom's consolidated net revenue.

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

CHF in millions	**Year Ended December 31,**		
	2000	**2001**	**2002**
Voice	1,820	2,092	2,170
Roaming	373	381	388
Data and value-added services	152	273	340
Wholesale	323	280	244
Other mobile revenue[1]	62	101	113
Total Mobile	**2,730**	**3,127**	**3,255**

(1) Includes revenue from the sale of handsets sold through indirect sales channels, from SICAP, a prepaid billing platform, and, in 2000, from paging services, which Swisscom no longer offers.

Most of Swisscom's mobile telephony revenue is generated from monthly subscription fees and traffic charges, which accounted for 66.7% of its external revenues in the mobile segment in 2002. Within this segment, mobile data and value-added services comprise the fastest growing business area, driven primarily by a significant increase in the number of text messages sent using Swisscom's short messaging service (SMS).

With the commercial launch of services enabled by high speed GPRS and UMTS technologies, Swisscom believes that an increasingly significant portion of its mobile revenue will be generated by mobile data services, value-added services, Internet access and e-commerce services. Swisscom has begun to implement a mobility portal enabling mobile information, entertainment, community and lifestyle premium services, which Swisscom believes will contribute in the future to the generation of m-commerce revenue and enhance customers retention.

Alliance with Vodafone

Swisscom has entered into a strategic alliance with Vodafone plc, which acquired a 25% stake in Swisscom Mobile AG with effect from April 1, 2001.

In connection with this transaction, Swisscom and Vodafone entered into a Shareholders' Agreement, and Swisscom Mobile and Vodafone entered into a Service Agreement. Under these agreements, each of Swisscom and Vodafone has agreed, subject to certain exceptions, not to engage in the mobile business in Switzerland other than pursuant to the terms of these agreements. Vodafone has also agreed not to offer any services in Switzerland or Liechtenstein to any competitor offering the same or similar services as Swisscom Mobile. Swisscom Mobile has similarly agreed, subject to certain exceptions, not to offer any services to competitors of Vodafone where it is active. On July 10, 2001, Swisscom Mobile and Vodafone agreed that Swisscom Mobile would have the right to use future upgrades of certain services and enabling platforms developed by the Vodafone group on normal commercial terms even if the Service Agreement is terminated. See "*Item 10: Additional Information Material Contracts*".

Swisscom believes this strategic alliance enhances its competitive position in the mobile market. Through this alliance, Swisscom has access to Vodafone products and services, as well as its know-how in mobile telecommunications. Reciprocal roaming agreements provide Swisscom with increased roaming access to next generation roaming technology. Swisscom is also entitled to participate in Vodafone group's worldwide arrangements for the procurement and/or supply chain management of infrastructure, handsets and other products, which enables Swisscom to realize cost savings.

Back to Contents

Swisscom also cooperates with Vodafone in the area of product development and management development.

In 2002, Swisscom generated revenue from services rendered to Vodafone in the amount of CHF 36 million and paid to Vodafone an amount of CHF 57 million for services purchased from Vodafone.

GSM and Introduction of Next Generation Mobile Services

Swisscom's mobile services are provided using the global system for mobile communications (GSM) standard, the dominant digital standard in Europe and much of the rest of the world. Through roaming agreements, Swisscom's mobile subscribers are able to make and receive calls over the networks of over 318 operators in more than 146 countries.

Swisscom offers its mobile services using both the 900 MHz frequency band and, in urban areas where the 900 MHz band no longer has the capacity to carry peak traffic, the 1800 MHz frequency band.

In April 2001, Swisscom introduced high speed circuit switched data (HSCSD) services. Like ISDN, HSCSD technology is based on the principle of channel bundling. It is currently possible to bundle up to four channels corresponding to a data transmission rate of 57.6 kbit/s. Also in 2001, Swisscom completed the implementation of general packet radio service (GPRS) technology in the network. GPRS is a new standard for data transfer on GSM mobile phone networks and utilizes "packet switching" technology. In February 2002, Swisscom launched its first commercial GPRS service with a transmission rate of up to 50 kbit/s.

In December 2000, Swisscom was awarded one of four UMTS licenses auctioned in Switzerland, for which it paid CHF 50 million. Universal mobile telecommunication system (UMTS) is a third generation mobile radio system that creates additional mobile radio capacity and enables broadband media applications while also providing high speed Internet access. Under the original terms of the UMTS license, each licensee was required to build out its network to achieve population coverage of 20% by the end of 2002 and 50% by the end of 2004, unless it is unable to fulfill this obligation for reasons beyond its control and can prove that it has made every effort to do so. In June 2002, ComCom amended the terms of the license to eliminate the requirement that 20% population coverage be achieved by the end of 2002. Licensees will still be required to achieve 50% population coverage by the end of 2004. In addition, each licensee is now required to report to OfCom every three months on the progress of its network build-out until it has achieved 20% population coverage.

Swisscom continues to build out its UMTS network, with work proceeding according to schedule. Swisscom has opened its UMTS network to a limited user group in order to test new data services. Timing of the launch of commercial UMTS services will depend primarily on the availability of appropriate dual mode (GPRS/UMTS) handsets. Swisscom also invests in capacity enhancements and functional upgrades of its existing GSM network, for example to further improve its GPRS services. Other projects include building additional base stations and extending the reach of the network's dual-band capability. For further information on Swisscom's mobile network, see " *— Networks and Technology — Mobile Telecommunications Network*".

In December 1999, the Federal Council adopted an ordinance, known as the NIS Ordinance, which establishes emission standards to protect the population of Switzerland from non-ionizing radiation emitted by various sources, including mobile antennae and base stations. The NIS Ordinance is implemented by the cantons, which until recently have used different methods of measuring radiation emissions to determine compliance with the NIS Ordinance, resulting in significant regional variations in effective emission standards. In order to address this issue, the Swiss Agency for the Environment, Forests and Landscape ("BUWAL") issued final recommendations in July 2002 which provide guidance for enforcement authorities on the appropriate method for measuring electromagnetic emissions from base stations and masts in the GSM network. These recommendations are generally binding on the cantons, but deviations are permitted under certain circumstances. In order to comply with the applicable emission standards and maintain current quality of service Swisscom will be required to put up additional antennae. However, Swisscom does not expect the associated costs in 2003 to be materially different from those incurred in 2002. While the BUWAL recommendations establish uniform standards for measuring emissions in GSM networks, they do not address emission standards for UMTS networks. Recommendations relating to emission standards for UMTS networks are expected in the course of 2003. Depending on the enforcement recommendations ultimately adopted, it is possible that additional capital expenditures will be required in connection with the build-out of Swisscom's UMTS network. See " *— Regulation — Mobile Telecommunications*".

35

Back to Contents

Subscribers

The following table shows the total number of subscribers to Swisscom's mobile services at the dates indicated.

In thousands(1)	As of December 31,		
	2000	2001	2002
Postpaid	1,939	2,152	2,298
Prepaid(2)	1,022	1,221	1,307
Total Subscribers	**2,961**	**3,373**	**3,605**

(1) Includes service accounts.
(2) Beginning in 2001, Swisscom no longer includes accounts of any inactive prepaid customer in its subscriber figures. A customer is deemed inactive after a period of twelve months without making a call or sending a SMS message. In December 2001, this resulted in the deactivation of 207,000 inactive prepaid customers. The number of prepaid subscribers in 2000 has been restated accordingly.

Since 1995, the number of mobile customers in the Swiss marketplace has grown annually, with overall market penetration reaching almost 78% at the end of 2002. Swisscom expects growth in the mobile market to continue, although at a slower rate in light of high market penetration. With the growing market penetration, Swisscom focuses increasingly on customer retention.

In order to promote customer retention, Swisscom has implemented customer loyalty and win-back programs, including incentives for an eighteen month contract commitment, handset subsidies and handset renewal possibilities, which resulted in a further decline of customer churn. While Swisscom's mobile business relies primarily on Swisscom shops for sales and marketing, it is also expanding its use of indirect and alternative sales channels.

Traffic

The table below sets forth, for the periods indicated, selected outgoing traffic data relating to Swisscom's mobile telephony business.

In millions of minutes	Year Ended December 31,		
	2000	2001	2002
Voice (1)	2,503	2,923	2,995
Roaming	197	226	229
Wholesale	277	226	181
Total mobile telephony traffic (2)	**2,977**	**3,375**	**3,405**
Number of SMS messages (in millions) (2) (3)	651	1,317	1,650

(1) Includes minutes from all outgoing calls made by Mobile subscribers.
(2) Includes service accounts and traffic generated by service accounts.
(3) Excludes wholesale SMS messages.

For information on average monthly minutes of use and average monthly revenue per mobile customer, see "*Item 5: Operating and Financial Review and Prospects Results of Operations by Segment Mobile*".

Back to Contents

Principal Products

Swisscom currently offers seven principal mobile products: Natel business, Natel international, Natel swiss, Natel budget, Natel easy, Natel corporate and Natel Corporate Mobile Network (CMN), the last two of which target the business segment.

All products provide Swisscom customers with the full range of available mobile services, allowing them to make and receive calls within Switzerland or internationally, using the same telephone number over GSM systems in countries where Swisscom has roaming agreements. The roaming features apply also to Natel easy, a prepaid service, which does not involve a subscription contract or a monthly basic charge. From the range of postpaid products, customers can choose the product which best suits their usage. Natel business is aimed at customers with high usage throughout the day, whereas Natel budget is an economical product for low-usage subscribers. Natel CMN allows corporate customers to establish a virtual private network using special tariff models and short access numbers. Natel corporate is a postpaid service with monthly fees graduated according to the number of subscribers within a company.

In June 2002, Swisscom launched a multimedia messaging service (MMS), which is a further development of its SMS service. Short messaging services (SMS), one of the most popular mobile data services, allows messages with up to 160 letters to be sent via a digital mobile phone. Swisscom MMS allows customers to compose, send and receive messages using all forms of media including text, pictures and audio. Swisscom MMS will enable customer to customer messaging from MMS mobile devices and personal computers. Swisscom intends to offer MMS also as a wholesale service to third party content providers.

In October 2002, Swisscom launched a new product for corporate customers called Corporate Office Access, which enables customers to synchronize their emails and calendars from any location using a laptop or handheld computer while meeting their security requirements.

In December 2002, Swisscom launched its national public wireless local area network (PWLAN) service, which enables users of notebooks, personal digital assistants and other mobile devices that are equipped with a wireless LAN card to access the Internet with a data throughput rate of up to 2 Mbit per second.

Subscribers by Product. The following table sets forth, at the dates indicated, subscriber numbers relating to each of Swisscom’s principal mobile products.

In thousands	**Year Ended December 31,**		
	2000	**2001**	**2002**
Natel swiss	1,435	1,503	1,352
Natel easy	1,021	1,221	1,307
Natel budget (1)	—	166	409
Natel international	375	328	264
Natel CMN (2)	47	75	104
Natel corporate (1)	—	6	97
Natel business	59	75	73
Natel private (3)	24	—	—
Natel Total	**2,961**	**3,373**	**3,605**

(1) Product launched in 2001.
(2) Product launched in 2000.
(3) Product not sold any more.

Tariffs by Product. Swisscom offers a variety of tariff and service packages targeting different customer segments. While headline tariffs have remained stable since a significant tariff reduction for its principal products at the end of 1999, Swisscom has introduced lower-cost products for residential and business customers (Natel budget and Natel corporate), which have effectively resulted in an overall tariff reduction. Because Swisscom's mobile customers can switch from one tariff to another, which Swisscom believes helps to prevent customer churn, the introduction of budget services has led to a decline in the number of subscribers to Swisscom's higher priced services. Swisscom expects that pressure on mobile tariffs, especially in the highly competitive business segment, will increase in the future.

Back to Contents

The following table sets forth information relating to Swisscom's tariffs for its principal Natel products, as in effect at December 31, 2002. All tariffs include VAT.

	SIM Card Fee	Monthly Basic Charge	Peak[1]	Off Peak[2]	Night And Weekend[3]
Natel swiss	40	25	0.59	0.40	0.20
Natel easy [4]	40	—	0.99	0.90	0.80
Natel budget [5]	40	15	0.70	0.70	0.70
Natel international	40	45	0.40	0.30	0.20
Natel CMN	40	45	—[6]	—[6]	—[6]
Natel corporate	40	—[7]	—[8]	—[8]	—[8]
Natel business	40	75	0.25/0.15[9]	0.25/0.15[9]	0.25/0.15[9]

(1) Monday to Friday from 7:00 a.m. to 7:00 p.m., except holidays.
(2) Monday to Friday from 6:00 a.m. to 7:00 a.m. and 7:00 p.m. to 10:00 p.m.
(3) Monday to Friday from 10:00 p.m. to 6:00 a.m., weekends and holidays.
(4) Natel easy customers are charged an initial fee for the SIM card only, and there is no fee for recharging the card.
(5) Natel budget customers are charged a flat rate for every call, but the monthly basic charge includes either 15 free minutes or 50 free SMS messages.
(6) The minute rates of Natel CMN depend on criteria such as destination.
(7) The monthly charges for Natel corporate are graduated according to the total amount of subscriptions within a company.
(8) The minute rates of Natel corporate depend on the chosen base product.
(9) Natel business customers are charged a flat rate for calls irrespective of time or day. All calls made up to a threshold of 300 minutes per month cost CHF 0.25 per minute and all calls made in excess of the 300 minute per month threshold cost CHF 0.15 per minute.

For calls placed and received outside Switzerland, all Natel customers pay a roaming surcharge in addition to the tariffs imposed by the local mobile network operator. Natel easy customers pay a higher surcharge than customers of other Natel services.

Wholesale Mobile and Third Party Business

Swisscom has entered into roaming agreements with 318 mobile operators worldwide covering 146 countries and earns revenue from those operators when their subscribers make mobile phone calls in Switzerland.

Swisscom has also entered into a national roaming agreement with Orange, under which Orange subscribers may use the Swisscom mobile network in parts of Switzerland, from which Swisscom also earns wholesale mobile revenue. Swisscom has entered into distribution agreements with Tele2, a fixed-line and mobile service provider. Tele2 sells Swisscom Prepaid Cards under its own branding, marketing and pricing. Swisscom earns revenue from traffic minutes sold by Tele2.

Swisscom aims to be active throughout the mobile data business value chain. Swisscom is therefore opening standardized interfaces to enabling platforms which can be used by third parties to offer mobile data and other services to Swisscom mobile subscribers. Examples of such services include premium priced SMS, which can be enriched with information based on the location of the subscriber, and point of sale payment through mobile handsets. On September 1, 2002, Swisscom became the first provider in Switzerland to offer vending machine operators such a point of sale payment service. In addition to a monthly fee, Swisscom receives a commission on each item purchased and paid for with a mobile handset.

Other

Customer Equipment Sales. Revenue from sales of mobile handsets through Swisscom shops is accounted for in Swisscom's Fixnet segment. All other revenue from the sale of mobile handsets is allocated to Mobile.

Back to Contents

SICAP AG. SICAP AG, a wholly owned subsidiary of Swisscom Mobile AG provides prepaid billing services to mobile network operators worldwide, including so-called over-the-air solutions, through which prepaid GSM SIM-cards can be recharged via SMS.

Competition

In its mobile business, Swisscom faces competition primarily from the other two mobile licensees in Switzerland, Orange and TDC Switzerland. Swisscom also faces more limited competition from Tele2, which offers a competing mobile prepaid service.

Swisscom expects tariffs, especially for business customers, to come under pressure in 2003 as TDC Switzerland and Orange increase their efforts to win market share in this segment. Competition in the residential segment is expected to be mainly driven by handset subsidies.

As in the case of fixed-line voice telephony, competition in the mobile market has been facilitated by provisions of the Telecommunication Act and related ordinances requiring that Swisscom offer easy access and number portability. Although equal access is also mandated under the applicable regulations, ComCom has suspended provisionally the requirement to implement equal access in the mobile network until technical development and international standards allow its implementation.

In the future, Swisscom expects to face competition in the provision of GPRS and UMTS services from competitors who were awarded Swiss UMTS licenses effective January 1, 2002. Licenses were granted to Orange, Telefónica and dSpeed, a wholly owned subsidiary of TDC Switzerland. In September 2002, Telefónica announced that it plans to withdraw from the Swiss market.

Back to Contents

ENTERPRISE SOLUTIONS

OVERVIEW

Enterprise Solutions is the leading provider of fixed network telecommunication services to business customers in Switzerland. In 2002, Enterprise Solutions generated total revenue of CHF 1.4 billion, including sales of CHF 85 million to other Swisscom business segments. With external revenues of CHF 1.37 billion in 2002, Enterprise Solutions accounted for 9.4% of Swisscom's consolidated net revenue in 2002.

Services provided by Enterprise Solutions include:

- **National and International Traffic.** Enterprise Solutions offers national and international fixed-line voice telephony services to business customers. In 2002, Enterprise Solutions carried an aggregate of 3.7 billion minutes of national telephony traffic and 586 million minutes of outgoing international traffic generated by business customers.

- **Value-Added Services.** Enterprise Solutions' value-added services consist of Business Numbers offered to business customers. In 2002, Enterprise Solutions carried an aggregate of 787 million minutes of traffic generated through the use of Business Numbers.

- **Networking.** In the area of networking, Enterprise Solutions offers national and international leased lines, including managed leased line services, national and, through Infonet Switzerland, international private network services, as well as Intranet services.

- **Other.** Enterprise Solutions also offers a variety of other services, including business Internet services, public data network services and LAN services.

The following table sets forth external revenue generated by Enterprise Solutions for the periods indicated based on the segment structure in effect in 2002. Prior years have been restated accordingly.

CHF in millions	Year Ended December 31,		
	2000	**2001**	**2002**
National and international traffic	636	583	561
Value-added services	70	94	64
Networking	636	633	568
Other	176	176	172
Total	**1,518**	**1,486**	**1,365**

Enterprise Solutions' go-to-market-model divides business customers into various segments which are addressed in different ways, for instance through a designated key account management team, direct sales channels or via telephone.

Due to continued slowdown and overcapacity in the telecommunications market, Enterprise Solutions expects a general decrease in market demand among all customer segments for the next two to three years. New markets among the medium-sized business customers are developing slowly. Large business customers have been postponing planned investments in telecommunication solutions. Despite these trends, Enterprise Solutions continues to focus resources on its solution business to ensure its long-term growth and, where necessary, will complement its portfolio through strategic partnerships.

In August 2002, Enterprise Solutions acquired a 49.9% stake in Unit.net, a provider of specialized online communication services based on streaming technology for its customers. Unit.net is one of the leading providers of streaming technology in Germany, Spain, Switzerland and the United Kingdom. Streaming technology allows data to be processed as a steady and continuous stream and thus starts displaying data before the entire file has been transmitted.

Back to Contents

NATIONAL AND INTERNATIONAL TRAFFIC

Enterprise Solutions provides national and international fixed-line voice telephony services to business customers. Effective January 1, 2002, Fixnet took over from Enterprise Solutions the provision of access services to Swisscom’s business customers. For a description of these voice telephony services, which Swisscom also provides to residential customers, and of developments impacting the provision of fixed-line telephony services, see “ *Fixnet Access*”and “ *Fixnet National and International Traffic*”.

National Traffic

The following table sets forth, for the periods indicated, selected information relating to Enterprise Solutions’ national fixed voice telephony traffic generated by business customers.

In millions of minutes	Year Ended December 31,		
	2000	**2001**	**2002**
National traffic(1)			
Local area traffic	2,699	2,428	1,974
Long distance traffic	1,334	1,287	1,244
Fixed to other network traffic(2)	385	444	457
Total national traffic	**4,418**	**4,159**	**3,675**

(1) Includes traffic on courtesy and service lines. Local area, national long distance and fixed-to-other network traffic do not include traffic generated by business customers using Enterprise Solutions’ value-added services.
(2) Includes traffic for fixed to mobile calls and calls from the fixed-line network to private user networks.

For information on tariffs for national traffic, see “ *Fixnet National and International Traffic National Traffic*”.

Outgoing International Traffic

The following table sets forth, for the periods indicated, information relating to Enterprise Solutions’ outgoing international traffic (excluding mobile traffic) generated by business customers.

In millions of minutes	Year Ended December 31,		
	2000	**2001**	**2002**
Outgoing international fixed-line traffic(1)	574	621	586

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

For information on tariffs for outgoing international traffic, see “*Fixnet National and International Traffic Outgoing International Traffic*”. Enterprise Solutions offers a variety of volume-based discounts for its largest business customers.

VALUE-ADDED SERVICES

Enterprise Solutions’ value-added services consist primarily of toll-free, cost-shared and premium rate numbers, also referred to as Business Numbers, which business customers use to provide their customers access to information services.

Enterprise Solutions offers toll-free Business Number services for both national and international use. Enterprise Solutions’ cost-shared service allows business customers to assume a portion of the cost of the calls they receive. Enterprise Solutions’ premium rate services allow business customers to make information accessible by telephone for a fee, a portion of which is received by the party being called. In addition, these premium rate services also allow for flat rate charging on a per call or product basis and “credit-per-call” billing, under which the party placing the call receives credit for the cost of their call. These numbers are increasingly used by business customers as a retail sales channel and as an additional form of payment. Enterprise Solutions’ premium rate services offer a variety of supplementary services including the ability to terminate calls outside Switzerland, to receive calls from other countries without revenue sharing with the subscriber and an efficient call management system.

Back to Contents

The following table sets forth the total traffic generated by Enterprise Solutions' Business Numbers for the periods indicated.

In millions of minutes	Year Ended December 31, 2000	2001	2002
Value-added services traffic	1,135	1,168	787

In 2002, traffic decreased primarily as a result of a loss of customers and a shift of traffic to Fixnet which was due to a reclassification of the number used by customers of other telecommunication service providers to dial-up the Internet, namely from a Business Number to an ISP Number. Traffic from this number is now accounted for in Fixnet's value-added services. Effective January 1, 2003, product ownership of Business Numbers (other than ISP Numbers) was transferred from Fixnet to Enterprise Solutions.

NETWORKING

In the area of networking, Enterprise Solutions offers national and international leased lines, including managed leased line services. As an alternative to leased lines, Enterprise Solutions provides solutions to complex data communication demands by offering national and, through Infonet Switzerland, international private networks as well as Intranet services.

National Leased Line Services

Enterprise Solutions is the leading provider of leased lines in Switzerland. Leased lines are fixed point-to-point connections between separate locations, which may be used by the customer for voice and high volume data or video transmission. Leased lines are used by business customers to assemble their own private networks and by resellers to establish networks in order to offer information services. Swisscom also offers leased line services on a wholesale basis. See " *Fixnet Wholesale National and International*".

In order to capitalize on the trend toward managed network services, Enterprise Solutions also offers managed leased line services to its national leased line customers and encourages migration to this higher value-added service. Through active fault management and automatic rerouting in case of network failure, Enterprise Solutions' managed leased line services guarantee up to 99.95% end-to-end availability.

The following table sets forth information relating to Enterprise Solutions' national leased lines.

In thousands of lines	Year Ended December 31, 2000	2001	2002
National leased lines[(1)]			
Analog leased lines	6,479	5,674	5,408
Digital leased lines			
less than 64 kbit/s	2,551	2,019	971
from 64 kbit/s to less than 2Mbit/s (unmanaged)	12,916	11,830	7,964
from 64 kbit/s to less than 2Mbit/s (managed)	6,703	5,958	4,396
2 Mbit/s and higher (up to 622 Mbit/s)	1,996	2,680	2,837
Total National Leased Lines	**30,645**	**28,161**	**21,576**

----
(1) Excluding twisted copper pairs.

Back to Contents

In 2002, the number of leased lines in the 64 kbit/s to less than 2Mbit/s range continued to decline, as customers migrated to higher bandwidth leased lines and high capacity services, such as IP services.

Enterprise Solutions' leased line subscribers pay an initial installation charge based on the type and capacity of the line and, thereafter, pay a monthly fee, which is also based on the type and capacity of the leased line and, in addition, varies in accordance with the length of the line and the volume of data transmitted from point to point. In recent years, leased line tariffs have declined due to regulatory pressures and increased competition from other infrastructure-based operators, with charges for the high bandwidth offering declining most dramatically in price.

Under the Telecommunications Act, a licensed telecommunications service provider may be required to provide leased lines in accordance with international standards (ONP) at cost-related prices in a particular region if it is determined that demand for such services is not being met.

In March 2003, the Federal Council adopted amendments to the Telecommunications Ordinance that require Swisscom to offer interconnection to leased lines on a cost-oriented basis, with effect from April 1, 2003. See " *Regulation Interconnection by a Market-Dominant Provider*".

International Leased Line Services

Enterprise Solutions offers international leased lines to its business customers with cross-border requirements. Through its own European network or in cooperation with other international carriers, Enterprise Solutions offers its European customers the convenience of single-end ordering and billing for half- and full-circuits. For a description of Swisscom's European network, see " *Networks and Technology Fixed-Line Networks*".

The following table sets forth information relating to Enterprise Solutions' international leased lines.

In thousands of lines	As of December 31, 2000	2001	2002
Analog leased lines	181	138	109
Digital leased lines	754	598	499
Total International Leased Lines	**935**	**736**	**608**

In recent years, the number of international leased lines has been falling mainly due to increased competition particularly from global players, as Enterprise Solutions has only a limited reach in the international market for fully managed circuits.

Through its international participations and partnerships, Swisscom provides end-to-end managed leased line services for international corporate networks in a number of European countries. Swisscom also offers such services on a wholesale basis via its EOSNET network. See " *Fixnet Wholesale National and International Wholesale International*" and " *Networks and Technology Fixed-Line Networks*".

National Private Networks

Enterprise Solutions offers private networks for data transmission based on a variety of technological platforms. The services comprise frame relay services, ATM services, city services and color line services.

Enterprise Solutions' frame relay service is a fully-managed, networking solution which is a cost-effective alternative to leased lines. Frame relay refers to a data transmission technology that is used for high bandwidth networking. It is ideal for data-intensive LAN-to-LAN applications, particularly for business customers with highly variable data traffic. Instead of leasing a high capacity leased line to accommodate occasional or intermittent traffic bursts, customers using frame relay pay for sufficient throughput capacity to satisfy their day-to-day data requirements, and are provided additional capacity up to the access rate to accommodate occasional traffic spikes. Enterprise Solutions offers frame relay at a variety of access rates, ranging from 64 kbit/s to 34 Mbit/s.

Enterprise Solutions’ frame relay service is seamlessly integrated with the networks of, and services provided by, its international partner Infonet.

Back to Contents

Enterprise Solutions’ asynchronous transfer mode (ATM) services permit flexible and tailored data transmission in the broadband range up to 155 Mbit/s. Applications include native LAN speed interconnections, multicomputer network links, real-time video and other multimedia applications, electronic publishing, telemedicine and CAD/CAM. Enterprise Solutions also offers ATM services featuring variable bit rate transmission.

Enterprise Solutions’ city services product is an optimal solution for business customers with high data traffic between their office locations within a given city. The benefits of city services include high bandwidth and around the clock end-to-end management.

Enterprise Solutions’ color line service provides digital transmission based on dense wavelength division multiplex (DWDM) technology. DWDM is an optical technology used to increase bandwidth over existing fiber optic backbones and permits transparent data transfer for all network protocols and application data types in end-to-end connections. Ring and long-haul connections are currently in development. This service is primarily aimed at customers who need to transfer large amounts of data in gigabits between two or more locations in or around business centers.

Increased competition during 2002 resulted in price reductions for frame relay and ATM services. In addition, increased substitution of frame relay and ATM services by Internet Protocol (IP) services among the large business customers resulted in decreased sales of frame relay and ATM services. However, frame relay and ATM services continue to be important products for medium-sized business customers.

International Private Networks

To allow voice communications and data sharing between their locations in different countries, large multinational corporations require seamless international voice, data and networking services. Swisscom has partnered as a distributor with Infonet Services Corporation (“Infonet”), in which Swisscom holds a 17.7% interest, to offer its business customers in Switzerland global and seamlessly managed telecommunications services. Infonet’s main focus is corporate data networks, including providing companies with a managed Intranet, and remote access services over public networks for smaller subsidiaries and mobile users. In addition, Infonet markets extranet services to its customers, both on a closed user-group basis and through public network access, including the Internet. Enterprise Solutions distributes these services in Switzerland through Infonet Switzerland AG, in which it holds a 90% share. See “ *Participations*”.

During the second quarter of 2002, Enterprise Solutions introduced Infonet’s new IP- multiprotocol label switching service to address the global network requirements of business customers.

Intranet Services

Enterprise Solutions’ Intranet services consist primarily of router management services. Since mid-2000, this service has been deployed on a multiservice platform based on multiprotocol label switching (MPLS) technology, which gives network operators high flexibility to divert and route traffic around link failures and congestions. As of December 31, 2002, Enterprise Solutions managed approximately 14,315 routers, mainly on behalf of banking and insurance clients, as well as large retailers. Other services within the Intranet services portfolio include remote access services, which enable access to the corporate Intranet through all commercially available access technologies, and encryption services for customers with strict security requirements. In 2002, Enterprise Solutions launched a variety of new Intranet services, including a low-cost remote access solution to target medium-sized business customers.

OTHER

Other services offered by Enterprise Solutions comprise business Internet services, public data network services, LAN services, customer relationship management (CRM) services, professional services and a variety of supporting services.

Back to Contents

Business Internet

Enterprise Solutions’ Business Internet service portfolio includes a full range of Internet access and applications, including managed firewall services, for business customers and national Internet service providers (ISPs). In 2002, Enterprise Solutions began to offer its customers a professionally managed Internet broadband access over ADSL.

Public Data Networks

Enterprise Solutions continues to offer several low speed packet switched data network services based on the well-established X.25 protocol. Although relatively slow, X.25 based packet switched services permit highly reliable data transmission, while offering easy access through a choice of access modes, including dial-up access across various technologies, such as ISDN, and extensive interconnection to other X.25 networks around the world.

LAN Services

Enterprise Solutions’ local area network (LAN) services include LAN network design, hardware provision, installation, network operation and maintenance with which it provides the infrastructure for all data and voice requirements over Internet protocol (IP) within the campus area of business customers. Enterprise Solutions experienced increased demand for IP-based telephony solutions in 2002 and expects this trend to continue in 2003.

CRM

Enterprise Solutions, together with strategic partners, offers technologies that allow its customers to enhance their customer relationship management. These services include end-to-end tracking technology and contact center solutions which combine conventional call center applications with e-mail, Internet and mobile telephony.

Professional Services

In 2002, Enterprise Solutions began to offer consulting, engineering and project management services as a separate service to its business customers. These consulting services cover the entire portfolio of telecommunications services and products Enterprise Solutions offers. Enterprise Solutions believes that this business will grow in the future as technologies converge and demand increases for combined IT and telecommunication solutions.

Supporting Business

Enterprise Solutions also provides a variety of supporting services, including security services and military communication networks.

COMPETITION

Enterprise Solutions faces intense competition serving its business customers. TDC Switzerland, which resulted from the merger of diAx and Sunrise, is the overall market challenger in Switzerland, and is positioning itself as full-service provider. Other competitors include Colt, offering value-added services at low prices to specific customers segments and locations, Equant/GlobalOne, focusing on global companies, and T-Systems, focusing on combined IT and telecommunications solutions for national and global companies. In addition to competition based on price, which has led to a significant decline in tariffs, Enterprise Solutions’ competitors are increasingly offering new creative solutions and extending the reach of their product offerings in order to increase their market share.

National and international outgoing traffic. As in the residential market, Swisscom faces significant competition in the corporate telephony market, with the stiffest competition occurring in the long distance and outgoing international calling markets. For further information on competition in the area of fixed-line telephony generally, see “ *Fixnet Competition*”.

Value-added services. Since September 2001, OfCom, the Swiss Federal Office for Communication, has taken over responsibility for allocating individual service numbers from range of numbers used for Business Numbers to end-users, who are required to pay both a one-time set up charge and a monthly subscription fee to OfCom. End-users who have been allocated numbers may put the number into operation with the telecommunications service provider of their choice. As a result, competition in this business area has increased.

Back to Contents

Networking. In its national leased line business, Enterprise Solutions has faced limited but increasing competition from TDC, Colt, Worldcom and T-Systems as well as from Cablecom, the strongest Cable TV provider in Switzerland, which operates its own infrastructure and has invested heavily to upgrade it. Due to continued price competition, Enterprise Solutions had to reduce its prices for leased lines in the first quarter of 2002. Competition in the national leased line market may also increase substantially as a result of the adopted amendments to the Telecommunications Ordinance, which require Swisscom to offer its competitors interconnection to leased lines on a cost-oriented basis. See “ *Regulation Unbundling of the Local Loop and Interconnection to Leased Lines*”.

In its international leased line business, Enterprise Solutions has faced for several years intense competition from international players, such as Equant/Global One, Worldcom, British Telecom and Deutsche Telecom, leading to stiff price competition and a decline in market share.

In the market for other networking services, specifically private networks and Intranet services, Enterprise Solutions currently faces competition from Colt, T-Systems and TDC, as well as system integrators such as IBM and Hewlett-Packard and multinational companies, including WorldCom, Equant/GlobalOne, C&W as well as newer and smaller players like PSI-Net, Cybernet and Green.

In the market for private network services, competition is especially strong for high density communications traffic in major cities and interconnection routes between these cities. The market for Intranet services in Switzerland is growing as corporate clients’ telecommunications needs evolve in the field of LAN services as well as for value-added services in the Intranet, Extranet and Internet domains based on highly sophisticated IP technologies, including voice and data integration.

Other. Enterprise Solutions’ major competitors for Business Internet and LAN services are T-Systems and TDC. In the area of CRM solutions, Enterprise Solutions competes with Alcatel and Nortel, who market their CRM solutions either directly or together with strategic partners to the largest 2,000 business customers in Switzerland.

In the area of professional services, Enterprise Solutions’ primary competitors are consulting firms. In the area of supporting business, Enterprise Solutions does not face competition and has ensured its position through long-term contracts.

Back to Contents

DEBITEL

Overview

Swisscom owns 93% of the share capital of debitel, a German provider of mobile communications and value-added services, and has an option to buy another 2% of debitel. With over 10 million customers at the end of December 2002, debitel is the largest network-independent mobile communications service provider in Europe. debitel acts primarily as a reseller of mobile communication products and services, which it sells under its own brand names to private customers as well as to small- and medium-sized business customers. In addition to its core mobile communications services, debitel offers fixed-line services and mobile data and content services. debitel also has a minority interest in Dangaard Telecom Holding A/S, one of Europe's leading distributors of mobile handsets and accessories. In 2002, debitel had net revenue of CHF 4.1 billion (EUR 2.8 billion), representing 28.3% of Swisscom's consolidated net revenue.

debitel's shares continue to be traded on the Frankfurt stock exchange, with 5% of the company's share capital publicly traded and the remaining 2% held by Electronic Partner.

As a result of the general slow down in the telecommunication market, and reduced growth prospects for debitel in particular, Swisscom determined at the end of 2001 that the goodwill associated with the debitel acquisition was impaired and took a charge of CHF 1.1 billion to reflect the impairment. In the fourth quarter of 2002, as a result of a further decline in future expected growth in the mobile sector, Swisscom decided to take an additional impairment charge for 2002 in the amount of CHF 702 million.

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

CHF in millions	Year Ended December 31,		
	2000	**2001**	**2002**
Germany	3,022	2,738	2,859
International	971	1,070	1,252
Total	**3,993**	**3,808**	**4,111**

debitel's enhanced service provider strategy stands for network independence and extension of the value chain. As the point of contact for network operators, distribution partners and customers, debitel bundles the products of its partners, develops its own products and is thereby able to offer a broad range of services which will include UMTS services when they are commercially available to its customers. With the slowdown in growth due to market saturation, debitel has been increasing its emphasis on customer retention programs, which has resulted in decreased churn.

Germany

In Germany, debitel offers primarily mobile communication services to its residential and business customers. As additional services for its mobile contract customers debitel also offers fixed-line telecommunications and Internet services and a variety of other services, including mobile data and content services. debitel also generates revenue from the sale of handsets and from the acquisition of new subscribers, for which it receives commissions from network operators.

As a mobile communications service provider, debitel does not operate its own network but instead purchases the telecommunications services of network operators and uses them to develop its own services which it then sells under debitel's brand names for its own account, at tariffs debitel mostly determines independently of the network operators. debitel's core business in Germany consists of providing access to the mobile voice and data services of the D1, D2 and E-Plus digital telecommunications networks. debitel has entered into long-term service provider contracts with the operators of those networks, T-Mobile, Vodafone D2 and E-Plus, under special license terms and conditions available to service providers. These agreements have been extended to UMTS, which will enable debitel to resell UMTS services as soon as they are launched commercially.

Back to Contents

debitel offers both contract and prepaid products in the mobile communications market. Under the contract products, the customer is billed for mobile phone services used during the prior month, paying both a monthly subscription fee and per call charges based on the length and type of calls made. In contrast, for prepaid products the subscriber pays a set price in advance for a SIM card that allows the subscriber to make calls up to the amount of time purchased.

The following table shows the number of debitel's contract and prepaid subscribers in Germany for the periods indicated.

In thousands	Year Ended December 31,		
	2000	**2001**	**2002**
Contract subscribers			
Mobile postpaid subscribers	2,144	2,268	2,520
Other[1]	383	401	353
Mobile prepaid subscribers	3,847	4,978	4,856
Total number of subscribers	**6,374**	**7,647**	**7,729**

(1) Includes subscribers for fixed-line and Internet services.

debitel also offers fixed-line telecommunications and Internet services and a variety of other services, including mobile data and content services. As a supplement to these basic services, debitel also offers its subscribers a variety of value-added services, including its messaging service MessageLine and, since 2001, new applications such as games, audio-messaging and logo editing.

debitel also generates revenue from the sale of handsets and merchandise, which include prepaid packages consisting of handsets, SIM cards and vouchers. In addition, debitel receives commissions from network operators for new subscribers acquired.

International

Through partly- and wholly-owned subsidiaries, debitel offers mobile and other telecommunications services in the Netherlands, France, Denmark and Slovenia. Some of these subsidiaries hold significant shares in their respective markets. In December 2002, debitel's foreign subsidiaries together had 2.33 million customers representing 23% of debitel's total customer base.

In the Netherlands, debitel offers mobile and fixed-line services through debitel Netherlands B.V. in which it holds a 100% interest. debitel Netherlands B.V. is the largest network-independent telecommunications provider in the Netherlands. In 2001, debitel acquired Talkline Netherlands, a Dutch company with a customer base of approximately 150,000. Effective September 1, 2002, Talkline Netherlands was merged with debitel Netherlands. At the end of 2002, debitel Netherlands BV offered services to 1.37 million customers, including the former customers of Talkline. debitel Netherlands cooperates with the Dutch network operators KPN and Vodafone (formerly Libertel). The contract with Vodafone could be extended to UMTS services. Since October 2002, debitel Netherlands, as an enhanced service provider, has also been cooperating with the Dutch network operator O2 Netherlands (formerly Telfort).

In France, debitel offers mobile services and products of FranceTelecom, S.F.R and Bouygues Telecom to approximately 174,000 customers under the debitel brand name through a wholly-owned subsidiary. In addition, debitel provides customer care services to approximately 330,000 customers of France Telecom. In February 2002, debitel France acquired a 95.54% stake in Videlec S.A., a French listed retail chain with 80 outlets all over France, and thereby extended the number of its own shops to 100.

debitel is also active in Denmark through debitel Danmark A/S in which it holds a 78.25% interest. Through debitel Danmark AS, debitel had 274,000 mobile customers and 98,000 fixed-line customers in Denmark at the end of 2002.

In Slovenia, debitel provided mobile services to 82,000customers in 2002 through a 52% owned subsidiary.

Back to Contents

Marketing and Distribution

While debitel is continually expanding its direct distribution efforts, it continues to depend significantly on indirect distribution channels for the marketing of its products and services.

As to its indirect distribution channels, debitel works primarily with the following distribution partners: the Metro group through its wholesale stores (Metro Cash & Carry), specialty stores (Media Markt, Saturn), and department stores (Kaufhof); ElectronicPartner, the largest association of consumer and communication electronics specialty retailers in Germany; Mercedes-Benz dealers; Ringfoto-Group, a German nationwide chain of photo and electronics stores, the telecommunication specialists Selectric, Chris Keim Com and mobilezone AG. debitel also distributes its products and services through a variety of mass and specialty retailers and seeks cooperation with other retail market leaders to achieve uniform and comprehensive coverage of all its customer segments. debitel’s indirect distribution network has approximately 5,000 active points of sale throughout Germany. debitel believes that by offering a single point of contact to its distribution partners, which would otherwise have to deal with several mobile network service providers, it enjoys a competitive advantage in addressing the retail market through indirect distribution channels.

debitel’s relationships with its principal indirect distribution partners are governed by cooperation agreements and distribution partner agreements which provide that debitel’s distribution partners will distribute debitel products and services on an exclusive basis. Currently, approximately 60% of debitel’s new customers are acquired through two distribution partners, Electronic Partner (EP) and Media-Saturn-Group. In 2002, debitel entered into a new five-year exclusive cooperation agreement with EP, which received a 2% stake in debitel as consideration for the exclusive distribution of debitel products. At the end of 2002, debitel entered into a short-term extension of its exclusive distribution agreement with Media-Saturn-Group and is currently negotiating a further extension.

Prepaid products and mobile communications equipment are also sold on behalf of debitel by Dangaard Telecom Holding A/S (“Dangaard”), in which debitel holds a 21.52% equity interest. Dangaard is one of the Europe’s leading distributors of mobile communications equipment in Europe. In 2002, debitel generated revenue in the amount of CHF 375 million (EUR 256 million) in connection with the delivery of prepaid products and hardware to Dangaard and had expenses in the amount of CHF 16 million (EUR 11 million) for Dangaard’s logistic services as well as commissions for hardware and advertising cost-refunds.

debitel has been building its direct distribution network to supplement its indirect distribution activities. This distribution network encompasses debitel’s shop-in-shop systems and centers as well as direct marketing activities. Under the “shop-in-shop” system, debitel sets up uniformly designed sales areas staffed by debitel’s own sales staff on the business premises of selected distribution partners. debitel has also established distribution points in heavily frequented city center locations that are staffed by debitel’s own sales force and offer a wide range of telecommunications services and hardware. Additionally, debitel has supplemented these efforts with direct marketing activities conducted via telephone and the Internet.

Competition

debitel continues to face significant competition from network-independent providers of fixed, mobile and Internet services, such as Talkline GmbH & Co. (“Talkline”), Hutchison Telecom GmbH (“Hutchison”) and Mobilcom AG (“Mobilcom”). Talkline, a wholly owned subsidiary of TDC Tele Denmark, focuses on residential customers. Hutchison, a wholly owned subsidiary of Orange, seeks to provide integrated fixed, mobile and Internet solutions. While Mobilcom has faced financial difficulties in 2002, it continues to compete with debitel as a mobile service reseller. In addition, debitel faces competition from network operators such as T-Mobile, Vodafone D2 and E-Plus. For several years, debitel has been trying to negotiate a contract with the fourth German GSM network operator O^2, formerly VIAG Interkom. Legal proceedings have been instituted to require O^2 to permit debitel to act as a reseller of its services. A judgment issued in favor of debitel was appealed by O^2 and further legal proceedings are expected.

debitel also expects to face competition in the UMTS market from resellers. Mobilcom, which was one of the original German UMTS licensees, was recently forced to abandon its plans to build out a UMTS network due to financial constraints. debitel expects that Mobilcom will seek to position itself, like debitel, as an enhanced service provider.

Back to Contents

OTHER

Swisscom is also active in a variety of other businesses, which it accounts for in “Other”. These include mainly the sale of voice communication equipment through Swisscom Systems and the provision of IT services through Swisscom IT Services AG. In addition, Swisscom provides broadcasting and other services.

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

CHF in millions	Year Ended December 31,		
	2000	**2001**	**2002**
Swisscom Systems	603	476	406
Swisscom IT Services	35	22	210
Swisscom Broadcasting	202	180	162
Billag	47	47	52
Other (1)	32	17	3
Total Other	**919**	**742**	**833**

(1) Other revenue comprises revenue from Conextrade AG (which was integrated into Swisscom IT Services AG effective January 1, 2003), and in 2000 and 2001 revenue from All Wireless and S.p.A. Milano, which were sold in the course of 2001.

Swisscom Systems

Swisscom Systems provides a comprehensive portfolio of products and services in the field of private branch exchanges (PBXs). Customers range from small and medium-sized companies to companies with an extensive network of branch offices. Swisscom Systems offers a full range of products (with the option of purchase, rental or leasing), services & maintenance and outsourcing. Cooperation with leading manufacturers ensure delivery of high-end products and services and a long-term protection of investment. As of December 31, 2002, Swisscom Systems had 1,567 full-time employees.

Swisscom Systems sells its products directly to large and medium-sized enterprises. Smaller PBX systems are mainly distributed via indirect channels. Equipment manufacturers increasingly sell or rent their products directly through their own sales channels and, as a result, Swisscom Systems has experienced increasing pressure on prices for the sale and rental of equipment. In 2002, Swisscom Systems suffered from a declining demand for network and telephony equipment caused by the deteriorating economic situation, which has led many customers to postpone new investments in telecommunications equipment. Swisscom Systems has therefore initiated a major restructuring that will include the lay-off of 470 employees in 2003 and a rationalization of its product portfolio.

Competition. Swisscom Systems competes directly with equipment manufacturers and third party vendors. Its principal competitors in all customer segments are Alcatel and Siemens.

Swisscom IT Services

In December 2001, Swisscom acquired AGI IT Services AG (“AGI IT”), one of Switzerland’s leading IT service providers for financial services, and merged the business of AGI IT and its IT division, together with most of the former Swisscom ECS (Electronic Commerce Solutions), to form Swisscom IT Services AG. Swisscom holds 71.1% of the newly formed company with the balance held by AGI IT former shareholders, eight cantonal banks. As of December 31, 2002, Swisscom IT Services had 2,347 employees.

Swisscom IT Services offers end-to-end business solutions in the financial services and telecommunications industry. In addition to business solutions, Swisscom IT Services focuses on systems integration, outsourcing and

IT infrastructure services, including desktop services and datacenter services.

Back to Contents

Swisscom IT Services' customers are largely the Swisscom group companies and the eight cantonal banks, AGI IT's former shareholders. Services to these customers are currently being provided pursuant to a master agreement which can be terminated beginning at the end of 2005. In 2002, Swisscom IT Services' revenue associated with the eight cantonal banks totaled CHF 174 million. Swisscom IT Services has also begun to target new customer segments, including large and medium sized enterprises, with substantial local IT spending and governmental institutions.

Competition. In the professional services market, Swisscom IT Services competes with IBM, Hewlett-Packard, T-Systems, EDS, Real Time Center, Unicible and a number of local players.

Swisscom Broadcast

Swisscom operates a national network for the transmission and broadcasting of analog and digital signals for television and radio broadcasting. Such services are provided to the Swiss Broadcasting Corporation (*Schweizerische Radio- und Fernsehgesellschaft*) ("SRG"), a non-profit, private organization that is the main provider of public television and radio broadcasting in Switzerland.

Prior to January 1, 1998, Swisscom was required by law to provide such broadcasting services to SRG. Since January 1, 1998, the market for broadcasting services has been opened to full competition. In the absence of any other provider capable of offering nationwide broadcasting services, Swisscom was required to provide such services to SRG until December 31, 2002. Swisscom provides these services to SRG on freely negotiated commercial terms under a long-term contract with SRG that currently runs until 2005. In 2002, Swisscom was paid CHF 136 million to broadcast SRG programming.

On December 18, 2002, the Federal Council presented to the Swiss parliament a draft of a revised radio and television law which would require Swisscom to provide broadcasting services on a cost-oriented basis. Swisscom does not expect the revision of this law to have any economic effect until 2005 or 2006. Also in 2002, OfCom required Swisscom to reduce the fees it charges to local radio stations for the provision of telehousing services.

Billag

In addition to providing broadcasting services to SRG, Swisscom was required by law until December 31, 2002, to collect radio and television licensing fees on behalf of SRG and will continue to do so on a contractual basis until 2007. Swisscom collects such fees through Billag, a wholly owned subsidiary. In addition to collecting radio and television licensing fees, Billag collects certain copyright licensing fees and provides customer data management, invoicing and other services.

Other

Conextrade

Conextrade is Swisscom's platform for business-to-business electronic-commerce transactions. Conextrade provides a hub for business-to-business trading partners as well as a broad range of electronic procurement and electronic commerce services to companies from a variety of industries. Conextrade was integrated into Swisscom IT Services AG effective January 1, 2003.

CORPORATE

Corporate includes Swisscom's headquarter functions, group-company shared services and the real-estate company Swisscom Immobilien AG ("SIMAG").

SIMAG

SIMAG manages Swisscom's portfolio of real estate properties, some of which it leases to other group companies and, to a limited extent, to third parties. In addition, it provides facility management services, such as energy purchasing, and security and cleaning, for third parties as well as for internal use. For more information on Swisscom's real estate, see " *Property, Plant and Equipment*".

Back to Contents

PARTICIPATIONS

Český Telecom (formerly SPT Telecom in the Czech Republic). Swisscom owns a 49% interest and KPN owns a 51% interest in TelSource NV ("TelSource"), which holds a 27% stake in the Czech telecommunications company Český Telecom a.s. ("CT"). The other shareholders of CT are the Czech National Property Fund ("NPF") with 51.1% and public shareholders. CT is the largest corporation listed on the Czech stock exchange. In 2002, CT realized consolidated revenue of CZK 52.9 billion (CHF 2.4 billion) and net income of CZK 4.3 billion (CHF 196 million).

CT provides local, national and international telephony and data services. CT also holds a 51% interest in EuroTel Praha s.r.o., the largest GSM mobile telephony operator in the Czech Republic. CT is the incumbent supplier of telecommunications services in the Czech Republic and had an exclusive right to provide international and inter-urban fixed-line voice telephony until 2001. In January 2001, the Czech telecommunications market was opened to competition in domestic and international telephony, with carrier selection, number portability and carrier pre-selection introduced in 2002.

On June 14, 2001, NPF and TelSource agreed on the terms of a joint sale of the majority of CT to a strategic investor or a consortium. In connection with this transaction, TelSource has a "tag along" right until 2005, which will entitle it to sell one half the number of shares sold by NPF in any strategic transaction or an equal number of shares in a capital market transaction. NPF has similar rights in the case of a sale of shares by TelSource. In November 2001, the Czech government launched a tender process for the sale of its remaining 51% stake in CT, subject to the tag along right of TelSource. On March 28, 2002, three interested parties submitted bids to the Czech government. Swisscom supported the consortium consisting of CVC Capital Partners and Spectrum Equity Partners in order to accelerate the privatization process. In August 2002, the Czech government decided to sell its stake to the consortium consisting of Deutsche Bank and TDC, subject to the condition that this consortium would reach an agreement with NPF. However, in November 2002, these negotiations failed and, in January 2003, the Czech government stated to suspend the privatization process until 2005.

Under the terms of the CT shareholders' agreement and the CT license, CT was required to achieve certain development objectives relating to the build out of the network and the quality of service provided to its customers by the end of 2000. In June 2001, NPF and TelSource entered into a settlement agreement with respect to certain of these development objectives which CT had failed to achieve in time. In August 2002, NPF terminated the shareholders' agreement with TelSource. As a result, the number of TelSource's representatives on CT's Board of Directors and Supervisory Board was reduced in each case from three to two (out of nine and fifteen, respectively). Under CT's Articles of Association, TelSource continues though to have certain minority rights which require a three-quarter majority vote at the General Meeting.

Infonet Service Corporation/AUCS. Swisscom owns a 17.7% interest in Infonet Services Corporation ("Infonet"), which provides global voice, data and networking solutions, including managed networks, remote access services and Internet, Intranet, electronic commerce and messaging services to companies seeking to outsource their worldwide communications needs. In December 1999, Infonet was listed on the New York Stock Exchange and the Frankfurt Stock Exchange. Other than Swisscom, its principal shareholders are KPN, Telia, Telefonica SA of Spain ("Telefonica"), Telstra Corporation Limited ("Telstra") of Australia and Kokusai Denshin Denwa Co., Ltd. ("KDDI") of Japan.

Each of Infonet's principal shareholders has entered into agreements with Infonet to distribute its services in their home markets. Swisscom is the exclusive distributor of Infonet services in Switzerland through Infonet Switzerland AG, in which Swisscom has a 90% interest. Revenue from its Infonet business is accounted for in Enterprise Solutions. Infonet also purchases certain services from Swisscom, as well as its other principal shareholders, on a non-exclusive basis.

Swisscom also owns a one-third interest in AUCS, a former joint venture between Unisource and AT&T, from which AT&T withdrew in 1999, and a one-third interest in WorldPartners Company, a consortium that originally consisted of Unisource and a group of major national telecommunications companies. Unisource was a joint venture between Swisscom and KPN Telecom BV ("KPN") of the Netherlands and Telia AB ("Telia") of Sweden. Unisource was dissolved in May 2000, with retroactive effect to January 1, 2000, under a Dutch legal demerger, and its assets, which comprised the shareholding in AUCS and WorldPartners, were distributed to its shareholders. In the course of the demerger, Swisscom transferred its shareholding in AUCS and Worldpartners to Swisscom Netherlands B.V. The WorldPartners partnership was wound up in 2002.

Back to Contents

Following the withdrawal of AT&T from AUCS, to ensure that their multinational customers would continue to have access to high-quality international voice, data and networking services, Swisscom and the other AUCS shareholders agreed to transfer management of AUCS' voice, data and networking services business to Infonet, which managed the AUCS business for a three-year period until September 2002. Under the agreement, Infonet was entitled to receive management fees, and the former shareholders of Unisource were required to settle in proportion to their shareholding any losses incurred by AUCS over this three-year period. Swisscom's capital contributions to AUCS in this period amounted to EUR 89.9 million. The former Unisource shareholders also committed to pay a bonus to Infonet if the accumulated loss incurred by AUCS remained under an agreed limit. As the loss did not reach this limit, the former Unisource shareholders paid to Infonet a first installment in the amount of EUR 56 million in December 2002 and a second installment in the amount of EUR 16 million in March 2003. Swisscom's share of these payments amounted to EUR 18.7 million and EUR 5.3 million, respectively. The final settlement will be made on completion of the liquidation of all the AUCS companies, which is expected in 2004. In September 2002, Infonet exercised a call option to acquire the AUCS assets in the amount of EUR 1.5 million. These AUCS assets mainly consisted of equipment which Infonet needs to service former AUCS customers who were migrated to Infonet. After the termination of the management agreement between AUCS and Infonet on October 1, 2002, Swisscom, KPN and Telia began to liquidate AUCS' remaining business activities. Swisscom and its partners KPN and Telia are jointly and severally liable for all remaining costs in winding down the business of AUCS. These costs will primarily consist of severance payments, lease terminations and tax liabilities. At December 31, 2002, Swisscom had a remaining provision in the amount of CHF 40.5 million which it believes is sufficient to cover all remaining expenses, including Swisscom's share of the second installment and any final settlement which will be incurred in connection with its investment in AUCS.

On September 3, 2002, Swisscom was served with a Consolidated Class Action Complaint in connection with Infonet's initial public offering. The complaint alleges that defendants made misrepresentations and omissions regarding AUCS in Infonet's Form S-1 registration statement and the accompanying prospectus for its initial public offering and in other statements during the class period. Swisscom is unable at this time to predict the outcome of this litigation. As of this date, Swisscom does not believe that this litigation could reasonably be expected to have a material adverse effect on its consolidated financial statements. See "*Item 8. Financial Information Legal Proceedings*".

In 2002, Swisscom purchased services from Infonet and AUCS through Infonet Switzerland in the aggregate amount of CHF 42.9 million.

Other Participations. Swisscom holds various satellite consortia investments which it does not view as a core part of its business. In the satellite business Swisscom has participations in the recently privatized satellite operators Intelstat and Eutelstat and in the maritime communications satellite consortium Inmarsat.

Swisscom holds a 25% interest in Comfone which was formed in January 2000 with the merger of two of Swisscom's subsidiaries, Swiss Clearline and Comfone. In April 2000, Swisscom sold 75% of its interest in Comfone via a management buyout. Comfone is now part of the Togewa-Group which specializes in state-of-the-art roaming solutions for wireless local data networks. Comfone provides network operators with special roaming solutions as well as a comprehensive range of products, such as data clearing and financial services. Comfone operates through over 200 international roaming agreements which Swisscom has concluded with mobile operators in more than 100 countries.

In November 2001, Swisscom, along with other leading Swiss companies, acquired a shareholding in Swiss International Airlines Limited (formerly Crossair) which acquired a major part of the assets of Swissair after it had entered into receivership in late 2001. Swisscom's investment amounted to CHF 100 million. The value of Swisscom's investment in Swiss declined between the date Swisscom committed to the purchase and the date of issuance and Swisscom recorded a charge of CHF 21 million in 2001. In 2002, the share price of Swiss declined significantly and Swisscom recorded an impairment charge of CHF 41 million.

Back to Contents

Divestments in 2002

UTA. In January 2002, Swisscom agreed to sell its 45.5% plus one share interest in the telecommunications service provider UTA Telekom AG (“UTA”) to the joint owner Vereinigte Telekom Österreich Beteiligungs GmbH (“VTÖB”), a holding company owned by eight Austrian regional electric utilities. At December 31, 2001, Swisscom had a loan outstanding to UTA in the amount of CHF 199 million. In connection with the sale of UTA, Swisscom waived its loan claims. Swisscom has no further obligations to UTA or any of the other shareholders. The closing of the sale took place on April 4, 2002.

Back to Contents

NETWORKS AND TECHNOLOGY

Overview

Swisscom owns and operates a number of fixed and mobile telecommunications networks to support its diverse range of products and services. Swisscom's fixed-line network and almost all of its data networks are managed by Fixnet. Swisscom's mobile networks are the direct responsibility of Mobile.

With respect to its fixed-line network, Swisscom continued and increased its efforts to reduce network redundancies, increase centralization and optimize key processes, such as provisioning and fault management. Reduction of network complexity and cost optimization are central aspects of Swisscom's network strategy. At the same time, Swisscom follows a market-oriented approach to network planning and construction by optimizing the balance between proactive and reactive network investment. By adjusting its reserve capacity policy in accordance with the diverse requirements of individual geographic areas, Swisscom seeks to ensure that the level of reserve network capacity and corresponding pre-investments are market driven and managed according to the required level of provisioning service.

While Swisscom continues to follow a market-oriented approach to network planning and construction, it invests significantly in capacity enhancement, geographical roll-out and functional upgrades of its fixed-line broadband platform, which Swisscom believes will be a significant source of growth in the future. In 2002, Swisscom built out its ADSL network and reached a 95% coverage of the population of Switzerland by year-end. Despite a massive roll out, Swisscom faced bottleneck problems on its ADSL network in December 2002 and customers could not immediately be connected to the network. Swisscom will continue to invest in its broadband network throughout 2003. In 2002, Swisscom had capital expenditures of CHF 479 million relating to its fixed-line network.

With respect to its mobile network, Swisscom continues to make significant investments in infrastructure in order to maintain high quality of service and to increase capacity. In 2002, Swisscom had capital expenditures of CHF 295 million relating to its mobile network, of which CHF 19 million was devoted to the build-out of its UMTS network.

Fixed-Line Networks

Swisscom operates a highly sophisticated PSTN/ISDN network, principally for the provision of public voice telephony, and several data networks used for the provision of packet switched, frame relay and ATM data transmission services and IP communication. These networks are supported by Swisscom's access networks and its extensive national and international transmission infrastructure.

While Swisscom is continuing to use its existing networks for voice and transport services, upgrading and optimizing them wherever necessary, it is also developing its broadband and IP capabilities. Swisscom intends to monitor industry trends and may consider migrating its network toward an alternative infrastructure in the future. To this end, Swisscom continues its close cooperation with major equipment suppliers in Europe and the U.S.

Access Networks. Swisscom's access network is divided into 923 individual access networks. Each access network is subdivided into a primary and secondary access network, allowing the network to be configured in the manner optimal for reaching subscribers and bundling traffic.

The local loops which connect customers to Swisscom's local exchanges use a variety of technologies, including copper, radio and fiber optic cable. As of December 31, 2002, 80% of all Swisscom subscriber lines, measured by cable length, were underground.

In 2000, Swisscom implemented a broadband connectivity service which connects end-customers to Swisscom's IP backbone via xDSL technology in the local loop and allows Internet Service Providers to offer faster IP-based services to these same end-users. xDSL technologies operate, like ISDN, over existing copper lines, but offer higher speed and volume for data transmissions. In 2001 and 2002, Swisscom expanded its xDSL based broadband network in geographical reach, capacity and functionality, and introduced an upgrade of its xDSL hardware.

Back to Contents

Additional hardware upgrades are planned for 2003 which will further increase efficiency of the respective network components. The service is now available to 95% of the population of Switzerland giving Swisscom a decisive advantage over its cable based competitors.

Transmission Infrastructure. Swisscom’s domestic interexchange transmission system is 100% digital and, as of December 31, 2002, consisted of approximately 29,000 kilometers of fiber optic cable representing 860,000 kilometers of individual optical fibers. Capable of operating at speeds of up to 10 Gbit/s, fiber optic cable vastly exceeds the capacity of traditional copper cable or radio links. All of Swisscom’s exchanges have been connected with fiber optics.

Swisscom’s core network contains a synchronous digital hierarchy (SDH) transmission system and its regional network has SDH self-healing rings in select areas. SDH is a transmission standard for networks that use fiber optics, which allows for a simpler and more easily managed network with enhanced reliability. Swisscom also continues to use and maintain its plesiochronous digital hierarchy (PDH) infrastructure, which, in accordance with its investment policy, is not being proactively replaced. Further deployment of SDH in the access and regional networks will only occur where cost-effective and justified by market demand.

In 2001, Swisscom completed the construction of EOSNET, a European fiber-optic network for voice and data interconnection which provides end-to-end control between Switzerland and Swisscom’s points of presence in London, Frankfurt, Amsterdam, Paris, Brussels and Milan. EOSNET is based on dense wavelength division multiplexing and synchronous digital hierarchy technology. Through EOSNET, Swisscom has extended or connected its national transmission infrastructure into these neighboring countries. In line with the business strategy to handle fixed network activities solely out of Switzerland, Swisscom outsourced the facilities-based carrier in the United States and closed the local sales offices in Europe while keeping the network points of presence. New York is connected to the points on EOSNET network via wholly-owned capacity on the Atlantic Crossing 1 (“AC-1”) and TAT-14 fiberoptic cable.

Swisscom’s international transmission infrastructure consists of terrestrial and submarine cable transmission systems. Swisscom’s national network is directly linked to approximately 111 other telecommunications service providers in 86 countries. The majority of European carriers have been connected via terrestrial networks, with submarine cables being used wherever required. Intercontinental links from Switzerland have been realized wherever possible using submarine cables.

Swisscom is an investor in about 80 submarine cables worldwide. In addition to investments in a number of smaller cables in Europe (e.g., in the English Channel, North Sea and Mediterranean), Swisscom has important investments in the major submarine cables TAT-9, TAT-10, TAT 11, TAT-12/13, TAT-14 and AC-1 in the Atlantic and SEA-ME-WE3.

Starting in 2003, Swisscom will gradually consolidate its international network by reducing the number of sea cables (e.g., by early suspension of TAT-9, TAT-10, TAT-11). Traffic on these routes will be moved to TAT-14 and EOSNET. In this way, Swisscom expects to improve the efficiency of the international operations and increase the usage of Swisscom-owned infrastructure without reducing its quality of service.

PSTN/ISDN Network. Swisscom’s domestic network connects virtually all Swiss homes and the vast majority of Swiss businesses, with traffic routed, at December 31, 2002, through 766 remote subscriber switches, 206 local exchanges and 2 x 18 transit exchanges. These switches, and Swisscom’s 2 x 2 international gateway switches in Zurich and Geneva, are connected by Swisscom’s transmission infrastructure.

Swisscom’s ISDN service, which is fully integrated with the PSTN, is based on the ETSI (European) standard. Swisscom is capable of providing ISDN service to 100% of its customers. The Swisscom PSTN/ISDN network offers a high level of quality and security. With four-fold redundancy built into the core network on the transmission layer and two-fold redundancy on the switching layer, Swisscom is able to ensure a very high level of availability.

Back to Contents

The PSTN/ISDN network is based on switches and network elements from three vendors: Ericsson, Siemens and Alcatel. This configuration significantly adds to network complexity and operational costs. After careful evaluation and in light of Swisscom's re-assessment of its network migration program, Swisscom plans in 2003 and 2004 to reduce this complexity by phasing-out the Alcatel platform which is the smallest (in terms of customer ports) of the three. At the same time, Swisscom intends to upgrade the remaining Siemens and Ericsson switches in order to allow longer usage.

On the top of its network switches, Swisscom operates an intelligent network platform, which supports a range of value-added services by associating advanced computer technologies with traditional switching techniques.

Data Networks. Swisscom owns leased line networks on a managed and unmanaged basis. Swisscom also operates a number of switched data networks used principally for the provision of packet switched (X.25), frame relay and ATM data transmission services. Swisscom also operates three IP platforms.

Swisscom operates a number of platforms which it can use for the provision of leased lines and managed bandwidth services. These include a dedicated multiplexing platform used for leased lines in the range from below 64 kbit/s up to 2 Mbit/s. Swisscom's PDH platform supports unmanaged leased lines in the range from 2 Mbit/s up to 34 Mbit/s, whereas its SDH platform supports managed and unmanaged services starting at 2 Mbit/s up to 155 Mbit/s and in some cases even up to 622 Mbit/.

Swisscom's various networks offer different transmission speeds. The traditional packet switched networks provide transmission speeds up to 128 kbit/s and are based on the X.25 protocol. The frame relay network provides variable bandwidth and operates at transmission speeds between 64 kbit/s (low capacity) and 34 Mbit/s (high capacity). The ATM network operates at transmission speeds of up to 155 Mbit/s.

On top of the frame relay and ATM platforms Swisscom often handles IP applications, meaning that frame relay and ATM are used as transport medium for IP traffic. For instance, when a Bluewin subscriber logs on to the Internet using a dial-up connection, the call is routed to IP traffic over the ATM network to central IP switches in Zurich.

Swisscom also operates a genuine, state-of-the-art IP network based on Cisco equipment which uses multi-protocol label switching technology. This technology allows data packets to be prioritized for more efficient transmission on the backbone which interconnects Internet service providers to local ADSL customers and also for IP-based LAN interconnection services for corporate customers. However, the use of this technology is still limited as both the sender and the recipient of the prioritized information need to be equipped with an IP multi-protocol label switching network.

The following table provides selected information at the dates indicated relating to Swisscom's principal data transmission networks.

	At December 31,		
	2000(1)	**2001**(1)	**2002**(1)
X.25 ports	6,509	6,049	4,317
Frame relay ports	6,700	6,051	5,443
Leased lines less than 2Mb	66,296	55,411	42,640
Leased lines equal to or higher than 2Mb	10,400	13,064	18,300
ATM ports	337	348	393
IP-services			
Total ports IP data services (2)	2,500	10,300	16,320
Total ports IP broadband access	538	39,400	214,787

(1) Data includes Swisscom's internal usage.

(2) Mainly LAN interconnecting services for business customers, including 14,214 ADSL ports in 2002.

Back to Contents

Mobile Telecommunications Network

Swisscom currently operates one national mobile telephony network, capable of providing service to over 99% of the populated areas in Switzerland. Swisscom's current mobile network is a digital mobile dual band network, based on the international GSM standard, that operates at both 900 MHz and 1800 MHz. Swisscom currently operates 13.6 MHz in the 900 MHz band and 12.4 MHz in the 1800 MHz band. The state of the art network architecture allows Swisscom to extend its network in a very flexible, market driven and cost optimized way.

Swisscom's mobile network consists of base transceiver stations, base station controllers and mobile switching centers. The base transceiver stations transmit calls to and from mobile handsets. The base station controllers relay calls between the base transceiver stations and mobile switching centers, which in turn are connected to the PSTN and ISDN network.

The following table shows data relating to Swisscom's mobile network at the dates indicated.

	At December 31,		
	2000	**2001**	**2002**
Base Transceiver Stations	3,513	3,969	4654
Base Station Controllers	33	37	40
Mobile Switching Centers	29	31	32

In 2002, Swisscom implemented 377 in-house projects, in particular at airports, hotel and conference centers, installing special GSM repeaters with dedicated Base Stations ensuring optimized reception quality. Furthermore, Swisscom improved coverage in trains throughout Switzerland with the implementation of repeaters in trains and the installation of cables in tunnels. Network capacity increased by 20% in 2002.

The design of the core network allows for the efficient integration of new technologies such as GPRS and UMTS.

HSCSD. In April 2001, Swisscom launched high speed circuit switched data (HSCSD) services. HSCSD is a data transmission standard for GSM mobile phone networks. Like ISDN, HSCSD technology is based on the principle of traffic channel bundling. It is currently possible to bundle up to four channels corresponding to a data transmission rate of 57.6kbit/s. Additional network access servers were implemented as interfaces for the connection of the mobile network to the fixed-line network.

GPRS. In 2001, Swisscom also completed implementation of general packet radio service (GPRS) technology in the network. GPRS is a new standard for data transfer on GSM mobile phone networks and utilizes "packet switching" technology. This means that data is divided up into small packets and sent in a similar way to data transmission on computer networks or when surfing on the Internet. With this technology the user is always online and can send and receive data any time. In 2002, Swisscom improved the stability and performance of the whole GPRS-network by implementing additional software releases. At the end of 2002, Swisscom had six GPRS switching locations. In February 2002, Swisscom launched its first GPRS service with data capacities of up to 50 kbit/s.

UMTS. In December 2000, Swisscom was awarded one of four universal mobile telecommunication system (UMTS) licenses auctioned in Switzerland, for which it paid CHF 50 million. The license took effect on January 1, 2002 and will be valid for 15 years. Swisscom received one Frequency Division Duplex Channel and one Time Division Duplex Channel in the allocated Frequency Band of 2.1 GHz. UMTS is a third generation mobile radio system that creates additional mobile radio capacity and enables broadband media applications while also providing high speed Internet access. In December 2001, Swisscom successfully tested UMTS calls on its pilot network. The network build-out is proceeding according to schedule. Swisscom has opened its UMTS network to a limited user group in order to test new data services. Timing of the launch of commercial UMTS services will depend primarily on the availability of appropriate dual mode (GPRS/UMTS) handsets.

Back to Contents

Swisscom is investing in its mobile network to upgrade its existing network to support UMTS technology in accordance with the terms of its UMTS license. Other projects include building an additional 500 base stations and extending the reach of the network’s dual-band capability. Swisscom expects to make significant additional investments over the next several years in connection with the further build-out of its UMTS network.

In December 2002, Swisscom launched a public wireless LAN (PWLAN) service with 100 access points throughout Switzerland which are set up at locations with high volume of traffic such as hotels and conference centers. PWLAN is a complementary wireless broadband Internet access for such public hotspots. Swisscom intends to extend the PWLAN network by approximately 200 additional hotspots in 2003.

Broadcasting Networks

Swisscom operates a terrestrial broadcasting network including a wireless backbone with over 2,600 radio and television transmitters in 600 different locations. These transmitters distribute all national and regional programs of the SRG. See “ *Other Swisscom Broadcast*”. Swisscom also operates approximately 60% of the transmitters used by private broadcasters in Switzerland.

Back to Contents

PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2002, Swisscom owned real property with an aggregate net book value of CHF 1,099 million. Of this amount, CHF 711 million relates to property which Swisscom uses under the leaseback contracts described below. Such property was not subject to any mortgages or other security interests as at such date. See "*Item 7: Major Shareholders and Related Party Transactions Relationship with the Swiss Confederation*". Substantially all of Swisscom's properties are used for telecommunications installations, research centers, service outlets and offices.

Swisscom's real estate portfolio is managed by real estate professionals with a view to realizing value from the portfolio. Swisscom sold a total of 196 buildings, which generated a pre-tax profit of CHF 568 million in 2001. For a part of the buildings sold Swisscom has entered into leaseback contracts, some of which have been qualified as finance leases. The gain from the sale of these buildings, CHF 239 million, will be recognized in income over the duration of these leasing contracts. The move by Swisscom to dispose of parts of its real estate portfolio is aimed at allowing the company to focus on its main business activities.

Swisscom is also implementing a strategy to reduce its real estate management costs. Swisscom has outsourced certain real estate management functions, especially cleaning and maintenance. Having steadily declined from 1,155 in 1998 to approximately 400 at the end of 2000, the number of full time equivalent employees associated with real estate management functions remained stable in 2001 and 2002. In addition to reducing personnel costs, Swisscom is optimizing its use of floor space by reducing the standard office floor area, as well as the space currently devoted to other business functions, particularly in its distribution channels. Consolidation of certain business activities and further workforce reductions will free up office and other space, the majority of which Swisscom expects to rent out to third parties. In conjunction with the provision of facility management services to these lessees Swisscom expects to generate additional income. See " *Other Corporate SIMAG*".

Back to Contents

RESEARCH AND DEVELOPMENT

Swisscom believes that continued research and development activities enhance its competitiveness. Swisscom currently focuses its research and development efforts on three main areas: (1) extending its range of communication services by exploiting the increasing convergence of telecommunications and information technology; (2) enhancing quality of service and customer care; and (3) network technology, particularly on achieving cost efficiencies, responding quickly to changing demands.

Swisscom monitors on a continuous basis the consortia that develop technologies and applications that serve as industry-wide standards, such as global system for mobile telecommunications (GSM), universal mobile telecommunications system (UMTS), wireless local area network (WLAN), moving picture experts group (MPEG) and participates in a number of international organizations.

Swisscom’s research and development in the area of new communication services includes programs to develop (1) advanced and media enriched converged communication services using packet switched telephony (voice over IP, Instant Messaging) and advanced voice processing technologies including speech recognition, synthesis and speaker verification, (2) new software technologies for ubiquitous Internet services, including location-sensitive services, and personal and business portal services, (3) security services for fixed-line network and mobile operators, (4) content based billing for broadband services, (5) future wireless broadband services offered with general packet radio service (GPRS), UMTS and Wireless LAN Radio access technologies and (6) next generation information and entertainment services based on multimedia technologies for xDSL, GPRS, UMTS and WLAN networks including content delivery, user needs and next generation devices.

In the area of enhancing quality, customer care and customer contact processes, Swisscom has started using distributed multi-channel call centers with access via traditional contact points and through Internet-based applications. Strategies and technologies to implement 1-to-1 marketing and personalized sales channels are currently being explored. In addition, Swisscom is developing new customer analysis methods based on data- and web-mining technologies that, in the future, will allow Swisscom to tailor its services to the specific profiles of its individual customers. If successful, these new technologies are expected to lead to a more efficient allocation of resources and an increase in customer loyalty.

A significant portion of Swisscom’s research and development budget is also devoted to its network operations. In addition, Swisscom is exploring new network technologies in the access area of its fixed network (e.g., xDSL, FTTH, 10 Gigabit Ethernet and end-to-end Ethernet services, IP over optical layer, peer-to-peer networking, home networks), as well as preparing for the migration of its mobile network to a next generation platform offering seamless services accessed through a variety of technologies (e.g., GPRS, UMTS, WLAN, Bluetooth, HyperLan).

Swisscom has a number of relationships with industrial partners, universities, institutes and other research labs. In particular, Swisscom has been involved in joint research projects in the context of Eurescom. Under these initiatives, Swisscom and its partners cooperate in carrying out joint projects and by sharing research and development results.

Swisscom has a variety of patents and licenses to protect its investments. No single patent or license is material to its business.

Back to Contents

REGULATION

Overview

The regulatory framework governing telecommunications services in Switzerland was established with the entry into effect on January 1, 1998 of the Telecommunications Act. The Telecommunications Act and the implementing ordinances thereunder opened domestic and international public fixed-line telephony in Switzerland to full competition and provided for the granting of national mobile telecommunications licenses to new competitors, as well as to Swisscom. Switzerland is not a member state of the EU and therefore is not subject to EU legislation relating to telecommunications. However, the deregulation of the Swiss telecommunications market has moved in parallel with deregulation in the EU, and EU directives and implementing legislation in various EU countries have served as points of reference for the development of the Swiss regulatory regime.

In July 2002, the Federal Council proposed significant amendments to the Telecommunications Act and to the Telecommunications Ordinance (*Verordnung über Fernmeldedienste*), which is the principal ordinance on telecommunications services. The proposed amendments to the Telecommunications Act and the Telecommunications Ordinance were intended to bring the Swiss telecommunications regulatory regime in line with recent regulatory developments in the EU. They were also intended to address certain perceived shortcomings in the existing legislation. In March 2003, the Federal Council adopted amendments to the Telecommunications Ordinance and modified its proposed amendments to the Telecommunications Act.

The Telecommunications Act is intended to ensure that (1) reliable universal service is provided at affordable prices to the entire population of Switzerland; (2) telecommunications traffic is free from interference and respects personal and intellectual property rights; and (3) effective competition in the provision of telecommunications services is allowed to develop. Important features of the current regulatory framework include:

- **Open Competition Subject to Licensing and Notification Requirements**. A basic principle of the Telecommunications Act is to permit open competition in telecommunications services, subject to licensing and notification requirements. With limited exceptions, anyone who provides telecommunication services and thereby independently operates a significant portion of the telecommunications installations used to provide transmission and anyone who wishes to make use of radiocommunication frequencies must obtain a license from the regulatory authority. Anyone meeting the conditions for a license application is entitled to receive a license, subject to frequency availability in the case of a license to use radiocommunication frequencies. Anyone who provides telecommunications services without being required to obtain a license must notify the regulatory authority. At the end of 2001, more than 300 operators had been licensed or registered under this requirement.

- **Swisscom to Provide Universal Service Until December 31, 2002**. As a transition measure under the Telecommunications Act, Swisscom was required to provide Universal Service throughout Switzerland until December 31, 2002. In June 2002, ComCom renewed Swisscom’s Universal Service license for another five year term. Under the terms of the new license, ISDN access is part of Universal Services and is now subject to a price ceiling.

- **Price Ceilings on Universal Service**. Under the terms of its Universal Service license, Swisscom may not increase the prices charged for certain specified Universal Services above the price ceiling for each such service set forth in the regulatory ordinance. With effect from January 1, 2003, ISDN has been included within the Universal Service and the provision of ISDN access is subject to a price ceiling. The price ceilings limit Swisscom’s ability to rebalance tariffs by increasing prices for services such as basic access or local telephone calls, although the ordinance does not restrict Swisscom from offering selective discounts in connection with tailored service packages or to particular customer segments.

- **A Market-Dominant Service Provider Must Allow Interconnection to its Network**. A telecommunications service provider that is dominant in a particular market must allow interconnection to its installations and services by other service providers on a non-discriminatory basis, and in particular may not put other service providers in a worse position than its internal departments or affiliates. The Telecommunications Act and ordinances require a market-dominant service provider to publish a standard offer of interconnection services, and contemplate that the market-dominant provider and those providers seeking interconnection will reach negotiated interconnection agreements, failing which the regulatory authority is empowered to determine the interconnection conditions. See “*Item 8: Financial Information Legal Proceedings*”.

Back to Contents

- **Interconnection Prices**. In any market where an operator is deemed to be dominant, it must set its prices for the relevant interconnection service in a transparent and cost-oriented manner. Since January 1, 2000, such prices have had to be based on the long-run incremental cost of providing the interconnection service, which may include an appropriate return on capital employed.

- **Carrier Selection**. In order to promote competition in national and international telephony services, public fixed-line telephony service providers are required to provide their users with the ability to select their desired national and international service providers on both a call-by-call basis (using a five-digit number prefix) (known as “easy access”) and a pre-selection basis for all calls (subject to call-by-call override) (known as “equal access”). Mobile telephony service providers are currently required to provide their users with the ability to select their desired international service provider on an easy access basis only.

- **Number Portability**. Under “number portability”, public telephony service providers, mobile telephony service providers and providers of certain services such as toll-free numbers must allow customers who switch to another service provider within the same category of service to retain the same telephone number. The cost of implementing number portability is borne by each service provider. The original service provider may charge a fee to the new service provider to cover the direct administrative costs of connection for a particular customer change.

Important features of the recently adopted amendments to the Telecommunications Ordinance and of the proposed amendments to the Telecommunications Act include:

- **Unbundling of the Local Loop and Interconnection to Leased Lines.** Under the recently adopted amendments to the Telecommunications Ordinance, effective April 1, 2003, Swisscom is required to offer unbundled access to its local loop, as well as interconnection to leased lines, on a cost-oriented basis. Swisscom believes that these changes require an amendment to the Telecommunications Act. The Federal Council has also proposed corresponding amendments to the Telecommunications Act.

- **Additional Requirements Applicable to Market-Dominant Service Providers.** Under proposed amendments to the Telecommunications Act, market-dominant service providers will be required to offer “access” and not just “interconnection” to its installations and services on a cost-oriented basis. The “access” concept, which is more general than “interconnection”, is intended to cover unbundling of the local loop and interconnection to leased lines, but also to provide the legal basis for requiring market-dominant service providers to provide access to any other relevant installation or service on a cost-oriented basis.

- **Elimination of Licensing Requirement to Reduce Barriers to Entry.** Under a proposed amendment to the Telecommunications Act, the existing requirement that telecommunications service providers obtain a license to provide most services would be eliminated.

The existing Telecommunications Act sets forth an overall regulatory framework and provides for the promulgation of ordinances establishing more detailed rules. The Federal Council has issued a number of ordinances, the most important of which is the Telecommunications Ordinance (*Verordnung über Fernmeldedienste*), which covers licensing conditions and procedures, universal service requirements (including price ceilings), usage of land in public use, interconnection, telecommunications confidentiality and privacy requirements, services in extraordinary circumstances such as civil defense and other matters. The Federal Council has also issued the Frequency Management and Radio Licenses Ordinance (*Verordnung über Frequenzmanagement und Funkkonzessionen*), as well as ordinances concerning signal protocols and numbering systems, telecommunications installations and fees. ComCom has issued an ordinance under the Telecommunications Act specifying requirements for number portability and carrier selection. OfCom and the Department of Environment Transport, Energy and Communication (*Eidgenössisches Departement für Umwelt, Verkehr Energie und Kommunikation*) (“UVEK”) have also issued ordinances under the Act.

Many important matters of regulatory policy were not resolved by the Telecommunications Act, having been left to the legislative bodies and regulatory agencies responsible for the promulgation of such ordinances. As has occurred in other countries, legal challenges concerning the application of the Telecommunications Act and the interpretation of the ordinances promulgated thereunder have arisen and may continue to arise. This is one of the reasons why the Federal Council intends to revise the existing regulatory framework. While amendments to the Telecommunications Act have to be approved by the Parliament and therefore take considerable time, ordinances can be amended or revised quite quickly.

Back to Contents

Regulatory Authorities

Under the Telecommunications Act, responsibility for regulation of the telecommunications sector and the promotion of fair and open competition has been allocated among several regulatory bodies. The two principal regulatory bodies under the Telecommunications Act are the Federal Office for Communication (*Bundesamt für Kommunikation*) ("OfCom") and the Federal Communications Commission (*Eidgenössische Kommunikationskommission*) ("ComCom"). OfCom is responsible for day-to-day oversight of the telecommunications sector and answers to UVEK and the Federal Council, as well as to ComCom. ComCom is an independent regulatory agency which is vested with decision-making authority in the telecommunications sector. The Federal Council has also delegated certain limited powers to UVEK.

OfCom was created by the Swiss Telecommunications Act of 1992, which separated the principal regulatory functions of Swiss Telecom PTT from its commercial operations and transferred those regulatory functions to OfCom, whose senior officers are appointed by the Federal Council. Under the Telecommunications Act, all residual regulatory functions of Swiss Telecom PTT were transferred to OfCom. OfCom's duties include supervising compliance by license holders with the Telecommunications Act and the ordinances thereunder, as well as with the terms and conditions of their respective licenses, proposing terms of interconnection to ComCom for approval in cases where the parties fail to agree on interconnection terms, managing the radiocommunication frequency spectrum, managing signal protocols and numbering systems, and issuing certain technical and administrative regulations. OfCom's responsibilities also include proposing the text of any amendments to the ordinances for approval by the Federal Council, UVEK or ComCom, as the case may be. Decisions made by OfCom may be appealed before an Appeals Board (Rekurskommission). OfCom also represents Switzerland in specific international bodies and consortia, such as the ITU, Intelsat, Eutelsat and Inmarsat. In order to separate the role of the Confederation as shareholder from its role as regulator, the Telecommunications Act created ComCom as a fully independent regulatory agency, and provided that ComCom would have responsibility for all matters affecting the development of competition in the telecommunications market. ComCom acts as the exclusive licensing authority under the Telecommunications Act, rules on the terms of interconnection in cases where the parties are unable to reach agreement, has the power to obligate a license holder to provide Universal Service if the request for tenders fails to result in adequate Universal Service coverage, and approves the national radiocommunications frequency allocation plan and the national numbering plans. The Telecommunications Act allows ComCom to delegate responsibility for certain tasks to OfCom. ComCom has delegated responsibility for granting all licenses to be granted without bidding procedures to OfCom. OfCom must take direction from ComCom, which cannot be overruled by UVEK or the Federal Council in respect of any matter falling within the sphere of its regulatory authority. The members of ComCom, who must be independent specialists, are appointed by the Federal Council to four-year terms. ComCom members may not be removed once appointed, but the Federal Council has the right not to renew the appointment of a member upon the expiration of his term. Decisions of ComCom may be appealed to the Swiss Federal Supreme Court.

UVEK retains certain limited roles under the Telecommunications Act. In the Telecommunications Ordinance, the Federal Council has delegated to UVEK the power to regulate the provision of Universal Service in remote areas. In addition, UVEK has the right to order the expropriation of private property for the establishment of telecommunications installations if in the public interest. UVEK also fixes the amount of administrative charges necessary to cover the expenses of the regulatory authorities.

Licensing and Notification Requirements

The Telecommunications Act requires that anyone who provides telecommunication services and thereby independently operates a significant portion of the telecommunications installations used to provide transmission must obtain a license. In addition, licenses are required for users of the radiocommunication frequency spectrum and for an operator with Universal Service obligations. Anyone who is a provider of telecommunications services in any other way must notify OfCom, but is not required to obtain a license. Under the proposed amendments to the Telecommunications Act, licenses would only be required for service providers with a Universal Service obligation and for users of radio frequencies.

Back to Contents

Under the existing Telecommunications Act, telecommunications services are subject to such licensing and notification requirements if they involve the electrical, magnetic, optical or electromagnetic transmission of information for third parties over lines or radio waves. The Telecommunications Ordinance excludes service providers from such licensing and notification requirements who transmit information solely (1) within a corporate network, (2) within a building or (3) on a single property or on two adjoining or separated properties. In addition, a pure reseller or broker of telecommunications services is not considered a "provider of telecommunications services" under the Telecommunications Act and is therefore not required to satisfy the licensing or notification requirements. A provider of international telecommunications services whose services are provided through a connection in Switzerland with another carrier is not required to satisfy the licensing or notification requirement if the carrier through which it is connected meets such requirement.

In general, anyone meeting the conditions for a license application, subject to the availability of frequencies in the case of a license to use radiocommunication frequencies, is entitled to receive a license. Conditions include the requirement that the applicant have the necessary technical capabilities, and that the applicant provide assurances that it will comply with the Telecommunications Act, the ordinances thereunder and the terms of the license, respect Swiss labor law and maintain working conditions customary for the industry. ComCom may also impose other conditions in particular situations. An applicant incorporated in a foreign country may be denied a license if its home country law does not provide reciprocal treatment. Licenses are granted for specified periods determined by ComCom by reference to normal market and industry standards for the recovery of investments.

Licenses for the use of radiocommunication frequencies are subject to availability, taking into account the national frequency allocation plan, and must not eliminate or constitute a serious obstacle to effective competition unless an exception can be justified on grounds of economic efficiency. In questions relating to effective competition, ComCom may consult with the Competition Commission. Radiocommunication frequency licenses are normally to be granted on the basis of an open request for tenders if there are not enough frequencies to meet all applicants' present and future needs. As discussed below under "Mobile Telecommunications", ComCom has adopted a frequency allocation plan under which there are three national mobile telephony licenses, consisting of two new licenses awarded through a competitive process based on designated criteria and the mobile telephony license automatically granted to Swisscom pursuant to the Telecommunications Act.

Under the Telecommunications Act, the regulatory authorities require the payment of administrative charges to cover their expenses. For 2002, Swisscom was required to pay charges of CHF 10 million, such amount including license fees and fees for the use of radiocommunication frequencies and numbering/naming/addressing elements. The Federal Council has fixed lower fees for the use of radiocommunication frequencies. Under the proposed amendments to the Telecommunications Act, ComCom would be entitled to levy certain additional charges.

Under the Telecommunications Act, a failure on the part of a licensee to abide by the terms of applicable law, including the Telecommunications Act, the ordinances thereunder and the terms of the license, may be sanctioned by ComCom. Such sanctions may include the suspension, revocation or withdrawal of the license. In addition, to the extent that a provider of telecommunications services fails to comply with the terms of its license or with a decision having force of law, such service provider may be required to pay a monetary penalty equal to up to three times the amount of any gain resulting from such failure to comply. In the event such gain cannot be determined or estimated, the service provider may be required to pay up to 10% of the amount of its revenue in the prior year in Switzerland.

Universal Service

One of the principal objectives of the Telecommunications Act is to ensure that an affordable Universal Service is provided to all sections of the Swiss population. Under the Telecommunications Act transition provisions, Swisscom was required to provide Universal Service throughout Switzerland until December 31, 2002. In June 2002, ComCom renewed Swisscom's Universal License for another five year term. In its bid for the new license, Swisscom renounced the right to receive contributions from other telecommunication service providers for providing Universal Service. However, Swisscom stipulated that its bid was based on the regulations then in effect and that a reevaluation would be required if the regulations were changed, and in particular if Swisscom were required to offer unbundled access to its local loop. Competitors of Swisscom are free to offer some or all of the services included in Universal Service.

65

Back to Contents

The Telecommunications Ordinance, as amended in October 2001, defines “Universal Service” as comprising the following services:

- **basic access**, consisting of a network connection that enables users to make national and international telephone calls in real-time as well as telefax and data connections with data transmission rates appropriate for Internet access, and entry in the public telephone subscriber directory;

- **additional services,** consisting of information concerning unsolicited calls, call forwarding, suppression of caller identification, billing information, and blockage of outgoing calls;

- **emergency call services**, including routing to the competent authority, with the ability to determine the caller’s location;

- **directory services**, including access to Swiss subscriber directories in electronic form or through voice information in each official Swiss language;

- **public payphones** in sufficient number around the clock for in and outgoing national telephone calls and outgoing international telephone calls, each in real time, with access to emergency call services and to telephone directories in each official Swiss language;

- **transcription services** for the hearing-impaired; and

- **directory and connection services** for the blind and seeing-impaired.

The Federal Council is authorized periodically to add new services to the Universal Service obligation in accordance with social and economic requirements and technological developments. Since January 1, 2003, Swisscom has been required to provide digital access, in addition to analog access, based on ISDN or its equivalent, capable of supporting two simultaneous connections and three different access numbers.

Price Ceilings for Universal Service

The Telecommunications Act provides that the Federal Council is periodically to fix upper limits for the prices of Universal Service. In periodically determining such tariff ceilings, the Federal Council is to strive to set tariffs that are not dependent on distance. The ceilings are to apply uniformly over the entire region covered by the license and are to be determined in light of the development of the market.

In the Telecommunications Ordinance, the Federal Council established price ceilings for specified Universal Services, effective January 1, 1998. In amending the Telecommunications Ordinance in October 2001, the Federal Council imposed new price ceilings for the services comprised within Universal Service, which took effect on January 1, 2003, including a price ceiling on ISDN. In the case of PSTN access, the price ceiling was not changed. These new conditions on the Universal Service license are expected to remain in effect until at least 2007.

The following table sets forth the price ceilings (excluding VAT) which took effect on January 1, 2003:

Maximum charge activation	CHF 40.00		
Basic Access Line Rental Charge – PSTN	CHF 23.45		
Basic Access Line Rental Charge – ISDN	CHF 40.00		
Public Payphone Additional Per Minute Charge	CHF 0.19(1)		
	Peak(2)	**Off-peak**(3)	**Night**(4)
National Traffic Tariffs (per minute charge)	CHF 0.11	CHF 0.09	CHF 0.06

(1) Except calls to helplines 143 or 147, for which a per use toll of CHF 0.50 applies. Traffic charges for calls from public payphones must be the same as for calls from private homes.

(2) Monday to Friday from 8:00 a.m. to 5:00 p.m.
(3) Monday to Friday from 6:00 a.m. to 8:00 a.m., 5:00 p.m. to 10:00 p.m., as well as on Saturdays, Sundays and holidays from 6:00 a.m. to 10:00 p.m.
(4) Daily from 10:00 p.m. to 6:00 a.m.

Back to Contents

Swisscom has stated that the current ceiling on basic access (PSTN) is too low to enable it to recover its costs in providing the service.

Because price ceilings have been established separately for each Universal Service component, as opposed to establishing a single price cap for all such services taken together, Swisscom is limited in its ability to rebalance tariffs by increasing the tariff for access service to compensate for reduced traffic tariffs. However, the Ordinance does not restrict Swisscom from offering selective discounts in connection with tailored service packages or to particular customer segments, and Swisscom is also free to raise prices for a particular service at any time up to the then-applicable price ceiling. In addition to the price ceilings established by the Federal Council, Swisscom is subject to certain consumer price legislation in setting its prices. The level of prices charged by a market-dominant telecommunications service provider can be subject to review by the Supervisor of Prices (*Preisüberwacher*) under the Federal Act on the Supervision of Prices of December 20, 1985 (*Preisüberwachungsgesetz*).

Interconnection by a Market-Dominant Provider

The Telecommunications Act provides that a telecommunications service provider that has a dominant position in a particular “market” must provide interconnection to other telecommunications service providers on a non-discriminatory basis and in accordance with a transparent and cost-oriented pricing policy, stating the conditions and prices separately for each interconnection service. The Telecommunications Act authorized the Federal Council to determine the principles governing interconnection.

Under the proposed amendments to the Telecommunications Act, market-dominant service providers will be required to offer “access” and not just “interconnection” to its installations and services on a cost-oriented basis. The “access” concept, which is more general than “interconnection”, is intended to cover unbundling of the local loop and interconnection to leased lines, but also to provide the legal basis for requiring market-dominant service providers to provide access to any other relevant installation or service on a cost-oriented basis.

The Telecommunications Act and ordinances do not define what the relevant “markets” are for purposes of this interconnection requirement. Under the Telecommunications Act, OfCom is required to consult the Swiss Competition Commission (*Wettbewerbskommission*) to determine whether a provider has a dominant position in a “market”. Under the Swiss Cartel Act, an enterprise is deemed to have a dominant market position if it is able, as regards supply or demand, to behave in a substantially independent manner with regard to the other participants in the market. Market share is only one among several criteria for assessing whether or not an enterprise has a dominant market position.

Under the amendments to the Telecommunications Act originally proposed in July 2002, ComCom would have been given the power to define relevant markets for the purpose of determining market dominance and to designate telecommunications services providers as market dominant. The Federal Council withdrew this proposed amendment in February 2003.

In the Telecommunications Ordinance, the Federal Council has specified that a market-dominant provider must provide access to the necessary equipment, services and information to other providers on a non-discriminatory basis, in no worse manner than the market-dominant provider supplies internally to its divisions, subsidiaries and partners. Interconnection is to be made through common usage of, for example, telecommunications installations, buildings and land, as necessary. Those entitled to interconnection from a market-dominant provider under the terms of the Telecommunications Ordinance are (1) licensed providers of telecommunications services, (2) providers of telecommunications services that are obligated to make a notification to OfCom under the Telecommunications Act and (3) international telecommunications services providers.

Back to Contents

The Telecommunications Ordinance requires that a market-dominant provider must include at least the following in its basic offering of interconnection services: (1) origination, termination and transit of all call services included within Universal Service; (2) call identification services, including identification of incoming connections, completed calls, uncompleted calls and similar services; (3) access to the 08xx (toll-free) and 09xx (shared-toll) value-added services; (4) adequate physical connection to the telecommunications installations of the providers seeking access as necessary to accomplish the services connection; and (5) access to any other services as to which the provider is market-dominant.

Upon request, a market-dominant provider must make known the technical and commercial terms and conditions of its interconnection services, and the basis on which the interconnection service is offered must be disclosed in an understandable and unbundled manner. In addition, the market-dominant provider is required to publish at least once a year the following information: the basic offering; a description of standard interconnection points and access conditions; and a complete description of the applicable interfaces and signal protocols. To satisfy these requirements, Swisscom publishes an interconnection brochure on the Internet and in paper format. A market-dominant provider must further promptly make known any changes in the terms of its interconnection services offering expected in the following twelve months.

The Telecommunications Ordinance requires that prices charged for interconnection services by a market-dominant provider be cost-oriented. Since January 1, 2000, prices have had to be based on the following principles: a component related to the cost of providing interconnection; a component based on the long-run incremental cost (“LRIC”) of providing the requested services using the required network components; a constant mark-up for joint and common costs; and a return on capital invested at a rate customary for the industry. Costs must assume the expenses and investments of an efficient operator using modern equivalent assets and must be forward-looking. A provider of interconnection services must use accounting principles consistent with cost-oriented, non-discriminatory and transparent pricing.

Following the introduction of LRIC, Swisscom substantially reduced its standard interconnection rates. Swisscom believes that its current interconnection rates are in line with the European average and represent a fair, transparent and consistent implementation of the applicable regulatory requirements. Swisscom expects to continue to reduce its interconnection charges from time to time as it realizes further cost savings through network optimization or improvements in efficiency.

In addition to market-dominant telecommunications service providers, providers of universal services are also obligated to make a basic offering of interconnection to other service providers.

Swisscom has developed a standard interconnection offer, which it markets to all service providers in the Swiss market eligible for interconnection under the Telecommunications Act. See “ *Fixnet Wholesale National and International Wholesale National*”. As of December 31, 2002, Swisscom had concluded more than fifty interconnection agreements with operators and it continues to negotiate interconnection agreements with other market entrants. Interconnection agreements, except for confidential portions thereof, can be consulted by the public at the offices of OfCom.

The Telecommunications Act provides that if a service provider that is required to provide interconnection and an applicant for interconnection cannot reach agreement within three months, ComCom is authorized, on a proposal from OfCom, to fix the conditions for interconnection. If the interconnection provider cannot demonstrate that its prices are properly related to costs as required, ComCom may determine the interconnection conditions on the basis of market and industry comparisons.

Under the amendments to the Telecommunications Act originally proposed in July 2002, market-dominant service providers would have been required to submit standard offers for access services, including interconnection, to ComCom for prior approval. The Federal Council withdrew this proposed amendment in February 2003.

Unbundling of the Local Loop and Interconnection to Leased Lines

Until recently, under the terms of the Telecommunications Act and the Telecommunications Ordinance, market-dominant services providers have not been required to offer unbundled access to the local loop or interconnection to leased lines on a cost-oriented basis. This principle was confirmed by the Federal Supreme Court in October 2001 in the Commcare case, in which the Court ruled that leased lines and transmission media do not fall within the interconnection provisions of the Telecommunications Act and related Ordinance and stated that there is no legal basis for a requirement that Swisscom unbundle the local loop.

Back to Contents

In response to this decision, and supported by ComCom, in July 2002, the Federal Council proposed amendments to the Telecommunications Act and the Telecommunications Ordinance that would require Swisscom to offer unbundled access to its local loop and interconnection to leased lines on a cost-oriented basis. Unbundling of the local loop would comprise all three kinds of unbundling, "Full Access", "Shares Line Access" and "Bitstream Access". In March 2003, the Federal Council adopted the amendments to the Telecommunications Ordinance, with effect from April 1, 2003. Swisscom believes that such a significant change in the telecommunications regulations requires an amendment to the Telecommunications Act and intends to challenge the amendment to the Telecommunications Ordinance before the Federal Court. In March 2003, the Federal Council commissioned UVEK to prepare corresponding amendments to the Telecommunications Act, which are expected to be presented to the Swiss parliament in the fall of 2003.

Mobile Telecommunications

In connection with the opening of the mobile market to competition, ComCom has adopted a radiocommunication frequency allocation plan under which there were to be a total of three national mobile GSM telephony licenses. One mobile telephony license was automatically granted to Swisscom pursuant to the Telecommunications Act.

ComCom awarded the two additional national mobile telephony licenses through a competitive process based on designated criteria in May 1998 to diAX (now TDC Switzerland) and Orange. See " *Mobile Competition*". diAx was granted the right to use frequencies in the 900 MHz and 1800 MHz bands and Orange the right to use frequencies in the 1800 MHz band. The GSM licenses are effective for a ten-year period.

In October 2000, ComCom put further frequencies (GSM 900 MHz and GSM 1800 MHz) in the extended GSM band up for auction. The auction was ultimately suspended, and the frequencies were allocated by mutual agreement. Pursuant to this agreement, Swisscom received 5 MHz, TDC Switzerland received 7 MHz and Orange received 2.2 MHz in the GSM 900 MHz band, including frequencies in the extended GSM band. A concession of seven years was granted on the basis of this agreement, with each contender paying the minimum price. It is expected that a third frequency block of 2x25 MHz on the GSM 1800 MHz band, which has become available for civilian use, will be allocated by ComCom in the first half of 2003.

On December 6, 2000, an auction for four UMTS licenses commenced with the participation of four operators. The UMTS licenses were sold for a total of CHF 205 million to Swisscom, dSpeed (a wholly owned subsidiary of TDC Switzerland), and Telefónica, each paying CHF 50 million, and Orange, paying CHF 55 million. Under the original terms of the UMTS license, each licensee was required to build out its network to achieve population coverage of 20% by the end of 2002 and 50% by the end of 2004, unless it is unable to fulfill this obligation for reasons beyond its control and can prove that it has made every effort to do so. In June 2002, ComCom amended the terms of the license to eliminate the requirement that 20% population coverage be achieved by the end of 2002. Licensees will still be required to achieve 50% population coverage by the end of 2004. In addition, each licensee is now required to report to OfCom every three months on the progress of its network build-out until it has achieved 20% population coverage.

On December 22, 1999, the Federal Council adopted an ordinance relating to protection against non-ionizing radiation (*Verordnung über den Schutz vor nichtionisierender Strahlung*), known as the "NIS Ordinance", which came into force on February 1, 2000. The NIS Ordinance is designed to protect the population of Switzerland from non-ionizing radiation emitted by various sources, including mobile antennae, and limits emissions by mobile base stations to specified levels. The Ordinance applies to mobile and any telecommunications services transmitted over radio, such as GSM or UMTS services. For mobile antennae with a minimum power exceeding 6 watts, construction authorizations issued by local authorities are required. Newly-built stations are required to comply with the emissions standards and existing stations have had to be upgraded to bring them into compliance. Swisscom has substantially completed the upgrade of its existing stations for compliance with these standards. On October 26, 2000, the Federal Court decided that the provisions of the NIS Ordinance are fully binding and that local authorities are not allowed to prescribe limitation of non-ionizing radiation exceeding the requests of the NIS Ordinance.

Back to Contents

The NIS Ordinance is implemented by the cantons, which until recently have used different methods of measuring radiation emissions to determine compliance with the NIS Ordinance, resulting in significant regional variations in effective emission standards. In July 2002, BUWAL issued final recommendations which provide guidance for enforcement authorities on the appropriate method for measuring electromagnetic emissions from base stations and masts in the GSM network. These recommendations are generally binding on the cantons, but deviations are permitted under certain circumstances. In order to comply with the applicable emission standards and maintain current quality of service Swisscom will be required to put up additional antennae. However, Swisscom does not expect the associated costs in 2003 to be materially different from those incurred in 2002.

While the BUWAL recommendations establish uniform standards for measuring emissions in GSM networks, they do not address emission standards for UMTS networks. Recommendations relating to emission standards for UMTS networks are expected in the course of 2003. Depending on the enforcement recommendations ultimately adopted, it is possible that additional capital expenditures will be required in connection with the build-out of Swisscom’s UMTS network.

Swisscom’s mobile termination tariffs and roaming surcharges may become subject to regulation in the future due to a number of developments, including regulatory initiatives in the European Union and ongoing proceedings in which Swisscom is involved. See “*Item 3. Key Information Risk Factors*” and “*Item 8. Financial Information Legal Proceedings*”. Regulation of mobile termination fees or roaming surcharges would have a significant impact on Swisscom’s mobile revenues.

Carrier Selection and Number Portability

Under the Telecommunications Act and ComCom’s ordinance relating to carrier selection and number portability public fixed-line telephony service providers are required to provide their users the ability to select their desired national and international service providers on both a call-by-call basis (using a five-digit number prefix) (known as “easy access”) and on a pre-selection basis (subject to call-by-call override) (known as “equal access”). Public mobile telephony service providers are also required to provide their users the ability to select their desired international service provider on an easy access basis.

ComCom has suspended provisionally a further requirement that public mobile telephony service providers implement equal access in the mobile network until technical development and international standards allow its implementation.

In addition, public fixed-line telephony service providers, public mobile telephony service providers and non-geographical services such as providers of toll-free numbers are required to provide number portability. Number portability means that customers must be given the ability to switch to another service provider within the same category of service (i.e., fixed-line to fixed-line, mobile to mobile) while retaining the same telephone number. The cost of implementing number portability is borne by each service provider. The original service provider may charge a fee to the new service provider to cover the direct administrative costs of connection for a particular customer move.

At the end of March 2002, a new numbering plan was introduced in Switzerland. Under the new plan, all phone numbers in Switzerland consist of ten digits (in Zurich of nine digits), with the former area code having become an integral part of a subscriber’s phone number. As a result, subscribers who have pre-selected an alternative carrier will have their local calls routed automatically over that carrier’s network.

Leased Lines

Under the Telecommunications Act and the Telecommunications Ordinance, ComCom is authorized to require a licensed telecommunications services provider to provide leased lines at cost-oriented prices in a particular region if it is determined that demand for such lines has not otherwise been fully met. To date, ComCom has not taken any action under these provisions.

For information on proposed amendments to the Telecommunications Ordinance that would require Swisscom to offer interconnection to leased lines on a cost-oriented basis, see “ Unbundling of the Local Loop and Interconnection to Leased Lines”.

Back to Contents

Ownership of Lines and Rights of Way

The Telecommunications Act provides that ownership in lines for the transmission of information by means of telecommunications techniques is with the licensee who has installed them or acquired them from third parties.

Under the prior regulatory regime, Swisscom had the right to use land in public use (roads, footpaths, squares, waterways, lakes, etc.) free of cost to install and operate lines. The Telecommunications Act now provides that every holder of a telecommunications service license is to have such right to use land in public use free of cost to install and operate lines and public payphones, provided that such use does not interfere with the common use of such land in public use. The owner of such land (e.g., the Confederation, the cantons or the communities) is to grant the licensee a respective approval in a short and simple procedure. Except for the administrative costs for such procedure, no charges may be levied on the licensee.

Under the Telecommunications Ordinance, every holder of a telecommunications service license is also entitled to install and operate lines that cross railway lines.

If the holder of a telecommunications service license cannot reach agreement with the owner of private property on the use of such property by the licensee for the installation and operation of lines, UVEK may grant the licensee the right of expropriation if the establishment of a telecommunications installation on private property is in the public interest.

OfCom may, for reasons of public interest, in particular to protect the national heritage and the environment, also require the holder of a license for telecommunications services to grant other licensees the right to make joint use of its existing installations, if they have sufficient capacity, in return for appropriate compensation. With respect to this right for joint use of existing installations, the provisions on interconnection are to be applied by analogy.

International Obligations

Over 70 member countries of the World Trade Organization ("WTO") representing over 90% of the world's basic telecommunications revenue, including Switzerland, the members of the EU and the United States, have entered into the Basic Agreement on Telecommunications ("BATS") to provide market access to some or all of their basic telecommunications services. This agreement has been in effect since February 5, 1998. BATS is part of the General Agreement on Trade in Services, which is administered by the WTO. Under BATS, Switzerland and the other signatories have made commitments to provide "market access", under which they are to refrain from imposing certain quotas or other quantitative restrictions in specified telecommunications services sectors and to provide "national treatment", under which they are to avoid treating foreign telecommunications service suppliers differently than national service suppliers. In addition, a number of signatories, including Switzerland, agreed to the pro-competitive principles set forth in a reference paper relating to anti-competitive behavior, interconnection, universal service, transparency of licensing criteria, independence of the regulator and allocation of scarce resources.

However, the Federal Supreme Court found in its decision of October 3, 2001 (re Commcare AG vs. Swisscom) that even if the WTO/BATS provisions were directly applicable in Switzerland, which is uncertain, they do not grant any right to unbundling or to obtain leased lines or transmission on interconnection terms. See "*Item 8: Financial Information Legal Proceedings*".

In April 2002, the Office of the United States Trade Representative (USTR) published the results of an annual survey reviewing the operation and effectiveness of U.S. telecommunications trade agreements. In this report the USTR stated that, among other things, excessive prices for leased lines in Belgium, France, Ireland, Spain and Switzerland make it harder for new entrants to offer competitive services. Referring to their WTO obligation, the USTR urged the national regulators of these countries and the EU to identify benchmarks for leased line prices to ensure that these rates are reasonable. In a study entitled "State of the Swiss Telecommunications Market in International Comparison", dated April 2002, WIK CONSULT, an international consulting firm, concluded that the average price level for leased lines in Switzerland is in fact below the European average.

Back to Contents

ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with Swisscom's consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS), which differ in certain respects from U.S. GAAP. For a reconciliation of the material differences between IFRS and U.S. GAAP, see Note 44 to the consolidated financial statements.

INTRODUCTION

Overview of results

CHF in millions (except percentages)	Year Ended December 31,			Year Ended December 31,	
	2000	**2001**	**2002**	**2001/2000**	**2002/2001**
				(% change)	
Net revenue	14,060	14,174	14,526	0.8	2.5
Other operating income	125	213	266	70.4	24.9
Total	**14,185**	**14,387**	**14,792**	**1.4**	**2.8**
Goods and services purchased	4,423	4,513	4'959	2.0	9.9
Personnel expenses	2,512	2,461	2'593	(2.0)	5.4
Other operating expenses	3,216	3,004	2'827	(6.6)	(5.9)
Depreciation	1,850	1,702	1'578	(8.0)	(7.3)
Amortization	353	472	427	33.7	(9.5)
Total operating expenses	**12,354**	**12,152**	**12,384**	**(1.6)**	**1.9**
Exceptional items (1)	—	3,275	(702)	n.a.	n.a.
Operating income	**1,831**	**5,510**	**1,706**	**200.9**	**(69.0)**
Financial result	161	(355)	(311)	n.a.	(12.4)
Income tax (expense) benefit	(640)	15	(361)	n.a.	n.a.
Equity in net income of affiliated companies	1,749	32	95	(98.2)	196.9
Minority interest	(14)	(238)	(305)	n.a.	28.2
Discontinuing operations	69	—	—	n.a.	n.a.
Net income	**3,156**	**4,964**	**824**	**57.3**	**(83.4)**

(1) Includes in 2001 gain on partial sale of Swisscom Mobile AG of CHF 3,837 million, gain on sale of real estate of CHF 568 million and impairment of goodwill in debitel of CHF 1,130 million and in 2002 an additional impairment of goodwill in debitel of CHF 702 million.

Net income as presented in the above table includes the impact of the one-time items discussed in the following paragraphs.

2002

Impairment of goodwill of debitel. As a result of a further decline in future expected growth in the mobile sector Swisscom recorded an impairment charge of CHF 702 million in 2002.

Tax. In 2002, Swisscom transferred its operations from Swisscom AG to newly formed subsidiaries, which are each subject to individual tax rates. This resulted in a decrease in the weighted average tax rate from 25% to 23%. The deferred tax assets and liabilities were adjusted to reflect these changes resulting in a one-time charge of CHF 115 million.

Back to Contents

2001

Sale of 25% of Swisscom Mobile. In November 2000, Swisscom entered into an agreement with Vodafone plc. (“Vodafone”) for the sale of 25% of the equity of the Swisscom mobile business for CHF 4.5 billion. The sale was completed on March 30, 2001, when 25% of the shares of Swisscom Mobile AG were issued to Vodafone through a capital increase. Swisscom recorded a pre-tax gain on the sale less transaction costs of CHF 168 million of CHF 3,837 million.

Sale of real estate. In March 2001, Swisscom entered into two agreements for the sale of real estate. The first related to the sale of 30 commercial and office properties for CHF 1,272 million to a consortium led by Credit Suisse Asset Management. The second concerned the sale of 166 commercial and office properties for CHF 1,313 million to PSP Real Estate AG and WTF Holding (Switzerland) Ltd. At the same time Swisscom entered into agreements to lease back part of the sold property space. The total gain on the sale of the properties after transaction costs of CHF 105 million and including the reversal of environmental provisions was CHF 807 million. A number of the leaseback agreements qualify as finance leases and the gain on the sale of these properties of CHF 239 million has been deferred and will be released to income over the individual lease terms. The remaining gain of CHF 568 million represents the gain on the sale of buildings, which were either sold outright, or which qualify as operating leases and was recorded to income in 2001.

Impairment of goodwill of debitel. As a result of significant changes in the telecommunications sector, including the expected delay in the implementation of the third generation system, UMTS, Swisscom recorded an impairment charge on the goodwill of debitel of CHF 1,130 million in 2001.

Income taxes. In 2001, despite recording income before tax of CHF 5,155 million, Swisscom recorded a tax benefit of CHF 15 million due to the following:

- In connection with establishing a separate legal identity for its mobile business Swisscom Mobile AG the parent company Swisscom AG, recognized a gain for tax purposes on the assessed increase in value of its mobile business and recorded a current tax expense. The increase in value was, however, included in the transfer of assets from the parent company to Swisscom Mobile AG and is recorded for tax purposes as an intangible asset. The intangible asset recorded by Swisscom Mobile AG will be amortized for tax purposes over four years and a deferred tax asset was recorded. The gain that was recorded on the sale of shares received by Swisscom Mobile was therefore effectively not subject to tax.

- The increase in the fair value of Swisscom’s real estate between the date it was either bought or constructed and January 1, 1998 the date Swisscom was privatized is exempt from tax. The increase in the fair value of real estate after that date is taxable.

- Prior to the impairment, Swisscom’s tax basis of its investment in debitel exceeded its carrying basis by CHF 620 million. Accordingly the impairment charge for tax purposes exceeded that recorded in the consolidated financial statements; hence Swisscom recorded a tax benefit of CHF 155 million.

A reconciliation of income tax expense on income before income taxes to the reported income tax expense is included in Note 16 to the consolidated financial statements.

2000

Sale of Cablecom

In March 2000, Swisscom and the two other shareholders of Cablecom Holding AG closed an agreement to sell the assets and liabilities of the Cablecom group to NTL Incorporated, a public company in the United States, for CHF 5,400 million. Swisscom recorded a gain of CHF 1,335 million, net of income tax of CHF 99 million, in March 2000.

Back to Contents

Critical accounting policies

Swisscom's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). In addition, Swisscom reconciles net income and shareholders' equity to U.S. GAAP. See Note 44 to the consolidated financial statements. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. Set out below are the details of certain significant estimates made by management in the financial statements where it is possible that the estimate of a condition, situation or set of circumstances that existed at the date of the financial statements will change in the future due to one or more future confirming events and that the effect of the change would be material to the financial statements.

Pension fund accrual

The determination of the liability and expense for pension benefits is dependent on the selection of assumptions, which attempt to anticipate future events, used by Swisscom's actuary to calculate such amounts. Those assumptions are described in Note 9 to the consolidated financial statements and include the discount rate, expected long-term rate of return on plan assets and rates of increase in future compensation levels. In addition, Swisscom's actuary also uses subjective factors such as withdrawal and mortality rates. The assumptions used for IFRS are consistent with those used for U.S. GAAP. Approximately 25% of the pension plan assets at December 31, 2002 were held in stocks and bonds denominated in foreign currencies, primarily USD and EUR.

In 2002, based on Swisscom's assumption for the expected return on plan assets of 5.5%, Swisscom expected a return of approximately CHF 248 million. As a result of developments in foreign exchange rates and of the poor performance of the stock markets in 2002, Swisscom realized a loss of CHF 195 million. In accordance with IFRS and U.S. GAAP, the difference between the expected return and the actual return of CHF 443 million has been recorded as an actuarial loss and is subject to amortization. For 2003, Swisscom revised its assumption for the expected return on plan assets from 5.5% to 5%, which will result in an additional yearly expense of CHF 25 million beginning in 2003. The actual return on pension plan assets since the inception of the plan in 1999 is 2.06%, although the return for the last two years has been negative. While Swisscom believes that the assumption for the long-term return is appropriate, should the stock markets continue to underperform or exchange rates change, this would affect Swisscom's future expense and could lead Swisscom to increase its contributions.

The discount rate used in 2002 was 3.9%. Should the discount rate decrease by 0.5%, the pension liability would increase by approximately CHF 577 million and the annual pension expense would increase by approximately CHF 14 million.

The rate of increase in future compensation levels used in 2002 was 3.1%. Should this rate increase by 0.5%, the pension liability would increase by approximately CHF 137 million and the annual pension expense would increase by approximately CHF 14 million.

In connection with the settlement of its obligation to retired employees in 1998, Swisscom retained a liability for pension indexation. Swisscom must pay the Pensionskasse des Bundes (PKB) the difference between the return on plan assets and the Government prescribed discount rate that is increased by an account maintenance fee. At December 31, 2002, included in the present value of obligations is CHF 352 million for these retired employees. The liability was determined based on an assumed payment of 1% per year over the life of the retired employees. The present value obligation that will be paid by PKB is CHF 3,888 million. While Swisscom believes that the assumption used to determine this liability is appropriate, should the return on plan assets be lower than the prescribed rate, this would affect Swisscom's pension liability and future expense.

In 2002, under U.S. GAAP, Swisscom recorded a minimum liability of CHF 683 million, of which CHF 310 million reflected the unrecognized prior service cost and was recorded as an intangible asset. The remaining CHF 373 million, net of tax of CHF 86 million, was recorded against equity. An increase of the minimum liability would result in a further reduction of shareholder's equity.

Back to Contents

Impairment of debitel

In 2001 and 2002, under IFRS Swisscom recognized an impairment loss for the difference between the carrying value of its investment in debitel 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 10.26% in 2001 and 10.75% in 2002 that was determined using the Capital Asset Pricing Model. The main assumptions used in the projections of future profitability were:

- Market penetration rate and debitel's market share
- Split of subscribers between postpaid and prepaid
- Average minutes and revenue per user
- Churn rate
- Billing margin, which represents total revenue less network costs payable to the network operators
- Margin from earnings before interest, tax and depreciation
- Expected level of capital expenditure

The revised carrying value of goodwill in debitel at December 31, 2002 under IFRS is approximately CHF 1,100 million. Should the assumptions used in determining the cash flows not be met, Swisscom may be required to record a further impairment charge in the future.

The accounting model followed for U.S. GAAP was significantly different to IFRS, as described in IFRS compared with U.S. GAAP below and in Note 44 to the consolidated financial statements. No impairment charge was recorded under U.S. GAAP in 2001. On January 1, 2002, Swisscom adopted SFAS 142 and recorded an impairment charge of CHF 1,649 million. In 2002, Swisscom recorded a further impairment charge of CHF 985 million under U.S. GAAP, which reduced debitel's goodwill to zero.

Useful lives of technical equipment

Technical equipment, with a net book value of CHF 5,506 million at December 31, 2002, represents a significant portion of Swisscom's total assets. Swisscom estimates the useful lives of this equipment in order to determine the amount of depreciation expense to be recorded during any reported period. The estimated lives are based on historical experience as well as taking into account anticipated technological or other changes. Detail of the useful lives is included in Note 2.9 of the consolidated financial statements. Useful lives under U.S. GAAP are identical to those under IFRS. Changes in technology or in Swisscom's intended use of these assets may cause the estimated period of use or the value of these assets to change, which would result in increased or decreased depreciation expense. Swisscom performs internal studies annually or when events or circumstances indicate that the useful life may no longer be appropriate. Additionally, technical equipment is reviewed for impairment whenever events indicate that their carrying amounts may not be recoverable. In assessing impairment, Swisscom follows the provisions of IAS 36 "Impairment of Assets" and SFAS 144 "Accounting for the Impairment or disposal of Long-Lived Assets" utilizing cash flows which take into account management's estimates of future operations.

Provision for dismantlement and restoration

As detailed in Note 28 to the financial statements, management has included a provision of CHF 371 million at December 31, 2002 for the dismantlement and restoration of mobile stations and analog transmitter stations. These costs are expected to be incurred mainly between 2005 and 2015. The provision has been calculated using certain assumptions at current prices and discounted using a discount rate of 3.0%. While management believes that the assumptions used are appropriate, should they not be accurate, the amount required could differ from the amount provided. The assumptions used for the calculation of the ultimate cost were identical for U.S. GAAP, however as described in Note 44 to the consolidated financial statements, the methodology for allocating the costs is different.

Back to Contents

RESULTS OF GROUP OPERATIONS

Net revenue

Revenue increased from CHF 14,174 million in 2001 to CHF 14,526 million in 2002 reflecting an increase in revenue from Mobile and Swisscom's German subsidiary debitel. This increase was partially offset by a decrease in revenue from Fixnet and Enterprise Solutions. Revenue from other segments remained relatively stable. Revenue from Mobile continued to increase, primarily from voice telephony and data services, mainly SMS messages, as a result of the continued growth in the number of customers. debitel revenue increased substantially due primarily to an increase in revenue from the sale of handsets resulting from an increase in the average price per device. The decrease in revenue in Fixnet and Enterprise Solutions was mainly due to the introduction of 10-digit numbering at the end of March 2002. The full 10-digit number must now be dialed for all calls. As a result, subscribers who have pre-selected an alternative carrier will have all their national calls routed automatically over that carrier's network, whereas in the past customers had to enter the carrier override code on a call-by-call basis. In addition a new tariff was introduced on May 1, 2002, which combines the local area and national long distance zones into a single national tariff zone, resulting in increased local area tariffs but decreased national long distance tariffs.

Revenue increased from CHF 14,060 million in 2000 to CHF 14,174 million in 2001 reflecting a significant increase in revenue from Mobile partially offset by a decrease in revenue from debitel. Revenue from other segments remained relatively stable. Revenue from Mobile increased significantly, primarily from voice telephony and data services, mainly SMS messages, as a result of the continued growth in the number of customers. Revenue from debitel decreased in Germany due primarily to a reduction in revenue from the sale of handsets and commissions as the number of new subscriber packages sold and the commissions received from the network operators per new package sold decreased significantly in 2001, as the market reached saturation.

Goods and services purchased

Goods and services purchased increased from CHF 4,513 million in 2001 to CHF 4,959 million in 2002, primarily reflecting an increase in goods and services purchased by debitel. This increase was accounted for primarily by the higher cost of mobile equipment purchased for resale, which was due to an increase in the number of handsets sold and in the price per handset, and by an increase in the volume of minutes purchased from the network operators, which was due to an increase in the amount of traffic.

Goods and services purchased increased from CHF 4,423 million in 2000 to CHF 4,513 million in 2001 due to an increase in goods and services purchased by Mobile as a result of an increase in the number of handsets purchased and subsequently sold and an increase in the amount Mobile had to pay to other carriers for Mobile customers' roaming on their networks. This increase was partially offset by a decrease in goods and services purchased by debitel as a result of a decrease in the cost of mobile equipment purchased for resale, reflecting a decrease in the number of handsets sold.

Personnel expenses

Personnel expenses increased from CHF 2,461 million in 2001 to CHF 2,593 million in 2002 as a result of (i) an annual salary increase for all employees; (ii) an increase in the number of employees in growing business areas such as Mobile and debitel; (iii) an increase in the number of employees at IT services due to the acquisition of AGI IT Services AG in December 2001; and (iv) an increase in the average salary of employees at Mobile and debitel due to the increased skill set of employees.

Personnel expenses decreased from CHF 2,512 million in 2000 to CHF 2,461 million in 2001 primarily as a result of a reduction in the number of employees in the Fixnet segment reflecting the various steps that Swisscom took to reduce its costs in this highly competitive area, partially offset by an increase in the number of employees in growing business areas, such as Mobile.

Back to Contents

Other operating expenses

Other operating expenses decreased from CHF 3,004 million in 2001 to CHF 2,827 million in 2002 due primarily to a reduction in commissions and marketing subsidies paid to dealers by debitel.

Other operating expenses decreased from CHF 3,216 million in 2000 to CHF 3,004 million in 2001. This decrease was primarily due to a decline in other operating expenses in the Mobile and debitel segments. The decrease in the Mobile segment was due to a decrease in commissions paid to dealers resulting from the significant slow down in subscriber growth in 2001. In 2001, Mobile switched its focus from acquiring new customers to retaining its best customers as the average customer acquisition cost exceeded the average cost of retaining a customer. The decrease in the debitel segment was due to a decrease in commissions paid to dealers resulting from the slow down in subscriber growth and a decrease in advertising expenses as debitel conducted a major image campaign in 2000.

Depreciation

Depreciation decreased from CHF 1,702 million in 2001 to CHF 1,578 million in 2002 due primarily to a decrease in the Fixnet segment as a result of an increase in the number of fully depreciated assets that have not been replaced.

Depreciation decreased from CHF 1,850 million in 2000 to CHF 1,702 million in 2001 primarily as a result of a reduction in the useful life of software for fixed-line switching equipment effective January 1, 2000 to one year.

Amortization

Amortization decreased from CHF 472 million in 2001 to CHF 427 million in 2002 due primarily to the reduction in the amortization of goodwill of debitel, reflecting the decreased carrying value of debitel at December 31, 2001 as a result of the impairment charge of CHF 1,130 million recorded in 2001.

Amortization increased from CHF 353 million in 2000 to CHF 472 million in 2001 as a result of an increase in the goodwill amortization of debitel from CHF 324 million in 2000 to CHF 388 million in 2001 reflecting the acquisition of an additional 20% in 2001, as described below under “ *debitel*”, and the effect of adopting IAS 38 “Intangible Assets” on January 1, 2000. Prior to this date, Swisscom did not capitalize internally generated intangible assets.

Exceptional items

Exceptional items in 2002 include the impairment of debitel goodwill of CHF 702 million, described above.

Exceptional items in 2001 include the gain on the partial sale of Swisscom Mobile AG of CHF 3,837 million, the gain on sale of real estate of CHF 568 million and the impairment of debitel goodwill of CHF 1,130 million, as described above.

Financial result

Financial expense decreased by CHF 254 million to CHF 517 million in 2002 primarily as a result of larger asset write-downs in 2001. In 2001, Swisscom recorded an impairment charge of CHF 219 million on its investment in Infonet Inc. and wrote down a loan of CHF 199 million given to UTA. In 2002, Swisscom recorded impairment charges of CHF 111 million and CHF 41 million on its investments in Infonet and Swiss International Airlines Limited, respectively.

Excluding the impairment of Swisscom’s investment in Infonet and the write off of the loan receivable from UTA, financial result decreased from CHF 161 million in 2000 to CHF 63 million in 2001. Financial result in 2000 includes the fee of CHF 214 million received from the cross border lease transaction, as described in Note 27 of the consolidated financial statements. Interest income increased significantly in 2001 due to the increase in cash resulting primarily from the sale of Swisscom Mobile and the sale of real estate.

Back to Contents

Income tax

In 2002, Swisscom transferred its operations from Swisscom AG to newly formed subsidiaries, which are each subject to individual tax rates. As a result all tax assets and liabilities were adjusted, which resulted in a one-time charge of CHF 115 million. The impairment of the goodwill relating to debitel reduced tax expense by CHF 207 million. Excluding these exceptional items, the tax rate would have been 21.6%.

In 2001, Swisscom recorded an income tax benefit due primarily to the partial disposal of Swisscom Mobile AG, which was effectively tax-free for the Group, the sale of real estate, which was partially tax-exempt, and the impairment of debitel, as previously recorded goodwill amortization effectively became tax-deductible (see Note 16 to the consolidated financial statements). Excluding these exceptional items, the tax rate would have been 26.6 %.

Swisscom’s effective tax rate in 2000 was 32% as a result of the amortization of goodwill of debitel, which is not tax deductible and the sale of tesion, which was subject to German taxes, which are higher than Swiss taxes.

Equity in net income of affiliated companies

Equity in net income of affiliated companies increased in 2002 due primarily to an impairment charge that was recorded in 2001 relating to Swisscom’s investment in three subsidiaries of tamedia AG.

The significant decrease in equity in net income of affiliated companies in 2001 compared to 2000 is due primarily to the gain recorded on the sale of Cablecom and certain investments of Unisource in 2000, as described above.

Minority interest

Minority interest relates mainly to the 25% shareholding of Vodafone in Swisscom Mobile AG. The increase in minority interest in 2002 is due to the fact that minority interest in 2001 includes only 9 months results, as the acquisition by Vodafone was effective as of April 1, 2001.

The significant increase in minority interest in 2001 results from the disposal of 25% of Mobile in 2001.

Discontinuing operations

In March 1999, the Board of Directors announced a plan to dispose of its operations in India and Malaysia. In 1999, Swisscom recorded a gain on disposal of the investment in Malaysia of CHF 183 million. The sale of the investment in India was closed in January 2000 with a gain of CHF 69 million.

Back to Contents

RESULTS OF OPERATIONS BY SEGMENT

Changes in segments

Organizational changes led to a new segment structure in 2002. The former “Fixnet Retail and Network” and “Fixnet Wholesale and Carrier Services” segments were combined with Bluewin AG, Swisscom Directories AG and Telecom FL AG to form the new segment “Fixnet”. In addition, revenue from access services attributable to business customers are now reported under “Fixnet” instead of “Enterprise Solutions” as was the case in the prior year. In addition, a new segment named “Corporate” was established. Prior years have been restated to reflect the new structure.

The segments for 2002 were defined as follows:

- **Fixnet** provides access services to residential and business customers and a comprehensive range of other fixed network telecommunication services to residential customers. In addition, Fixnet provides a wide range of wholesale network services. Fixnet also offers a variety of other services, including the sale of customer equipment, Internet access and the operation of a directories database.
- **Mobile** provides mobile telephony, data and value-added services in Switzerland.
- **Enterprise Solutions** provides national and international fixed-line voice telephony services to business customers and offers leased lines, private network, Intranet and other services.
- **debitel** comprises the activities of debitel, a German provider of mobile communications and value-added services.
- **Other** covers mainly the sale of corporate voice communications equipment through Swisscom Systems and the provision of certain IT services through Swisscom IT Services AG.
- **Corporate** includes Swisscom’s headquarter functions, group-company shared services and property rentals through the real estate company Swisscom Immobilien AG.

The segment results presented below reflect the organization that was in place in 2002.

Segment results

CHF in millions	Net revenue			Operating income		
	2000	**2001**	**2002**	**2000**	**2001(1)**	**2002**
Fixnet	6,224	6,588	6,443	726	909	848
Mobile	3,492	3,983	4,112	1,171	1,585	1,685
Enterprise Solutions	1,630	1,585	1,450	95	81	36
Debitel	3,993	3,808	4,111	(196)	(1,381)	(882)
Other	1,688	1,403	1,463	52	(93)	(114)
Corporate	758	766	704	(17)	4	133
Intersegment elimination	(3,725)	(3,959)	(3,757)	—	—	—
Total	**14,060**	**14,174**	**14,526**	**1,831**	**1,105**	**1,706**

(1) Excludes gain on sale of real estate of CHF 568 million and gain on partial sale of Swisscom Mobile of CHF 3,837 million.

Back to Contents

FIXNET

Revenue from Fixnet comprises primarily access charges from residential and business customers, revenue from national and international fixed telephony traffic in respect of residential customers, revenue from value-added services and the sale of customer equipment. Additionally the segment contains revenue from use of the Swisscom fixed network by other national and international telecommunication providers and from international wholesale activities. Also included are Bluewin AG, Swisscom Directories AG, Telecom FL AG as well as payphone services, operator services and cards. See “*Item 4: Information on the Company Fixnet*”.

CHF in millions (except percentages)	**Year Ended December 31,**			**Year Ended December 31,**	
	2000	**2001**	**2002**	**2001/2000**	**2002/2001**
				(% change)	
Net revenue from external customers	4,788	4,921	4,888	2.8	(0.7)
Intersegment net revenue	1,436	1,667	1,555	16.1	(6.7)
Net revenue	**6,224**	**6,588**	**6,443**	**5.8**	**(2.2)**
Segment expenses	5'498	5,679	5,589	3.3	